Inflated Hopes, Taxing Times:
Fiscal Crisis, the Pocketbook Squeeze, and the Roots of the Tax Revolt

by

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My education for this project began in Youngstown, Ohio, since I began there. Even though I moved from Youngstown when I was young, the city's history shaped me. Youngstown's appearance in this dissertation was serendipitous, not planned. But even if Youngstown had not appeared in the text, its influence would have been felt, nonetheless. Youngstown's story sparked my interest in social and economic inequalities, which has shaped this dissertation. In a more formal sense, my education began at St. Charles, only a short drive down Market Street from the Youngstown schools discussed in Chapter 1, but far away from them in virtually every other sense. As much as I bristled at the strictures of Catholic school, I got a good education at St. Charles, as well as a consistent reminder that the Beatitudes are a pretty first-rate justice text. Public school suited me better. At Boardman High School, teachers such as Colleen Ruggieri and Vivian Axiotis inspired me to write, which I have been doing ever since. The late Donald 'DeLo' DeLorenzo deserves special mention, too, as an amazing teacher and, more importantly, wonderful human being.

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The members of my dissertation committee deserve special thanks for not only reading my nearly-1,000 page dissertation, but also providing encouragement and advice throughout my time at the University of Michigan. Greta Krippner's work served as a model for what careful historical social science should look like. In the classroom and in one-on-one meetings, Greta always challenged me to think more clearly and frame my work in ways that would be recognizable to both historians and sociologists. Any failures to do so are mine alone. Howard Brick's arrival at the University of Michigan midway through my graduate career was a welcome event. At the time, I was looking for someone to supervise my intellectual history prelim field, and I could not have asked for a more perfect intellectual history mentor than Howard. Often, it seemed to me that Howard had read everything. Over time, I learned that was because he had, in fact, read everything. More than that, Howard consistently pushed me to think more theoretically by making connections in my work that I would not have seen on my own. Though I managed to meet Tony Chen and convince him to co-chair my dissertation only shortly before he left the University of Michigan for Northwestern, he profoundly shaped my time in graduate school and my dissertation. No one is able to distill an idea or an argument down to its essence better than Tony. In numerous conversations, Tony helped me sharpen my dissertation's arguments and framing. Moreover, he has been a constant source of support and encouragement, whether in the form of a kind text message or by putting me up at his apartment when I am in Chicago for research or a conference. My dissertation's other co-chair is Matt Lassiter, but no single title can do justice to all that Matt has done for me. Shortly after I submitted my application to the University of Michigan, Matt called me to ask me more about my interests and encourage me to consider Michigan. From that moment forward there was little chance I would go elsewhere. Much of graduate school was a foreign experience for me, but Matt always pointed me in the right direction. Times I was stressed or discouraged, Matt gave me the advice and encouragement I needed. I cannot imagine that any other adviser puts more time and energy into the advising process. For those lucky enough to have him as an adviser, Matt is both a mentor and a friend. It is no exaggeration to say that this dissertation exists because of Matt's guidance and support.

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INTRODUCTION

Understanding the Tax Revolt

Time *[magazine] said on June 19, 1978 that [Proposition] 13 was "a middle-class tax revolt." I don't think that's accurate at all. This was across the board. We got 40% of the minority and lower-income vote. We got about 60% of the vote of the middle class. We got practically all of the vote of the wealthy. When you roll up a 65% vote in a state the size of California, there's no way to say that this was an action of any particular class…. I think people from every class resented the fact that the government was stealing too much of their money. I think the general idea in California and all over the country, with rich and poor alike, is that the government is too invasive; it has too much control; it passes too many laws; it curbs too many freedoms. I was glad that 13 had so much appeal to wealthy people. More often than not, the rich make more money because they're brighter – as far as I've observed.*

– *Howard Jarvis,* I'm Mad as Hell *(1979)*[1]

Here was the face of the revolt. White, middle-aged, jowly, wealthy, and unapologetically conservative. The year was 1978, but this visage would look remarkably similar to the faces of those who would claim the mantle of the revolt in the years that followed – 1980, 1994, 2010, and many others. This time, however, it Howard Jarvis on the cover of *Time* magazine, the stars of a revolutionary-era flag framing his grey hair, fist pumped in victory, the words "Tax Revolt!" emblazoned in bold letters across his grey business suit. Why was he on the cover? California voters had put Jarvis there. To the shock of most observers, voters in one of the most liberal state in the union went to the polls on June 6, 1978, and cast their votes with Jarvis, an unlikely populist hero, by passing his property tax-slashing initiative, Proposition 13. According to *Time*, "It was as though millions of the state's taxpayers had thrown open their

[1] Howard Jarvis and Robert Pack, *I'm Mad as Hell: The Story of the Great American Tax Revolt* (Times Books, 1979)

windows like the fed-up characters in the movie *Network* and shouted in thunderous unison: 'I'm mad as hell – and I'm not going to take it any more!'"[2]

Just why were they "mad as hell"? Jarvis had a clear answer. In the hands of Jarvis and his conservative allies the revolt became a symbol of the public's rising conservatism. But that was ideological spin, not historical fact. A credulous press, however, echoed Jarvis's framing of the tax revolt. As a *Newsweek* columnist wrote, the conventional wisdom on Prop 13 could have been headlined "California to Liberal Government: Drop Dead."[3] *Time* certainly did not dissent from this conclusion. "That angry noise was the sound of a middle class tax revolt erupting, and its tremors are shaking public officials from Sacramento to Washington, D.C," it argued. "Suddenly all kinds of candidates in election year 1978 are joining the chorus of seductive antitax sentiment, assailing high taxes, inflation and government spending." Everywhere one looked, it seemed that the outlines of a new anti-tax, anti-government conservatism could be discerned. "On the same Tuesday that Proposition 13 swept to victory," *Time* noted, "taxpayers in Ohio turned down 86 of 139 school tax levies, including emergency outlays designed to save public schools in Cleveland and Columbus from bankruptcy."[4]

Yet, to anyone who had been following American tax politics in the preceding years, that last statement would have sounded oddly familiar. Nearly a decade earlier, the same magazine had declared the beginning of the tax revolt it was now rechristening in 1978. "A taxpayer's revolt has hit Ohio, where public schooling is financed through a combination of state aid and local property taxes," *Time* reported in early 1970, in one of several articles on what, years before Prop 13, was already being terms a tax revolt. "Taxpayers turned down 166 out of 523 proposals to increase local school levies in November and vetoed 52 more out of 99 in a special

[2] "Sound and Fury Over Taxes," *Time* (June 19, 1978)
[3] Meg Greenfield, "The People's Revenge," *Newsweek*, June 19, 1978.
[4] "Sound and Fury Over Taxes," *Time* (June 19, 1978)

election last month."[5] Nationwide, school levy and bond approval rates fell from more than 80 percent in 1950 to less than 50 percent in 1970. Yet, both contemporary accounts of the passage of Prop 13 and the decades of academic analyses that would follow largely forgot the years of revolt that preceded Prop 13. Why the amnesia? What happened in the intervening years that have been erased from memory, rendering Prop 13 the beginning, rather than the culmination of, the tax revolt, and what can the events of those intervening years tell us about the nature of the tax revolt and the political realignment of which it is a key part? This dissertation seeks to answer this puzzle. Perhaps most importantly, it also seeks to explain what was lost at the time, and is still lost by scholars and policymakers, in forgetting the struggles, the uncertainties, and the missed opportunities that took place in the decades prior to Prop 13.

This dissertation demonstrates that a "pocketbook squeeze" driven by regressive tax increases and rising inflation caused the tax revolt, which actually culminated in, rather than began with, Prop 13. The simple fact of the household budget, not ideological fervor, drove the public's tax discontent. That is not to say, however, that the revolt lacked any ideological content. From the beginning, the tax revolt assumed a decidedly leftward tilt. The pocketbook squeeze afflicted low- and middle-income Americans, in particular. Inflation and the tax system acted in tandem on the pocketbooks of these modest income Americans, as rising housing prices increased property taxes, rising prices of consumer goods increased sales taxes, and rising nominal incomes pushed low- and middle-income workers into higher tax brackets without a corresponding rise in real incomes. When combined with a nonstop parade of exposés of tax loopholes benefitting the well-off in everything from local property tax assessments to the federal income tax code – loopholes that low- and middle-income Americans noted stood in

[5] "Ohio's Financial Crisis," *Time* (January 12, 1970); "Taxpayers to the Barricades," *Time* (October 12, 1970); "Why Tax Reform Is So Urgent and So Unlikely," *Time* (April 4, 1969)

sharp contrast with their own rising taxes – most Americans had good reason to feel resentful of both their own tax burden and the fairness of the tax system itself. As a result, most Americans preferred solutions to the pocketbook squeeze that combined progressive loophole-closing reforms and tax relief targeted and low- and middle-income taxpayers, not conservatives' preferred cuts to business and progressive taxes and slashes in government spending.

This dissertation also demonstrated that, while pocketbook squeeze motivated the tax revolt as it unfolded in the decades prior to Prop 13, political responses to the revolt determined how the public's tax discontent would be reflected in policy. The revolt's ultimate political and policy outcomes, moreover, were determined by the interactions between policymakers and the parties, on one hand, and activists and interest groups, on the other. Each group of actors attempted not only to understand the public's tax views that were driving the revolt but also to frame those views in ways that supported their preferred policy outcomes. While with historical hindsight it is clear that the pocketbook squeeze on lower- and middle-income Americans made the revolt more amenable to solutions that focused on providing tax relief to low- and middle-income Americans, not the upwardly tilted or across-the-board cuts preferred by many conservatives, that conclusion was far from clear to most contemporary observers. Moreover, those policymakers and activists that disagreed with the public's preferred policy solutions had good reason to discount such a conclusion even when it seemed clear.

Because of the ideological content of the pocketbook squeeze, the grassroots left first capitalized on the tax revolt. Beginning in the 1960s, activists from the black freedom, consumer, labor, and community organizing movements began to form a broad "tax justice" left. These activists critiqued the tax system's fairness and analyzed various tax policies in terms of how their benefits would be distributed among the income classes. Low- and middle-income

Americans, tax justice activists argued, faced soaring taxes at the same time that upper-income taxpayers and large corporations escaped paying the rates called for by law. Labor unions, such as the AFL-CIO, and nascent black power groups, such as the Lowndes County Freedom Organization, were among the first to advance unmistakable tax justice arguments. By the end of the 1960s, however, consumer activist Ralph Nader, former Congress of Racial Equality and National Welfare Rights Organization leader George Wiley, and community organizer Saul Alinsky would become perhaps the three biggest influences behind the growing tax justice left. These tax justice activists hoped to effect change not only through direct action, but also through pulling the Democratic Party towards their diagnosis of the tax revolt.

The tax revolt would prove to be a missed opportunity for the Democratic Party, however. The Kennedy-Johnson era marked the rise of "growth liberalism," which argued that growth would serve as an emollient for battles over the distribution of income. Democrats, in this view, need not concern themselves with the distribution of tax cuts, since the rising tide of prosperity the cuts would create would "life all boats."[6] However, in focusing on growth, not distribution, most Democrats missed the extent to which the United States' peculiar system of "fiscal federalism" was generating the pocketbook squeeze and the resulting tax revolt. Taken together, the Kennedy-proposed federal tax cuts favored upper-income taxpayers and business. At the same time, however, regressive state and local taxes, as well as federal payroll taxes, were rising rapidly. National Democrats, moreover, had contributed, both directly and indirectly, to these increases in regressive taxes by enacting a variety of federal programs – from the New Deal to the Great Society and beyond – that involved fiscal partnerships between the federal government and states and localities, thereby necessitating hikes in state and local taxes. Thus, as

[6] Robert M. Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford, 2000); Allen Matusow, *The Unraveling of America: A History of Liberalism in the 1960s* (Harper & Row, 1986)

federal policymakers during the Kennedy-Johnson years were congratulating themselves on the triumph of growth liberalism and touting the relatively small amount of money deposited into the pockets of Americans of modest means thanks to cuts in the federal income tax, soaring state and local taxes were removing federal cut, and then some, from the same taxpayers' pockets. As some contemporary critics pointed out, though, many low- and middle-income Americans experienced the high-growth sixties as an era of an increasing pocketbook squeeze, rather than as a period of boundless prosperity.[7]

In the post-Kennedy era, the Democratic Party moved further towards growth liberalism, making it difficult for Democrats to both recognize and capitalize on the underlying causes of the tax revolt. The tax justice grassroots left, in contrast, aligned itself with average Americans' tax discontent and, in doing so, hoped to pull the Democrats back towards an understanding of taxes that would privilege the distribution of the tax burden above growth concerns. Fortunately for the grassroots left, growth liberalism had not completely eliminated more distribution-centric views within the Democratic Party. The candidacy of George McGovern – whose unapologetically lower- and middle-income focused tax policies were more popular than Nixon's, according to polls – and the rise of "New Populist" Democrats on the state and federal levels in the early 1970s temporarily overshadowed growth liberalism's influence within the Democratic Party, making an alliance between the grassroots left and the Democrats to address the tax revolt seem possible. However, the defeat of McGovern and Nixon's inglorious fall after Watergate facilitated the rise of the "New Democrats," a group of young Democrats who took their cues from Kennedy's growth liberalism and even, at times, President Dwight Eisenhower's anti-inflation conservatism. Throughout the mid-to-late 1970s, New Democrats, including Jerry

[7] Perhaps the best summation of this line of argument is Andrew Levison, *The Working Class Majority* (Penguin 1974). More recently, Judith Stein has expanded upon this argument. Judith Stein, *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies* (Yale, 2010).

Brown, Michael Dukakis, and Bill Clinton, gave little support to – and, at times, even opposed – the tax justice left. Some New Democrats even rejected the idea that the tax revolt existed. As a result, the public's demands for tax relief grew throughout the 1970s.

The grassroots right and the Republican Party, in contrast, were moving in the same direction on taxes. By the 1960s, Eisenhower's anti-inflation conservatism, which emphasized balancing the budget to fight increasing prices above all other priorities, was falling out of favor with Republicans and grassroots activists. Richard Nixon would emphasize spurring growth, not combatting inflation, as his main goal in the White House. Moreover, when Nixon recognized the ideological tilt of the tax revolt and the popularity of the tax justice left's solutions, he would even flirt with tax policies tilted to low- and middle-income Americans. Other conservatives were moving away from Eisenhower's anti-inflation fiscalism, but they were moving right, not left. Anti-government, libertarian-leaning activists, including economists such as Milton Friedman and James Buchanan, began to emphasize that conservatives should focus on distribution, too, by cutting taxes for upper-bracket taxpayers and businesses. Though the grassroots right's solutions to the tax revolt proved to be decidedly out-of-step with the public's policy preferences, they were echoed by both business groups and Republicans such as Barry Goldwater and Ronald Reagan, and both provided the grassroots right with significant support. Despite voters' rejection in the early-to-mid 1970s of tax initiatives in states from California to Arizona that would have concentrated their benefits on the rich and business, business groups and libertarian-leaning Republicans like Reagan continued to support the grassroots right. When Nixon's resignation created a power vacuum in the GOP leadership, both Reagan and the grassroots right were primed to capitalize on the opportunity.

By the mid-1970s, as inflation soared and turned into "stagflation," the public's demand for tax relief grew in tandem. Moreover, the public's willingness to continue rejecting the upwardly titled tax initiatives pushed by business groups and the grassroots right at the state level waned as it became clear that the New Democrat-controlled Democratic Party was unlikely to propose more progressive alternatives. So, when Jarvis's Proposition 13 unexpectedly made the ballot in California, where housing prices and property taxes had spiraled out of control in the previous few years, the grassroots right and sympathetic Republicans like Reagan were well-positioned to take advantage. After California voters approved Prop 13 in June of 1978, anti-government conservatives moved quickly to obscure the fact that the initiative passed out of the public's pocketbook desperation, not ideological conviction. Reagan, along with like-minded Republicans and activists, in fact, undertook a concerted post-Prop 13 campaign to portray Prop 13 as proof that the public favored tax cuts tilted towards corporations and upper-income individuals.

The spin worked. Already ideologically predisposed to favor business and the well-off more than their predecessors, the New Democrats put up little resistance to the analysis of Prop 13 offered by Reagan and his allies. With little mainstream debate about Prop 13's meaning, the press also accepted this redefinition of the tax revolt. In the decades that have followed, scholars often unwillingly have echoed the conservative framing of the tax revolt. Yet, Prop 13 was the product of more than a decade of building pocketbook frustration, rather than a referendum on conservative tax policies tilted towards the well-off. Moreover, the portrayal of Prop 13 as the beginning, rather than the culmination, of the tax revolt created the mistaken impression that it was a "revolt of the haves," as the title of one early account put it.[8] Here, the epigraph from Howard Jarvis's autobiography is instructive. Jarvis was correct about the distribution of support

[8] Robert Kuttner, *Revolt of the Haves: Tax Rebellions and Hard Times* (Simon and Schuster, 1980)

for Prop 13 among income groups. The higher one's income, the more likely he or she was to support Prop 13.[9] However, during the series of school bond and levy failures in the 1960s and early-1970s the pattern was just the opposite. Low-income voters were more likely to oppose the levies and bonds than high-income voters. Conservatives' reframing of the meaning of tax revolt and the press's reperiodization of the tax revolt's beginning, then, worked in tandem to obscure the revolt's origins in the post-WWII pocketbook squeeze on low- and middle-income Americans. It is an error that largely has continued to this day, and one that this dissertation aims to correct. By understanding the origins of the tax revolt in the pocketbook squeeze, as well as the political battles to define and capitalize on the revolt, it becomes clear that the revolt continues, in many ways, to this day both because the public's tax preferences have yet to be addressed in policy and because the pocketbook squeeze on low- and middle-income Americans has persisted almost wholly unabated.

Ideologies of Taxation in American Politics

This dissertation provides a framework for understanding varying shades of tax ideology, which, in turn, map onto larger philosophical differences about the nature of government, the economy, and American politics. Tax politics are often discussed in simplistic, binary terms ("anti-tax conservative" and "tax-and-spend liberal"). However, such dichotomies obscure the real action in tax American tax politics over the better part of the past century, which has occurred as much within as between the parties, interest groups, and grassroots activists. In complicating simple left-right descriptions of taxation, this dissertation follows in the footsteps of scholars who have attempted to discern the ideological variations within ostensibly coherent

[9] Authors' analysis of data from "CBS News/*New York times* Monthly Poll," June 1978 (ICPSR 4495). See also David O. Sears and Jack Citrin. *Tax Revolt: Something for Nothing in California* (Harvard, 1982)

philosophies, such as Alan Brinkley, who delineated the overlapping strands of New Deal liberalism, and Lizabeth Cohen, who cataloged the divergent strains of consumerism in post-World War II American politics.[10]

Two philosophical visions of the role of taxes in U.S. policymaking competed throughout the post-New Deal era of American politics, and vision each found adherents across the political spectrum. The first was a "distributionist" view, which emphasized who paid taxes and how different groups' tax burdens compared with abstract principles, such as fairness. Distributionists on the right generally sought to cut taxes on upper-income groups and businesses, often by pushing taxes downward to the poor with regressive forms of taxation – taxes that take a higher percentage of income from low-income taxpayers than high-income taxpayers – such as sales taxes.[11] Right-distributionists included not only Goldwater, Reagan, and the grassroots right, but also Howard Jarvis. The upward tilt in Prop 13's tax benefits was a feature, not a bug. For example, when left-leaning activists in California, including former Students for a Democratic Society leader Tom Hayden, met with Jarvis to offer their support for Prop 13 if he shifted the measure's benefits more towards low- and middle-income Californians, Jarvis flatly refused.[12] And when Prop 13 was criticized for being a windfall for big business, Jarvis quipped, "I'm glad they got it."[13]

Distributionists on the left, in contrast, generally sought to distribute the tax burden upward to the rich. They tended to favor progressive forms of taxation, such as the graduated income tax, because they took a higher percentage of the taxpayer's income the more he or she

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[10] Alan Brinkley, *The End Of Reform: New Deal Liberalism in Recession and War* (Vintage 1996); Lizabeth Cohen, *A Consumers' Republic: The Politics of Mass Consumption in Postwar America* (Vintage 2003)
[11] For an excellent summary of progressive versus regressive taxes, see Appendix in Robin L Einhorn, *American Taxation, American Slavery* (University of Chicago Press, 2006).
[12] Tom Hayden, Author Interview (September 15, 2014)
[13] "Tax Revolt for Business or for the People," *People & Taxes* (November 1979)

made. Tax justice activists were, by the very nature, left-distributionists, and the policy solutions to the tax revolt that they proposed reflected that fact. In all situations, tax justice activists were primarily concerned with how a policy proposal would affect the distribution of taxes and income. In a debate with Jarvis, for example, Ralph Nader critiqued the conservative activist for ignoring "the inequitable share of property tax burden." Low- and middle-income homeowners deserved property tax relief, Nader believed, but upper-income homeowners and large corporations did not. Both Jarvis and the media, Nader argued, "didn't analyze the consequences of the cut [in Prop 13] in terms of who was going to bear what percent of the burden among homeowners, renters, and industrial and commercial property."[14] Fewer Californians would have supported Prop 13, in Nader's opinion, if they clearly understood the measure's upwardly redistributionist elements of the measure. Obscuring the distribution of its benefits, in contrast, was part of Prop 13's right-distributionist supporters' plan.

The second overarching philosophy of taxation was a "fiscalist" view, which subordinated concerns about the distribution of the tax burden to a focus on the effects that various types of taxes and levels of taxation had on the macroeconomy and the budget. This view of taxation gained intellectual and political traction, as well as a new vocabulary, thanks to the Keynesian revolution – or, as some called it, the "fiscal revolution" – of the 1930s and 1940s, which provided economists and policymakers with new ways of conceptualizing both the economy and the government's relationship to it.[15] Among adherents to the fiscalist view of taxation, those on the right were generally most concerned with combating inflation.

[14] "Tax Revolt for Business or for the People," *People & Taxes* (November 1979)
[15] Herbert Stein, *The Fiscal Revolution in America* (University of Chicago, 1969); Robert Klein, *The Keynesian Revolution* (Macmillan, 1968); David C. Colander and Harry H. Landreth, Eds., *The Coming of Keynesianism to America* (Edward Elgar, 1997); Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge, 2002); Michael Bernstein, *A Perilous Progress: Economists and Public Purpose in Twentieth-Century America* (Princeton, 2014)

Conservative fiscalists, perhaps best exemplified by President Dwight Eisenhower, would forgo tax cuts and even support tax increases in order to fight inflation and balanced the budget. For these efforts, right-distributionists derided conservative fiscalists as "green eyeshade" Republicans.[16] In contrast with conservative fiscalists' concern with inflation and balanced budgets, fiscalists on the left were generally most concerned with spurring economic growth. President John F. Kennedy's tax cut proposals – which specifically avoided left-distributionism – represented the apex of growth liberalism for both its adherents and its critics.[17]

Understanding the subtle shades of tax ideology in the post-New Deal era clarifies the terms of the political battles over the tax revolt that would follow. In the Weberian tradition of "ideal types," the terms distributionist and fiscalist are meant to describe a theoretical space of debate (Figure 1). Placed on a left/right spectrum, the typologies would roughly fall, from left to right: downward distributionist, growth fiscalist, anti-inflation fiscalist, and upward distributionist. In general, most Democrats were either downward "distributionists" or "growth fiscalists," and most Republicans were either upward distributionists or anti-inflation fiscalists. However, no one actor perfectly embodied any view. Indeed, both individual actors and political parties moved and shifted over time between the positions. Richard Nixon's time in the Eisenhower administration, for example, led him to reject anti-inflation fiscalism and, over time, Nixon would dabble in both growth fiscalism and left-distributionism. Moreover, it was not uncommon for a distributionist to invoke fiscalist arguments, and vice versa. The true test of one's ideology was the outcome that one prioritized above others, not necessarily the rhetoric used to achieve that outcome.

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[16] Rowland Evans and Robert Novak, "Worshipping the Balanced Budget," *Washington Post* (April 13, 1981); Grover Norquist, *End the IRS Before It Ends Us* (Center Street, 2015)

[17] Herbert Stein, "Tax Cut in Camelot," *Trans-Action* (March 1969); Robert M. Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford, 2000); Allen Matusow, *The Unraveling of America: A History of Liberalism in the 1960s* (Harper & Row, 1986)

Literature Review

For the past three decades, tax politics have been almost synonymous with conservative politics. As *New York Times* columnist David Brooks put it recently, "One thing Republicans know how to do is exploit the tax issue."[18] Scholars, journalists, and pundits searching for the roots of the conservative capture of American tax politics have turned to the 1970s – a decade once dismissed as a shallow "polyester decade," but that has been recently recast as a "pivotal decade," a "great shift," and "the decade that brought you modern life," as the titles of several recent book-length accounts have put it.[19] Looking to the 1970s, both liberals and conservatives agree that the decade's tax revolt proved to be a key turning point that helped shift both U.S. tax policy and American politics, more broadly, to the right. However, much of the scholarly literature – in fields such as the New Political History and the New Fiscal Sociology, as well as the History of Capitalism, Policy History, and American Political Development – has inadvertently reflected the reflected an argument advanced by conservative activists that the tax revolt represented a backlash against liberalism. This dissertation, in contrast, builds upon an underdeveloped and incomplete strand in the literature – which began with one of the very first accounts of the revolt – that sees the revolt as a more ideologically complex and politically contingent event.

The backlash narrative of the tax revolt has its roots in the 1960s. In his influential 1969 work, *The Emerging Republic Majority*, Republican political strategist Kevin Phillips predicted an incipient revolt on the right. By moving "beyond programs taxing the few for the benefit of the many (the New Deal) to programs taxing the many on behalf of the few (the Great Society),"

[18] "Week in Politics: The '47 Percent,' Senate Races," *NPR*, September 21, 2012

[19] Judith Stein, *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies* (Yale University Press, 2010); Bruce Schulman, *The Seventies: The Great Shift in American Culture, Society, and Politics* (Free Press, 2001); David Frum, *How We Got Here: The 70s, The Decade That Brought You Modern Life – For Better Or Worse* (Basic Books, 2008)

Phillips argued, Democrats were alienating white working- and middle-class voters and driving them into the arms of the Republic Party.[20] Not only did this view of the tax revolt comport with the analysis offered by right-distributionist activists and Republicans like Ronald Reagan in the wake of Prop 13, it also found perhaps its clearest and most developed expression in liberal journalists Thomas and Mary Edsall's 1992 book, *Chain Reaction*. While both Phillips and Reagan would argue that the public's alleged rejection of economic liberalism was rooted in a rational embrace of anti-tax, anti-welfare conservatism, rather than any subterranean racism, the Edsalls cast the backlash in less favorable terms. Whites who had previously supported New Deal liberalism and the taxes that went with it, the Edsalls argued, turned against liberalism in the 1960s because the Democratic Party's alliance with the Civil Rights movement and racial liberalism, which "drove home the cost to white of federal programs that redistribute social and economic benefits to blacks and other minorities."[21] Aside from the subtle shift in value judgment, however, the Edsalls's analysis of the revolt echoed Phillips's.

The backlash thesis of the tax revolt erases the pocketbook squeeze, the tax justice movement, the right's pre-Prop 13 failures to pass conservative tax initiatives resentment, and the unpopularity of the distributional effects of right-leaning measures like Prop 13. Yet, in the two decades since the publication of *Chain Reaction*, the backlash diagnosis of the tax revolt has remained relatively unchallenged. With his call for historians to take the history of conservatism seriously, Alan Brinkley helped ignite the New Political History's focus on the "Rise of the Right," which historians have answered with aplomb.[22] Despite the leaps in out historical

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[20] Kevin Phillips, *The Emerging Republican Majority* (Arlington House, 1969), 37.
[21] Thomas Edsall and Mary Edsall, *Chain Reaction: The Impact of Race, Rights, and Taxes on American Politics* (W.W. Norton, 1992)
[22] Alan Brinkley, "The Problem of American Conservatism," *American Historical Review* 99:2 (April 1994); Julian Zelizer, "Rethinking the History of Conservatism," *Reviews in American History* 38:2 (June 2010) and the essays in "Conservatism: A Round Table) in *Journal of American History* 98:3 (December 2011)

knowledge of American conservatism, however, the view of tax politics in the history of conservatism, by and large, has followed the Edsalls' lead.[23] As a recent survey of the 1970s summarized, "mostly white taxpayers saw themselves as being forced, through taxes, to pay for medical and other services for other disproportionately black and Latino people," a realization that "moved [whites] decisively toward an even more individualistic, anti-tax perspective" and prompted the passage of Proposition 13, which "turned taxpayers against the public sector, not against corporate interests."[24] Even much more nuanced works – such as Molly Michelmore's *Tax and Spend*, which follows scholars such as Christopher Howard in linking antigovernment sentiment with the increased use of tax expenditures by Democrats, in particular – maintain Phillip's link between the whites' racial resentment of welfare and anti-tax sentiment.[25] Sociologist Monica Prasad has offered another variant of the backlash thesis. In several works, Prasad has argued that U.S. economic politics and tax policies titled too far to the left in the 1960s and 1970s. This leftward tilt, Prasad argues, was unpopular with the public, which provided popular support for upwardly tilted "neoliberal" tax measures, such as Prop 13 and the Reagan tax cuts.[26]

Other explanations for the tax revolt offered by social scientists in the still-developing subfield of the New Fiscal Sociology have generally differed from those offered by the backlash

[23] On the role of the backlash thesis in the conservatism literature, see Kim Phillips-Fein, "Rethinking the History of American Conservatism," *Journal of American History* 98:3 (December 2011)
[24] Thomas Borstelmann, *The 1970s: A New Global History from Civil Rights to Economic Inequality* (Princeton, 2011), 155-157.
[25] Molly C. Michelmore, *Tax and Spend: The Welfare State, Tax Politics, and the Limits of American Liberalism* (University of Pennsylvania, 2012); Christopher Howard, *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States* (Princeton, 1999). See also, Suzanne Mettler, *The Submerged State: How Invisible Government Policies Undermine American Democracy* (University of Chicago, 2011)
[26] Monica Prasad, *The Politics of Free Markets: The Rise of Neoliberal Economic Policies in Britain, France, Germany, and the United States* (University of Chicago 2006). Monica Prasad and Yingying Deng, "Taxation and the Worlds of Welfare," *Socio-Economic Review* 7:3 (2009), 431-457; Monica Prasad, "The Popular Origins of Neoliberalism in the Reagan Tax Cut of 1981," *Journal of Policy History* 24:3 (2012), 351-383

thesis.[27] Yet, most of the social scientific literature on the tax revolt has focused only on the late-1970s and state-level tax initiatives, especially Prop 13, to the exclusion of the tax revolt's longer chronological lineage, as well as the importance of both local and federal politics in shaping the revolt. Numerous studies, both article- and book-length, investigated the tax revolt solely through analysis of public opinion surveys taken shortly before or shortly after the passage of Prop 13.[28] Other studies, likewise often focused on California, have businesses role in the passage of Prop 13 and subsequent measures at the center of the story, with only varying attention to the revolt's longer history and the presence of left-leaning grassroots groups and little attention to the revolt's local roots.[29] In a recent study, *The Permanent Tax Revolt*, socialist Isaac Martin argued that the modernization of assessment practices in the late-1960 and 1970s eroded informal property tax breaks given to homeowners, ultimately triggering the tax revolt. Despite its admirable attention to the grassroots left, *The Permanent Tax Revolt*'s exclusive focus on property taxes and state-level ballot initiatives limits its reach, since the revolt was already well-underway at the local level years before assessment reforms were enacted.[30] Other scholars have likewise pointed to events, such as the *Serrano v. Priest* decisions in California, as the

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[27] With its focus on taxation as central to understanding social change, rather than as merely "symptomatic" of other forces, this dissertation serves as another entry in the rapidly growing New Fiscal Sociology subfield. On the New Fiscal Sociology, see Isaac William Martin, Ajay K. Mehrotra, and Monica Prasad, "The Thunder of History: The Origins and Development of the New Fiscal Sociology," in *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective* (Cambridge, 2009)

[28] Perhaps the best of the studies in this genre is David O. Sears and Jack Citrin. *Tax Revolt: Something for Nothing in California* (Harvard, 1982),

[29] Sociologist Clarence Lo more wide-ranging 1990 study, *Small Property Versus Big Government*, focused primarily on California and Massachusetts and explored protests over rising property taxes (including some carried out by groups on the left), how those protests largely were ignored by policymakers, and how business groups were more successful in shaping the tax revolt to their ends. Echoing the latter part of Lo's argument, political scientist Daniel Smith's *Tax Crusaders and the Politics of Direct Democracy* argued that conservative tax initiatives like Prop 13 were actually unpopular measures foisted upon the public by deep-pocketed backers who created a "faux populist" movement into order to use the initiative system and enact their favored policies. Clarence Y. H. Lo, Small Property Versus Big Government: Social Origins of the Property Tax Revolt (University of California Press, 1990); Daniel Smith, *Tax Crusaders and the Politics of Direct Democracy* (Routeledge, 1998).

[30] Isaac Martin, *The Permanent Tax Revolt: How the Property Tax Transformed American Politics* (Stanford, 2008).

cause of the revolt, despite the fact that the beginning revolt predated them by many years.[31]

In challenging these explanations of the tax revolt, backlash and otherwise, this dissertation builds upon one of the earliest book-length studies of the tax revolt. Published in 1980, before the full policy effects of the revolt had even been felt, journalist Robert Kuttner's *Revolt of the Haves* gave ample attention to left-leaning, as well as conservative, tax activism in the 1970s. Though it still overlooked much of the action at the federal and local levels throughout the decade, Kuttner's account portrayed the passage of Prop 13 as a contingent, rather than an inevitable, outcome and did not presuppose its ideological content.[32] In his survey of the 1970s, historian Bruce Schulman follows in Kuttner's footsteps, and a few recent surveys of left-leaning protest movements in the 1970s likewise have devoted attention to ideologically diverse roots of the tax revolt.[33] While these works still tell only part of the story, Kuttner's book and the historical studies it has influenced remain the most compelling previous accounts of the tax revolt. As a result, this dissertation builds upon their insights.

This dissertation speaks to larger issues in the study of American taxation beyond the tax revolt itself. Most notably, it aligns with an argument advanced by political scientist Andrea Louise Campbell that Americans views on taxes often corresponded with the level of taxes themselves, rather than outside issues or political rhetoric.[34] Likewise, this dissertation follows

[31] William A. Fischel, "Did *Serrano* Cause Proposition 13?" *National Tax Journal* 42:4 (December 1989); Kirk Stark and Jonathan Zasloff, "Did *Serrano* Really Cause Proposition 13?" *UCLA Law Review* 50 (February 2003); Isaac Martin, "Does School Finance Litigation Cause Taxpayer Revolt? *Serrano* and Proposition 13," *Law and Society Review* 40:3 (September 2006); William A. Fischel, "*Serrano* and Proposition 13: Comment on Isaac Martin," Unpublished Paper (February 2009); William A. Fischel, "*Serrano* and Proposition 13: The Importance of Asking the Right Question," *Tax Analysts State Tax Notes* (August 25, 2008).
[32] Robert Kuttner, *Revolt of the Haves* (Simon and Schuster, 1980); Bruce Schulman, *The Seventies: The Great Shift in American Culture, Society, and Politics* (Free Press, 2001)
[33] Simon Hall, *American Patriotism, American Protest: Social Movements Since the Sixties* (University of Pennsylvania Press, 2011) 95-116; Michael S. Foley, *Front Porch Politics: The Forgotten Heyday of American Activism in the 1970s and 1980s* (Hill and Wang, 2013) 233-260
[34] Andrea Louise Campbell, "What Americans Think of Taxes," in *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective* (Cambridge, 2009)

the work of historian Robin Einhorn, which investigated the links between the institution of slavery and the development of American taxation, in seeing taxation as central to American politics and in trying to understand the development of U.S. taxation on its own terms, rather than reducing it to a supposedly exceptional case in the transnational history of state-building.[35] This dissertation also builds upon historian Julian Zelizer's *Taxing America*, a detailed policy history of federal tax policymaking in the three decades prior to 1975 centered on Ways and Means chair Wilbur Mills.[36] Though this dissertation devotes more attention to public opinion, grassroots politics, and state-and-local taxation than Zelizer's study, it also charts the dissolving influence of the technocratic "tax policy community" studied Zelizer, as the 1970s saw the community challenged by outsiders from the left and, eventually, the right.

In using the tax revolt to investigate larger issues in recent American history, this dissertation also addresses other topics of concern to scholars interested in the shift in American politics and policy to the right over the past 40 years. Most obviously, this dissertation joins the now-burgeoning literature on the 1970s, which has focused on the decade as the fulcrum of American political realignment.[37] Another recent trend that this dissertation also joins has been to recover previously overlooked activism by the grassroots left during years from the mid-1960s

[35] Robin L. Einhorn, *American Slavery, American Taxation* (University of Chicago, 2006); Robin L. Einhorn, "Liberty, Democracy, and Capacity: Lessons from Early American Tax Regimes," in *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective* (Cambridge, 2009)
[36] Julian E. Zelizer, *Taxing America: Wilbur D. Mills, Congress, and the State, 1945-1975* (Cambridge, 1998)
[37] In addition to surveys of the decade, such as Schulman's (mentioned earlier), recent years have seen an explosion in topical studies of the decade. See, for example: Jefferson Cowie, *Stayin' Alive: The 1970s and the Last Days of the Working Class* (New Press, 2013); Judith Stein, Pivotal Decade: How the United States Traded Factories for Finance in the Seventies (Yale, 2010); Bruce Schulman, *The Seventies: The Great Shift in American Culture, Society, and Politics* (Da Capo, 2002); Thomas Borstelmann, *The 1970s: A New Global History from Civil Rights to Economic Inequality* (Princeton, 2012); Laura Kalman, *Right Star Rising: A New Politics, 1974-1980* (W.W. Norton, 2010)

onward that have often been portrayed as periods of a declining left and a rising right.[38] By making the pocketbook squeeze the focal point of the study, this dissertation also follows influential studies by scholars such as Meg Jacobs and Lizabeth Cohen that have placed individuals' everyday economics at the center of U.S. political history.[39] With its framework for understanding tax ideology, this dissertation also builds upon recent attempts to move "political history beyond the red-blue divide."[40] This dissertation also joins works in the new History of American Capitalism subfield, which link the transformation of American capitalism over the past 40 years to contingent ideological and policy struggles, rather than overwhelming global forces.[41] This contention, which is central to many of the recent studies of American capitalism, follows the influential work of political scientists Thomas Ferguson and Joel Rodgers, who placed the policy choices of the Democratic Party at the center of the story of American political and economic realignment.[42] This dissertation likewise joins recent work in political science that have demonstrated that the public's views on a variety of issues – especially economic ones like taxes – are not reflected in policymaking. Instead, these new works show, policymakers reflect the views of economic elites and the well-off, not average Americans or the median voter.[43] This dissertation is, in many ways, an explication of how that process played out in the 1970s with

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[38] See, for example, Gordon K. Mantler, *Power to the Poor: Black-Brown Coalition & the Fight for Economic Justice* (UNC, 2013); Bradford Martin, *The Other Eighties: A Secret History of America in the Age of Reagan* (Hill and Wang, 2011)
[39] Meg Jacobs, *Pocketbook Politics: Economic Citizenship in Twentieth-Century America* (Princeton, 2005); Lizabeth Cohen, *A Consumers' Republic: The Politics of Mass Consumption in Postwar America* (Knopf, 2008)
[40] A prime example of work in this vein is Lily Geismer, *Don't Blame Us: Suburban Liberals and the Transformation of the Democratic Party* (Princeton, 2015). On the outdated red/blue divide framing, see Matthew D. Lassiter, "Political History Beyond the Red-Blue Divide," *Journal of American History* 98:3 (December 2011).
[41] A few influential examples in the field are Bethany Moreton, *To Serve God and Wal-Mart: The Making of Christian Free Enterprise* (Harvard, 2009); Louis Hyman, *Debtor Nation: The History of American Red Ink* (Princeton, 2011)
[42] Thomas Ferguson and Joel Rogers, *Right Turn: The Decline of the Democrats and the Future of American Politics* (Hill and Wang, 1986).
[43] Martin Gilens, *Affluence & Influence: Economic Inequality and Political Power in America* (Princeton, 2012); Kay Lehman Schlozman, Sidney Verba, and Henry E. Brady, *The Unheavenly Chorus: Unequal Political Voice and the Broken Promise of American Democracy* (Princeton, 2012)

regard to taxes.

Chapter Outline

Chapter 1, "The Stirrings of Revolt," demonstrates that the tax revolt first began stirring at the local level among modest income Americans facing a pocketbook squeeze at the same time that federal policymakers in the Kennedy and Johnson administrations were touting the triumphs of growth liberalism. In the 1960, liberal economists and Kennedy administration Democrats began moving away from thinking of taxes in fairness and distributional terms in favor of thinking of taxes in terms of macroeconomic management and GDP growth. This new growth-fiscalist ideology culminated in the Kennedy-Johnson tax cuts. At the same time this shift was occurring at the national level, local taxes – particularly regressive property taxes – were rising to record highs. State legislators exacerbated the local tax bite by shifting costs to localities in response to new federal mandates and public demand for expanded services. As a result, while federal policymakers were applauding the achievements of Keynesian growth liberalism, states and localities were facing growing fiscal crises. Meanwhile, civil rights activists in groups like the Lowndes County Freedom Organization drew attention to the racial and class disparities in the assessment of local taxes, pulling the discussion of tax politics away from Democrats' new language of technocratic expertise and back toward questions of fairness and justice. The continuing trend of rising, unequal regressive taxes at the local and state levels spurred the first iteration of the tax revolt in the 1960s. From California to Ohio, school levy and bond approval rates fell from over 80% in 1950 to less than 50% in 1970, wreaking havoc on school budgets across the country. When voters in Youngstown, Ohio, defeated six consecutive levies between 1966 and 1969 – despite a bipartisan pro-levy campaign – the city closed the schools. National reporters flocked to Youngstown, and the nation's top-rated show, *Rowan and Martin's Laugh-In*, even mocked Youngstown's voters. But cities across the country faced similar crises. Many observers in the media and both political parties argued that alienation, a white backlash, or simple ignorance caused the revolt. However, national polls found no racial differences in levy support. Instead, the poor were most likely to vote against property tax levies, and surveys showed that Americans viewed the property tax as the "worst" and "least fair" form of taxation. At the federal level, President Johnson eschewed suggestions from advisers to pursue federal tax reform or revenue sharing with state and local governments, policies which would have placed an emphasis on fairness, not growth, and helped to ease the growing pocketbook squeeze on lower- and middle-income Americans.

Chapter 2, "The Tax Revolt Goes to Washington," tells the story of how in the late 1960s public pressure for progressive tax reform continued to build, resulting in the first national attention to the idea of a tax revolt and movement towards progressive tax reforms. Federal payroll taxes and Johnson's "surtax" offset the 1964 federal income tax cuts championed by Kennedy, while state and local taxes continued rising precipitously. Newspaper, magazine, and television exposés of tax "loopholes" that benefitted the wealthy stoked public anger, while rising inflation exacerbated the still-potent pocketbook squeeze. When President Johnson's outgoing Treasury secretary announced statistics on the number of millionaires who paid no federal taxes in January 1969, average Americans sent thousands of angry letters to Washington decrying the unfairness of the U.S. tax code. Quickly, the notion of a distribution-based tax revolt began garnering national attention. Labor unions and civil rights activists championed progressive reforms in response to the public's tax frustrations, and their arguments received newfound support among populist Democrats in the House and Senate. However, President

Nixon, as well as many moderate Republicans and Democrats, remained more concerned with fighting inflation than taming the tax revolt, which they believed was a passing political fad. Conservative Republicans in the House and Senate, in contrast, insisted that the public wanted tax cuts, not tax reform, and sought unsuccessfully to exploit the revolt for their own ends. Ultimately, few national politicians in the late-'60s understood the full measure or meaning of the tax revolt, and the final legislative result of the tax reform debates of the late-1960s, the Tax Reform Act of 1969, did little to address the public's pocketbook discontent.

Chapter 3, "'New Populism' and the Ascendance of Left-Distributionism," explains how the grassroots left came to make unfair taxes a new and powerful organizing issue, as well as how their left-distributionist framing of taxes as a question of fairness and justice trickled up from the local level into state and federal politics. Beginning in 1970, consumer advocate Ralph Nader and community organizer Saul Alinsky, among others, organized around the issue of tax fairness. In Gary, Indiana, Nader joined forces with the Calumet Community Congress, one of Saul Alinsky's groups, to challenge unequal tax assessments. Their efforts garnered national media attention, as well as crucial support from populist Democrats, who were amenable to a left-distributionist tax philosophy. By 1972, Democrats like Edmund Muskie and George McGovern made property tax reform a cornerstone of their presidential campaigns. In response, Nixon privately told his advisers to pursue policies that would "appeal to those who are part of the 'Tax Revolt,'" and in his 1972 State of the Union, Nixon called property taxes "one of the most oppressive and discriminatory of all taxes." Throughout the 1972 election campaign, both Nixon and his Democratic counterparts moved towards a left-distributionist analysis of taxes that understood the tax revolt as a response to the growing pocketbook squeeze. Most adherents to this analysis agreed that using progressive federal revenue sources to relieve the growth in local regressive taxes, particularly the property tax, was the solution to the tax revolt, in addition to loophole-closing federal reform. Nixon's first step was Johnson's discarded revenue sharing idea, but both Nixon and all of the major Democratic presidential candidates promised to go beyond that by funding direct federal relief of local property taxes – a revolution in "fiscal federalism." Though McGovern lost in a landslide to Nixon, taxes proved to be the only issue on which the public preferred McGovern to Nixon. With the president's move to the left and the rise of left-distributionist Democrats like Muskie and McGovern, many observers agreed that left-distributionist tax reform was imminent.

Chapter 4, "The 'New Democrats' versus the Distributionists," begins by explaining how McGovern's loss and the Watergate scandal destabilized both parties' power structures and put once-seemingly-inevitable left-distributionist tax reform in question. Meanwhile, at the state and local levels, the number of left-distributionist grassroots tax groups continued to grow, adding groups like George Wiley's Movement for Economic Justice and ACORN-affiliated groups like California's Citizens Action League. These activists formed national networks of like-minded tax reformers that shared information and strategies, giving the tax justice movement a coherent philosophy, language, and toolkit. However, in the years that followed McGovern's defeat and Watergate, the Democratic Party would become increasingly hostile to this growing tax justice left, even as the latter was eager to translate its state and local successes to the national level. While congressional hearings led by Edmund Muskie continued to explore inequities in local property taxes, including the case of Gary, Indiana, many of his fellow Democrats moved in another direction. The post-Watergate "New Democrats" ignored the entreaties of the grassroots left and instead pulled the Democratic Party towards a fiscalist budget-conscious, pro-growth view of taxes. These shifts were complicated by the rise of "stagflation," which paradoxically increased the public's demand for distributionist solutions to the pocketbook squeeze and decreased policymakers' inclinations to view issues like taxes in those terms. Indeed, inflation and taxation were inextricably intertwined elements of the pocketbook squeeze in the minds of voters, with one exacerbating the other. In contrast to the Democrats' move away from the grassroots left on taxes, the GOP became a friendlier place for right-distributionist activists in the years following Watergate. While numerous right-distributionist referenda, including one pushed by California's Governor Ronald Reagan in 1973, failed, Reagan and other conservative Republicans continued to nurture the efforts of right-distributionist tax activists. Supporters of Reagan's defeated 1973 initiative, for example, founded the influential National Tax Limitation Committee in 1975 and campaigned across the country for right-leaning tax measures, albeit with little success. With left-distributionist reform foreclosed at the federal level, left-distributionist activists attempted to cushion low- and middle-income Americans from inflation-induced property tax increases with left-distributionist relief programs at the states level. However, New Democrats in power in key states – such as California's Jerry Brown and Massachusetts's Michael Dukakis – rebuffed the grassroots left's efforts. Polls consistently showed that the public had not turned to the right and opposed both reductions in most services and tax cuts for the wealthy. However, the failure of Democrats to provide institutional support for progressive tax reforms left an increasingly squeezed public with no alternative to the conservative initiatives being enthusiastically endorsed by Republicans.

My dissertation's conclusion explains why, while most voters preferred more progressive, fairness-conscious solutions to the pocketbook squeeze, they ultimately supported conservative tax-cutting measures like Prop 13 out of pocketbook anxiety, rather than ideological fervor. As one left-leaning California tax activist said after reluctantly deciding to vote for Prop

13, “I want to keep my home.” In the wake of Prop 13, another battle in the tax revolt began – the battle to frame its meaning. This battle commenced the instant Howard Jarvis took the stage to deliver his victory speech. It continued through a well-organized publicity barrage orchestrated by conservative activists and right-distributionist Republicans like Ronald Reagan. Following conservatives’ lead, many on the left agreed with the right’s diagnosis. Likewise, journalists almost universally portrayed Prop 13 as a sign of rising conservatism, rather than economic desperation. Republicans capitalized on this interpretive consensus by arguing that Prop 13 vindicated their calls for regressive pro-business “supply side” tax cuts aimed at boosting “capital formation,” and Democrats soon followed. President Carter – who had campaigned on a platform of progressive tax reform – called Prop 13 a “shock wave” and quickly signed a regressive Republican-backed capital gains tax cut into law. This regressive, GOP-pushed cut was soon followed by others. Earlier progressive tax reform efforts were forgotten. The conservative redefinition of the tax revolt was complete.

CHAPTER 1

The Stirrings of Revolt

The NBC evening news cameras panned over drab schools, hardened lunch-pail-carrying steelworkers, and an elderly woman sweeping leaves in front of her dated house. In voiceover, correspondent Del Donahoo intoned, "Youngstown is a workingman's town [where] the people with money have moved to the suburbs." Donahoo was there to answer a puzzling question. Why had the residents of the Ohio city voted down six consecutive school levies? It was a question being asked not just by the college students going door-to-door for a locally sponsored survey designed to help boosters pass the next levy, but also by journalists, social scientists, consultants, and public officials in both parties. Though not all observers used the term, they were all trying to explain what was by then a full-scale "tax revolt." In the early-1950s, local schools in states across the country could count on voters approving over 80 percent of their levies and bonds. But in the mid-1950s, approval rates began falling, and they continued to fall throughout the 1960s, dipping to less than 50 percent in 1970. Moreover, when voters did approve levies and bonds in the late-'60s, they did so by smaller margins than in the early-'50s.[1] While Youngstown's six

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[1] Author's analysis of levy and bond data for all states available. California data from Arnold J. Meltsner, Gregory W. West, John F. Kramer, and Robert T. Nakamura, *Political Feasibility of Reform in School Financing* (Praeger, 1972). Ohio data compiled by author from various sources. See Richard E. Kelley, "The Diminishing Vote," *Ohio Schools* (May 1963), 16-17; Byron H. Marlowe, "Voter Behavior in School Bond and Tax Elections in Ohio," in *A Time For Priorities: Financing the Schools for the 70s: Proceedings of the 13th National Conference on School Finance* (National Education Association, 1970), 158-167; "Levy Defeats: From Curiosity to Commonplace," *Ohio Schools* 49:1 (January 22, 1971), 8-9. For a national overview of school bond approval rates from 1963 through 1972, see Figure 3-1 in Howard Devon Hamilton and Sylvan H. Cohen, *Policy Making by Plebiscite: School Referenda* (Lexington Books, 1974) and Table 1 in Richard Barr and Irene King, *Bond Sales for Public School Purposes, 1969-1970* (National Center for Education Statistics, 1971). See also various state tables and graphs in *Voter Behavior and Campaign Strategies in School Finance Elections* (Educational Research Service, 1977).

consecutive defeats, threatening a school closure, might have been a dramatic example, it nonetheless captured an undeniable trend.

Local officials in both parties struggled to understand this new anti-tax sentiment.[2] In most cities that experienced a local revenue crisis, there was no organized opposition to the levy, leaving local officials to contend with what they experienced as spontaneous, irrational revolts. Some observers believed the phenomenon was a white backlash against civil rights and school integration.[3] However, national surveys actually found that whites supported local school levies at slightly higher rates than people of color.[4] Moreover, overwhelmingly white rural and suburban communities were facing educational revenue crises, too.[5] Others commentators believed that the tax revolt portended rising anti-government conservatism.[6] But the same voters turning down school levies told pollsters that they supported the schools and did not believe

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[2] Studies of local school finance referenda failures, often funded by local governments or business groups, like the Youngstown study cited above, became common during the levy defeat epidemic of the mid-to-late-1960s and early-1970s. Defeats also became a common topic for theses and dissertations. Due to the rising tide of levy and bond defeats, elaborate pro-levy campaigns became commonplace, too. Howard Devon Hamilton and Sylvan H. Cohen, *Policy Making by Plebiscite: School Referenda* (Lexington Books, 1974), 106-111.

[3] In some cities, like Pasadena, anti-integration racism was, indeed, implicated in the defeat of school finance initiatives. However, cases with clear racial divisions in the support for a school levy or bond were rare. Yet, based on assumptions or limited data, many local officials and observers believed that the link was almost universal. For example, the superintendent of schools in Youngstown, Ohio, blamed his city's levy defeats on the racial views of blue-collar whites in his city, even though later surveys would prove his assumptions incorrect. Roy Reed, "Schools in Pasadena Confronted by Classic Segregation Crisis," New York Times, April 7, 1969; Alvin Rosensweet, "Just Out of Money – Youngstown Ready to Close Schools," *Pittsburgh Post-Gazette*, November 18, 1968; "School Funds / Ohio," *NBC Evening News*, November 25, 1968; Alvin Rosensweet, "Crisis in Youngstown – Vote Against the School Levy," *Pittsburgh Post-Gazette*, November 19, 1968.

[4] Stanley M. Elam, ed., *A Decade of Gallup Polls of Attitudes Towards Education, 1969-1978* (Phi Delta Kappa, 1978). Moreover, in 1974, 53 percent of blacks and 47 percent of whites said they would "sympathize with a taxpayers' revolt." Author's analysis of Harris Poll, May 1974, Odum Institute [#7485]

[5] Steven J. Weiss and Robert W. Eisenmenger, "The Problem of Redistribution of Federal and State Funds," paper presented at Federal Reserve Bank of Boston conference, "Financing State and Local Governments," June 1970; "Tax Reform/Ohio/New York/Michigan," *NBC Evening News*, March 28, 1969; William K. Stevens, "Tax Revolt: 46,00 Shut Out of School," *New York Times*, September 14, 1970.

[6] The depiction of anti-levy and anti-bond voters hewed closely to the depiction of Wallace voters. Wayne E. Thompson and John E. Horton, "Political Alienation as a Force in Political Action," *Social Forces* 38:3 (March 1, 1960); John E. Horton and Wayne E. Thompson, "Powerlessness and Political Negativism: A Study of Defeated Local Referendums," *American Journal of Sociology* 67:5 (March 1, 1962); Sylvan Cohen, "Voting Behavior in School Referenda: An Investigation of Attitudes and Other Determinants by Q Technique and Survey Research" (Ph.D. Dissertation, Kent State University, 1971); Philip Piele and John Hall, *Voting in School Financial Elections: Some Partial Theories* (ERIC Clearinghouse, September 1973)

teachers made too much money. Moreover, the same voters turning down school levies were also often voting Democrats, who usually supported the local levies more than their Republican counterparts, into office.[7] Most observers and officials were simply puzzled. They could not understand why voters would spite their own schools and governments.

But while public officials, journalists, social scientists, and consultants puzzled over the causes of these local tax revolts, voters had a simple explanation. As one African American worker in Youngstown told the door-to-door interviewers, "I earn approximately seven-to-eight thousand dollars a year…. I have five kids, and we don't have any new automobiles… [and] we can't save money because I think the taxes are too high."[8] This worker had a point. Between the early-1950s and the early-1970s, taxes increased dramatically for most low- and middle-income Americans. Taxes on a family of four making just above median income almost doubled – from 11.8 to 20.2 percent – between 1953 and 1972, according to the Advisory Commission on Intergovernmental Relations. The biggest single increase came in state and local taxes. These taxes – especially sales and property taxes – were regressive, taking a greater percentage of income from lower-income taxpayers than higher-income taxpayers.[9] Combined with inflation, rising taxes created what was widely dubbed a "pocketbook squeeze" on low- and middle-income Americans.[10] The Youngstown residents voting against property tax levies in the mid-1960s were caught in the middle of this squeeze. In contrast, thanks to cuts in federal income

[7] See, for example, J. Kiriazis and S. Hotchkiss, "Community Attitudinal Survey of Youngstown Voters on the School Tax Levies," Youngstown State University Archives and Special Collections, LB 2823.K5; Stanley M. Elam, ed., *A Decade of Gallup Polls of Attitudes Towards Education, 1969-1978* (Phi Delta Kappa, 1978).
[8] "Tax Reform / Ohio / New York / Michigan," *NBC Evening News*, March 28, 1969.
[9] Author's analysis of ACIR data, Table 38, Advisory Commission on Intergovernmental Relations, *Federal-State-Local Finances: Significant Features of Fiscal Federalism*, M-79 (U.S. GPO, 1974).
[10] See, for example, *Life* magazine's August 15, 1969, cover story, "The Dollar Squeeze," subtitled on the cover, "High Taxes and High Prices Make Everybody Feel Poor." "The Dollar Squeeze," *Life*, August 15, 1969

taxes – one of the few progressive taxes in the American fiscal system – upper-income taxpayers' burdens actually fell between 1953 and 1972.[11]

The architects of those federal tax cuts, the Kennedy-Johnson growth liberals, largely missed this pocketbook squeeze. Instead, they embraced growth fiscalism over left-distributionism when it came to taxes. Growth, they believed, had ushered in a middle-class society, its prosperity acting as a salve on the economic anxiety that had characterized the Great Depression and the years immediately following World War II. They thought, in Kennedy's famous words, that a rising tide had lifted all boats. Others on the left disagreed, but their views were largely swept away by the economic triumphalism of the Democrats' Keynes-inspirated "New Economics." The local tax revolt, however, would slowly, but surely, undermine this confidence and bring questions of distribution and fairness to the center of discussion about tax policy.

Growth Liberalism and Its Discontents

When *Time* magazine placed British economist John Maynard Keynes, dead for nearly two decades, on its cover at the end of 1965, it was as much an endorsement of the Kennedy-Johnson administration's growth liberalism as it was of Keynes himself. Kennedy, the magazine explained, was the first Keynesian president. His administration's economic advisers "presided over the birth of the New Economics." Specifically, the New Economics under Kennedy stood for "spur[ing] an expanding economy to still faster growth" through tax cuts. "The Kennedy Administration stimulated capital investment by giving businessmen a 7% tax kickback on their purchases of new equipment and by liberalizing depreciation allowances," *Times* noted.

[11] Author's analysis of ACIR data, Table 38, Advisory Commission on Intergovernmental Relations, *Federal-State-Local Finances: Significant Features of Fiscal Federalism*, M-79 (U.S. GPO, 1974).

"Kennedy also campaigned for an overall reduction in the oppressive income-tax rates in order to increase further both investment and personal consumption."[12] By combining capital-friendly business tax cuts with distributionally neutral across-the-board individual income tax cuts, the Kennedy-Johnson tax plan meant placing fiscalism over distributionism.

In choose growth-oriented fiscalism over a left-distributionism, Kennedy and his New Economics advisers were making a clear shift away from New Deal liberalism. Franklin Roosevelt was, at least in rhetoric, an adherent of distributionist economic populism. FDR championed "soak-the-rich" taxation, both in rhetoric and in reality when it came to federal income taxes, and advocated shifting the burden from the "common man" to the rich. FDR said that his goal was to "progressively lighten the tax burden of the average taxpayer." In speeches he declared, "Here is my principle: Taxes shall be levied according to ability to pay. That is the only American principle." This was different, he explained, from "the succeeding Republican Administration [which] did not believe in that principle [the ability to pay]." Roosevelt also called the businesses and wealthy individuals who opposed progressive taxation "propagandists," who he said sought to lower their taxes as the expense of low- and middle-income Americans. While the New Deal also contained elements of a fiscalist ideology, it was a decidedly minor element. With its lingering concerns about the size of deficits, at least prior to the country's entry into WWII, the Roosevelt administration pragmatically accepted a variety of regressive tax increases, such as payroll taxes for Social Security, and utilized a variety of other levies and fees.[13] Such fiscalist moves, however, were counterbalanced by FDR's distributionalist income

[12] "We Are All Keynesians Now," *Time* (December 31, 1965)

[13] Franklin Roosevelt, "Address at Worchester, Mass.," October 21, 1936, *Public Papers of the President*; Franklin Roosevelt, "Message to Congress on Tax Revision," June 19, 1935, *Public Papers of the President*. The classic work on New Deal taxation, which was critical of its claim to progressivity, is Mark Leff, *The Limits of Symbolic Reform: The New Deal and Taxation, 1933-1939* (Cambridge, 2003). A more recent account notes both the progressive and regressive elements of New Deal Taxation. Joseph Thorndike, *Their Fair Share: Taxing the Rich in*

tax policies.

The Kennedy administration, in contrast, was the first to embrace specifically growth-oriented fiscalism. Most New Economics liberals had little use for tax populism. The distribution of income was secondary to the country's total income. "One of the chief arguments for a more positive program for economic growth," Kennedy's chair of the Council of Economic Advisers, Walter Heller, explained in 1961, "is that it is far easier to achieve many of our common goals by enlarging the size of our economic pie than by transferring income and wealth from one group to another."[14] To be sure, many in the Kennedy administration supported loophole-closing tax reforms. Such concerns, however, paled in comparison to the focus on growth. For some holdovers from earlier Democratic administrations, like Assistant Secretary of the Treasury Stanley Surrey, reform was its own calling. Surrey slammed "provisions favoring special groups or special individuals that run counter to our notions of tax fairness."[15] Kennedy himself also noted, "[S]pecial provisions have developed into an increasing source of preferential treatment to various groups. Whenever one taxpayer is permitted to pay less, someone else must be asked to pay more."[16] However, for most of Kennedy administration, tax reform was subordinate to growth-boosting tax cuts. "The central focus of the President's program is the prompt enactment, in a single comprehensive bill, of the permanent and meaningful reduction, by stages, of rates of tax on corporate income, individual income, and capital gains…," Treasury Secretary Douglas Dillon told Congress in 1963. Insofar as reform was a factor, Dillon explained, it should be

the Age of FDR (Urban Institute Press, 2013). Though some of the broader "lessons" about New Deal taxation offered are dubious, at least in this author's view, see also Joseph Thorndike, "Four Things that Everyone Should Know about New Deal Taxation," *Tax History Project*, December 20, 2008 (http://www.taxhistory.org/thp/readings.nsf/ArtWeb/1AEBAA68B74ABB918525750C0046BCAF).

[14] "The Pragmatic Professor," *Time* (March 3, 1961)

[15] "Toward Tax Reform," *Time* (February 24, 1961)

[16] John F. Kennedy, "Special Message to the Congress on Taxation," *Public Papers of the President* (April 20, 1961)

reform "of a base broadening nature are necessary to permit rate reductions as extensive as are required to stimulate the return to full employment and higher rates of growth and to encourage efficiency in use of resources."[17]

In attempting to secure support for his tax cuts, Kennedy repeatedly stressed their growth-oriented, rather than distribution-oriented nature. Likewise, the administration's proposals strenuously avoided any tinge of redistributionism by stressing the "across-the-board, top-to-bottom" nature of his tax program, as Kennedy put it, which including generous cuts for businesses and wealthy individuals in the hope of minimizing opposition to the cuts.[18] In

[17] *The President's 1963 Tax Message, Part 1*, U.S. House Ways and Means, February 6-8, 18, 1963 (GPO 1963)

[18] For the across-the-board quote, see: John F. Kennedy, "Address and Question and Answer Period at the Economic Club of New York," December 14, 1962, *Public Papers of the President*s. The ideological tilt of Kennedy's tax cuts have been a source of debate since conservatives began invoking JFK in the 1970s in support of tax cuts for businesses and upper-income taxpayers. The typical sides in the debate are those on the right, who argue that JFK supported "supply-side" tax cuts, and those on the left, who argue that JFK supported "demand-side" tax cuts. Making things more difficult, it seems that JFK's own advisers do not agree whether the cut was "demand side," "supply side," or both. Regardless, both perspectives embrace a fiscalist view. They both agree that the tax cuts were designed to spur growth, but the disagree about how it spurred growth. JFK's own speeches selling the tax cut to the public made no reference to issues of fairness or distribution and instead focused on the growth-spurring effects of an across-the-board cut. John F. Kennedy, "Address and Question and Answer Period at the Economic Club of New York," December 14, 1962, *Public Papers of the President*s; John F. Kennedy, "Radio and Television Report to the American People on the State of the National Economy," August 13, 1962, *Public Papers of the President*s; John F. Kennedy, "Radio and Television Address to the Nation on the Test Ban Treaty and the Tax Reduction Bill," September 18, 1963, *Public Papers of the President*; John F. Kennedy, "Remarks and Question and Answer Period at the American Bankers Association Symposium on Economic Growth," February 25, 1963, *Public Papers of the President*. Initial estimates of the distribution of the JFK tax cuts varied, depending on how they were measured. The highest brackets received the largest percentage cuts. Kennedy's initial proposal called for cutting the top rate from 91 to 65 percent and the bottom rate from 20 to 14 percent. The final bill had slightly different rates, only cutting the top bracket to 70 percent. As passed, the tax cuts on individuals were progressive in terms of the percentage of existing tax liability that they reduced, but regressive when the cuts were viewed in terms of their effects on income – meaning that the well-off would see their incomes boosted by a higher percent because of the cuts, due to the effect of across-the-board cuts on progressive rates. Joseph A. Pechman, "Individual Income Tax Provisions of the Revenue Act of 1964," *Journal of Finance* 20:2 (May, 1965), 247-272; Melvin I. White, "Individual Income Tax Provisions of the Revenue Act of 1964: Discussion," *Journal of Finance* 20:2 (May, 1965), 292-295; Leon Keyserling's testimony, especially Chart 28, in *Revenue Act of 1963, Part 2*, October 21-25, 1963, Hearings before the Committee on Finance, U.S. Senate (U.S. GPO, 1963); *The President's 1963 Tax Message, Along with Principal Statement, Technical Explanation, and Supporting Exhibits and Documents* (U.S. GPO, 1963). For historical accounts of the Kennedy tax cuts, and the differing views of advisers, see Allan Matusow, *The Unraveling of America: A History of Liberalism in the 1960s* (Perennial, 1985), 44-59; Irving Bernstein, *Promises Kept: John F. Kennedy's New Frontier* (Oxford, 1991), 118-159; David Shreve, "President John F. Kennedy and the 1964 Tax Cut" (2001) (http://s3.documentcloud.org/documents/715643/jfk-tax-cutfinal-2.pdf); Robert Collins, *More: The Politics of Growth in Postwar America* (Oxford, 2000), 40-67; Michael Bernstein, *A Perilous Progress: Economists and Public Purpose in Twentieth-century America* (Princeton, 2001); David Greenberg, "Tax Cuts in Camelot?" *Slate*, January 16, 2004; Marily Geewax, "JFK's Lasting Economic Legacy: Lower Tax Rates," *NPR*,

emphasizing that too much taxation, not the distribution of the tax burden was the main problem facing the country, Kennedy and his advisers argued that the progressive income tax's high marginal rates were strangling the economy. In his address national radio and television address calling for a tax cut, JFK explained that high taxes hurt both the supply and the demand sides of the economy, businesses and consumers. "The single most important fiscal weapon available to strengthen the national economy is the federal tax policy. The right kind of tax cut at the right time is the most effective measure that this Government could take to spur our economy forward," Kennedy said. "For the facts of the matter are that our present tax system is a drag on economic recovery and economic growth, biting heavily into the purchasing power of every taxpayer and every consumer…. [The present tax system is] far too heavy for the purposes of curbing inflation and far too heavy to encourage investment and enterprise and risk-taking which make jobs and which make growth."[19] Or, as Dillon told Congress, the administration's "primary objective is to release our economy from the shackles of an overly repressive income tax rate structure."[20] Especially to business audiences, the president stressed the conservative implications of his tax proposals. To the New York Economic Club, Kennedy argued that the existing high tax rates were "deterrents to private initiative," since they "reduce[d] the financial incentives for personal effort, investment, and risk-taking." Most controversially, Kennedy predicted that the tax cuts could actually stimulate so much growth that they would raise revenue, eliminating the tradeoff between anti-inflation fiscalism and growth fiscalism. "[I]t is a

November 14, 2013; Walter Heller, "Kennedy's Supply-Side Economics," *Challenge* 24:2 (May/June 1981), 14-18; Erwin C. Hargrove and Samuel A. Morley, eds. *The President and the Council of Economic Advisers: Interviews with CEA Chairmen (*Westview, 1984); Cathie J. Martin, *Shifting the Burden: The Struggle over Growth and Corporate Taxation* (University of Chicago, 1991). For examples of the modern conservative embrace of JFK's tax cut, see Ira Stoll, *JFK, Conservative* (Houghton Mifflin Harcourt, 2013); Rush Limbaugh, "Flashback: JFK's 1962 Speech Advocating Tax Cuts" (http://www.rushlimbaugh.com/daily/2012/10/12/flashback_jfk_s_1962_speech_advocating_tax_cuts).

[19] John F. Kennedy, "Radio and Television Report to the American People on the State of the National Economy," *Public Papers of the President* (August 13, 1962)

[20] *The President's 1963 Tax Message, Part 1*, U.S. House Ways and Means, February 6-8, 18, 1963 (GPO 1963)

paradoxical truth that tax rates are too high today and tax revenues are too low and the soundest way to raise the revenues in the long run is to cut the rates now," Kennedy argued.[21]

Many on the left objected to the Kennedy administration's neglect of the issues of distribution and reform. Organized labor proved to be a strong and consistent opponent of what it saw as the upward tilt of the tax cuts. Labor leaders like George Meany and Walter Reuther criticized the White House, both in the press and in congressional testimony, for not focusing more cuts on lower- and middle-income brackets.[22] During the hearings on the Kennedy proposals, Democratic Senator Paul Douglas noted, in support of the AFL-CIO's calls for reform, that there were 15 people with incomes over one million dollars in 1959 who paid no income taxes. "Now if we try to trace the devices by which the taxes were avoided by these gentlemen," Douglas said, "I think we will find that there is first a capital gains loophole; second, the depletion allowances loophole; third, the corporate shield thrown up around personal income; fourth, stock options; and a number of others." It was strange, Douglas quipped, that these issues were getting so little attention during the tax hearings.[23] Even putting aside loophole-closing reforms, critics on the left questioned the very distribution of the individual rate cuts. Former Truman economic adviser Leon Keyserling argued that the "across the board nature" of the tax cuts was a myth. While the tax cuts on individuals were progressive in terms of the percentage of existing tax liability that they reduced, they were actually regressive when the cuts were viewed in terms of their effects on income – meaning that the well-off would see their incomes boosted by a higher percent because of the cuts, due to the effect of across-the-board

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[21] John F. Kennedy, "Address and Question and Answer Period at the Economic Club of New York," December 14, 1962, *Public Papers of the Presidents*

[22] Vincent Burke, "Meany Says Tax Cut Too Slow, For Wrong People," *Atlanta Daily World*, March 14, 1963; Meany testimony in *President's 1963 Tax Message, Part 4*, March 13, 14, 15, and 18, Hearings Before the Committee on Ways and Means, U.S. House of Representatives (U.S. GPO, 1963).

[23] *Revenue Act of 1963*, U.S. Senate Finance Committee, October 21-25, 1963 (GPO 1963)

cuts on progressive rates. Not only was this distributionally unjust in Keyserling's view, it was also bad for growth. Cuts for low- and middle-income people would stimulate the economy more than cuts for upper-income people. It was a criticism of which Kennedy was well-aware. When the president was asked in a news conference whether his proposed tax cut did enough for low income brackets, he argued that the "balance[d]" tax cut did benefit them, not only through their direct cut, but because it would "stimulat[e]" the economy as a whole, which would help the poor indirectly.[24] In another conference, Kennedy said that the House and Senate could "deal with" the question of "who should get the cut and how it should be divided." The important issue, in Kennedy's mind, was the stimulative effect of the cut, regardless of the distribution.[25] Indeed, Kennedy boasted of the fact this tax plan was being attacked "from both the left and the right" as proof of its well-balanced nature.[26] Kennedy's desire for equanimity, in fact, demonstrated the degree to which his Democratic administration had moved away from populist distributionism towards technocratic fiscalism.

Much of the opposition surrounding the Kennedy tax proposals, however, had to do with the limited reforms included, as well as the distribution of the tax cuts. Whether the Kennedy administration liked it or not, debates over distribution were inescapable. Corporations and business groups were not enthusiastic about the inclusion of any reforms, but were enthusiastic about cuts, provided they tilted upward. Labor was enthusiastic about both, also depending on the distribution of the cuts. To the White House, it became clear that loophole-closing reforms and other distributionist issues were the stumbling block to getting the tax cuts it wanted. Indeed, Kennedy was personally frustrated by interest groups' focus on distributional questions. "Tax reduction will not be passed if each economic group continues to treat growth as a crop to be

[24] John F. Kennedy, "The President's News Conference," May 8, 1963, *Public Papers of the President*.
[25] John F. Kennedy, "The President's News Conference," February 21, 1963, *Public Papers of the President*.
[26] "Tax Rebate," *Time*, March 8, 1963

divided, or if each group examines what is available through the wrong end of a telescope," Kennedy lamented in a what amount to a rejection of distributionist views of taxation. "If the low-income man looks at the dollar amounts of his cut, he will decide that the rich are getting all the breaks; and if the high-income man looks at the percentage cuts, he will decide the opposite." To Kennedy, these oppositional social and economic groups should simply be grateful for their own cut, not question the overall mix of cuts. "The facts of the matter are that the reduction is fairly distributed through all income brackets," he said. "And I would hope that all groups would put the national interest first, and recognize that the prospects for tax reduction and economic growth must not be endangered by squabbles over who is going to get what."[27]

Ultimately, the Kennedy – and later, Johnson – team decided to postpone any discussion of tax reforms in order to smooth the passage of the tax cuts. Growth, in the view of the New Economics, was far more important than distribution. Kennedy economic adviser James Tobin called the Kennendy-Johnson tax cut, eventually passed in 1964, the "first major use of the federal budget for stimulation of the economy…an historic event." "The main purpose of the tax cut is to reduce unemployment," Tobin argued. Both distributive issues and reforms had been put aside in the interests of passing the tax cut, which badly damaged distributionist reformers' leverage. "For the most part Congress provided lower and less progressive rates without broadening the tax base or eliminating loopholes," Tobin wrote. Nonetheless, it was "a victory for rational fiscal policy," at least in Tobin's view.[28] Not all left-liberal interest groups agreed,

[27] "Tax Rebate," *Time*, March 8, 1963

[28] James Tobin, "Tax Cut Harvest," *New Republic* (March 7, 1963). See also Philip M. Stern, "The Slow, Quiet Murder of Tax Reform," *Harper's* (December, 1963); C. Douglas Dillon, recorded interview by Harvey Brazer, September 22, 1964, John F. Kennedy Library Oral History Program; C. Douglas Dillon, recorded interview by Professor Seymour Harris, August 18, 1964, John F. Kennedy Library Oral History Program; C. Douglas Dillon, recorded interview by Professor Seymour Harris, August 20, 1964, John F. Kennedy Library Oral History Program; C. Douglas Dillon, recorded interview by Dixon Donnelley, November 10, 1964,John F. Kennedy Library Oral History Program; Albert Gore, recorded interview by Seth Tillman, August 13 and 21, 1964, John F. Kennedy Library Oral History Program; Theodore C. Sorensen, recorded interview by Carl Kaysen, May 20, 1964, John F.

though. Proponents of loophole-closing reforms, like organized labor, had been persuaded to drop their calls for progressive tax reform in order to facilitate speedier passage of the tax cuts. The implicit promise was that reform was still on the agenda and would be dealt with later. However, as even Tobin noted, “the whole episode cost the cause of tax reform a good deal of its bargaining power,” since it was harder to push through reforms without the sweetener of cuts.[29]

The Kennedy-Johnson administration would never return to tax reform, despite calls from Congress, left-liberal interest groups, and the public. Just as Kennedy decided to delay reforms in order to ease the passage of the tax cut, Johnson decided to delay reforms in order to ease the passage of the anti-inflation tax increase – the “surtax” or “surcharge.” As CEA chairman Gardner Ackley explained to Johnson, “[T]ax reform cannot be combined with a temporary tax increase without delaying them both.” The administration debated the distributional effects of the surcharge, as well as how to pass it while defusing calls for distributionist policy shifts from both business and labor.[30] The decision to raise taxes in the face of inflation made perfect fiscalist sense. Higher taxes would siphon purchasing power out of the economy, reducing demand for

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Kennedy Library Oral History Program; Council of Economic Advisers: Walter Heller, Kermit Gordon, James Tobin, Gardner Ackley, Paul Samuelson, recorded interview by Joseph Pechman, August 1, 1964, John F. Kennedy Library Oral History Program; Transcript, Wilbur Mills Oral History Interview I, 11/2/71, by Joe B. Frantz, Internet Copy, LBJ Library; Oral History Transcript, Wilbur Mills, AC 79-41, Interview 1, Joe B. Frantz, LBJ Presidential Library Oral Histories, LBJ Presidential Library; Oral History Transcript, Wilbur Mills, AC 94-18, Interview 2, Michael L. Gillette, LBJ Presidential Library Oral Histories, LBJ Presidential Library; Oral History Transcript, Walter Heller, AC 83-9, Interview 1, David McComb, LBJ Presidential Library Oral Histories, LBJ Presidential Library; Oral History Transcript, Lawrence F. O'Brien , AC 92-16, Interview 5, Michael L. Gillette, LBJ Presidential Library Oral Histories, LBJ Presidential Library. See also the tax cut conversations in the transcripts of the Kennedy White House tapes, available from the Miller Center. (http://millercenter.org/presidentialrecordings/kennedy/jfk-norton-volumes). Business opposition doomed reform proposals, but in the process of publicly debating reforms, the Kennedy administration drew attention to the phenomenon of tax-free millionaires. George Marder, “How to Skip Tax on 20 Million,” *Pittsburgh Press*, February 17, 1963; “Tax Relief Plan Called ‘Wrong and Dangerous,’” *Los Angeles Times*, May 29, 1962

[29] James Tobin, “Tax Cut Harvest,” *New Republic* (March 7, 1963).

[30] That said, Johnson was particularly concerned about how the surtax would affect low- and middle-income taxpayers. Ackley to Johnson, August 2, 1967, B 4 F Legislative Struggle Vol 1, Legislative Background Tax Increase, LBJL; Fowler to Johnson, August 9, 1967, B 4, F Legislative Struggle Vol 1, Legislative Background Tax Increase, LBJL. For more on the surtax/tax reform debate, see Marquis Childs, “Calls to End Tax Loopholes May Not Stir LBJ Action,” *Morning Record*, August 17, 1967; “Johnson Says Tax Reform Should be Nixon Decision,” *Tuscaloosa News*, January 1, 1969.

both goods and labor, thereby driving down prices and wages. However, polls showed that the public opposed the measure, viewing it in distributional terms as something that exacerbated – rather than alleviated – the economic squeeze caused by inflation.[31] Moreover, in order to secure congressional approval for the surtax, Johnson had to promise to submit a full slate a tax reform. Ultimately, Johnson broke this agreement, failing to submit his tax reform proposals until he was leaving office, when the package was viewed as little more than a dead-on-arrival piece of legislation issued by a lame-duck president.[32]

While the Democrats failed to act, the public's frustrations about the fairness of the tax system grew. The 1960s saw rising cynicism about the tax system. In the middle of the decade, a flurry of exposés outlining the inequities of the tax code hit newspapers, magazines, and bookstore shelves. Perhaps the most famous was 1964's *The Great Treasury Raid*, written by Philip Stern, a former legislative assistant of both Henry Jackson and Paul Douglas. The previous year, Stern had been an outspoken critic of the direction Kennedy's tax cut was taking, writing a *Harper's* article on "The Slow, Quiet Murder of Tax Reform."[33] Now, with *The Great Treasury Raid*, Stern documented all that was being ignored by pushing reform to the side. The front cover of the mass market paperback blared, "MISSING: FORTY BILLION DOLLARS EVERY APRIL 15th! The story of: How five people had incomes of $5 million but paid no tax. How one person had an income of $20 million but paid no tax. How movie magnate Louis B. Mayer was saved $2 million by a special tax law all his own." Stern explained in excruciating detail how

[31] The surcharge was unpopular, which concerned Johnson. Panzer to Johnson, February 24, 1967, B 31, F 10/9/66-5/31/68, GEN BE 5-2, LBJL. In statements touting the surtax, Johnson framed inflation itself as the real tax. "Inflation imposes a cruel and unjust tax on all the people," Johnson argued. The surcharge, he said, was designed to fight "the cruel and haphazard tax of rising prices and spiraling interest rates." Polls continued to show that the public opposed the surtax, however. Lyndon B. Johnson, "Statement by the President Upon Signing the Tax Bill," June 28, 1968, *Public Papers of the President*; Lyndon B. Johnson, "Special Message to the Congress on Fiscal Policy," September 8, 1966, *Public Papers of the President*.
[32] For the Johnson program, see "Statement of the Honorable Henry H. Fowler," December 11, 1968, F Briefing Books: Tax Reform – Part 1, B 205, Papers of Henry Fowler, LBJL.
[33] Philip Stern, "The Slow, Quiet Murder of Tax Reform," *Harper's* (December 1, 1963)

loopholes allowed many of the richest Americans to pay less than middle-class families. The takeaway was that the tax system was tilted towards the rich and against low- and middle-income Americans. If the loopholes were closed, Stern noted, everyone – especially taxpayers with modest incomes – could pay much lower rates. The *Great Treasury Raid* was a national bestseller. It was praised by John Kenneth Galbraith and former IRS commissioner Mortimer Caplan and reviewed and excerpted widely in national and local publications.[34] Other high-profile exposés of tax loopholes followed. For example, in 1965, Tennessee Democratic Senator Albert Gore took the page of the *New York Times Magazine* with a call for loophole-closing tax reform dubbed, "How to be Rich Without Paying Taxes."[35] Likewise, throughout the mid-to-late 1960s, muckraking journalist Jack Anderson often made tax loopholes the focus of his widely read columns.[36]

As publications' pages overflowed with tales of the loopholes in the federal tax code, most Americans needed only to look down their street to find other examples of tax inequities much closer to home. In cities across the country, serious flaws in the fairness of the property tax system were common knowledge. The average homeowner only needed to compare his or her assessment to that of a friend with a similar house to understand the assessments process's arbitrary nature. Moreover, the appeals process in most cities was a complex maze that only the

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[34] Philip Stern, *The Great Treasury Raid* (Random House, 1964). For a similar, though not as popular, work from the same period, see Jerome Hellerstein, *Taxes, Loopholes, and Morals* (McGraw-Hill, 1963). Stern's book received wide review and was a bestseller. For a few reviews, see John Kenneth Galbraith, "Charity Begins at Home in the Form of Loopholes in Our Tax Laws," *New York Times*, February 9, 1964; Richard Hubler, "Who Pays the Taxes – The Bitter Truth," *Los Angeles Times*, March 8, 1964; "'Great Treasury Raid' Tells of Tax Loopholes," *Appleton Post Crescent*, February 22, 1964. For other exposes of tax loopholes from the era, see Henry Taylor, "This Is How American Tax-Dodgers Escape Through Loopholes Abroad," *Los Angeles Times*, March 16, 1962; "New Study Shows Loopholes in Tax," *Chicago Defender*, February 22, 1958; "Congress Blamed for Tax Loopholes and 'Injustices' by Experts at Inquiry," *Washington Post*, December 10, 1955;.

[35] Albert Gore, "How to be Rich Without Paying Taxes," *New York Times*, April 11, 1965

[36] Jack Anderson, "Oil Companies Enjoy Tax Loopholes," *Washington Post*, May 28, 1966; Jack Anderson, "Hall Called to Right of Louis XIV, Twenty Fat Cats," *Washington Post*, December 17, 1963; Jack Anderson, "U.S. Tax Structure Full of Holes," *Washington Post*, March 30, 1963; "How to Make Millions and Pay Not a Cent," *Newsweek*, February 24, 1969; Jeanne Webber, "This Way to the Tax Shelter," *New York*, February 17, 1969

wealthiest and most well-educated property owners had the resources and knowledge to navigate.[37] But the public also knew about more than just everyday errors and incompetence. By the mid-1960s, tales of outright corruption and malfeasance in assessors offices dominated headlines across the country. In 1965, a disgruntled tax consultant turned over his files to the California Attorney General, and the resulting investigation, centered on San Francisco's assessor, ensnared officials in other counties and other states. Most dramatically, the San Diego assessor killed himself rather than stand trial.[38] Cities small and large across the country saw similar scandals, including New York City, where a state investigation alleged that Mayor John Lindsay's chief fundraiser – who also happened to be the city's tax commissioner – gave lower assessments to businesses that donated to Lindsay's campaigns.[39] For good reason, many homeowners wondered whether they were paying through the nose while other, more well-connected, property owners were getting big breaks on their property taxes.

Scholars have long argued that homeowners received informal property tax breaks in the form of fractional assessment, while businesses were socked with high taxes.[40] However, both local studies and Census data paint a different, more complex, picture of the distribution of the

[37] For several overviews of the problem of unequal assessments, see "Inequality in Property Tax Assessments: New Cures for an Old Ill," *Harvard Law Review* 75:7 (May 1962), 1374-1395; Glen W. Fisher and Robert P. Fairbanks, "The Politics of Property Taxation," *Administration Science Quarterly* 12:1 (June 1967), 48-71; Sigrid J. Hammond, "Real Property Tax Assessment: A Look at Its Administration Practices and Procedures," *Albany Law Review* 38 (1974), 489-523

[38] Michael Harris, "Bad Laws and Crafty Assessors," *The Nation*, February 13, 1967; Robert Kuttner, *Revolt of the Haves* (Simon and Schuster, 1980), 31-34; *Problems of Property Tax Administration in California*, Interim Committee on Revenue and Taxation, California Assembly (1966); Bob Jackson, "Teapot Dome, West Coast Style," *Washington Post*, September 29, 1966; "S.F. Assessor Indicted in Property Tax Probe," *Los Angeles Times*, September 4, 1965; "Wolden, Assessor of S.F., Convicted in Tax Bribery Trial," *Los Angeles Times*, May 29, 1966; Sydney Kossen, "Oakland Assessor to go on trial in Coast Tax Scandals," *Washington Post*, February 16, 1966; Bob Jackson, "Tax Scandal Leaves Wake of Broken Careers," *Los Angeles Times*, September 6, 1966

[39] Michael Kramer, "The City Politic," *New York Magazine*, March 12, 1973; *Report by the Commission of Investigation of the State of New York of an Investigation Concerning Real Estate Tax Assessments in the City of New York*, State of New York Commission on Investigation (1973); Ralph Blumenthal, "Lindsay to Name a New Tax Chief," *New York Times*, March 13, 1973

[40] This argument is central to Isaac William Martin's study of the property tax revolt, in particular. Isaac Martin, *The Permanent Tax Revolt: How the Property Tax Transformed American Politics* (Stanford, 2008).

property tax burden. In the aggregate, homeowners and industrial and commercial property owners faced almost exactly the same property assessment as a percentage of the sale price.[41] However, these averages concealed a great deal of variation.[42] In theory, assessors assigned each property an unbiased, scientifically determined market value that approximated what its sale price would be on the market. In practice, the assessment process was subjective. A combination of political favoritism, ineptitude, and the inherent difficulty of determining the value of an unsold good meant that similar properties varied widely in their assessments. As a result, lower-income homeowners paid the highest effective property tax rates, in general. African American homeowners, in particular, faced both economic and racial discrimination in assessments. High-income homeowners usually paid the lowest rates.[43] Among commercial and industrial property, small businesses – particularly minority-owned businesses – paid often strikingly high rates, while the largest manufacturers and commercial property owners usually paid the lowest, thanks to their economic and political clout.[44] In many cases, assessors simply let the biggest companies assesses themselves. Even ethnical assessors avoided tangling with commercial and industrial

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[41] For national and state-by-state data, see Table 9 of *Taxable Property Values, 1967 Census of Governments, Volume 2*, Bureau of the Census, U.S. Department of Commerce (U.S. GPO, 1968). Nationwide, the assessment to sales price ratio was just under 35 percent for residential property and just over 35 percent for commercial and industrial property.

[42] Overall, some state's favored businesses and some favored residences. State-level data, however, also concealed much variation, given that assessment was usually a county- or local-level issue. For example, see the state-level data (Table 9), as well as the coefficients of dispersion on assessments (Table 13 – Table 16), in *Taxable Property Values, 1967 Census of Governments, Volume 2*, Bureau of the Census, U.S. Department of Commerce (U.S. GPO, 1968). For information about the changing coefficients of dispersion throughout the 1960s, see Advisory Commission on Intergovernmental Relations, *The Property Tax in a Changing Environment*, M-83 (U.S. GPO, March 1974)

[43] The regressively of the property tax among homeowners is well-established in the literature, including official studies. For example, the ACIR found that, in 1970, the poorest homeowners paid nearly 17 percent of their income in property taxes, nationwide, while the richest paid less than three percent. Table B-8 in Advisory Commission on Intergovernmental Relations, *The Property Tax in a Changing Environment*, M-83 (U.S. GPO, March 1974)

[44] For example, an Indiana University-Northwest economist who served as advisor to Senator Paul Douglas undertook "a study of ghetto economics" that surveyed Gary businesses and found that black businesses were assessed at higher rates than white business in Gary and businesses owned by out-of-town whites were assessed at higher rates than those owned by local whites. Silverman to Babcock, "Preliminary Memo on Lake County Tax Crisis," 1971, Box 13, Folder 1, Lynd Papers, WHS

landowners. Compared to homes, business property proved difficult for assessors to value. Relatively few business properties changed hands each year, making determining the market price of unique properties very difficult. Perhaps most importantly, large businesses, in particular, had the money to hire experts and challenge assessments. As a result, many assessors simply gave companies favorable assessments from the start. Homeowners did not get the same benefit. "It was easier to go after the homeowners because they were a defenseless group…," explained Peter Behr, a member of the Marin County Board of Supervisors in the mid-to-late 1960s. "Little grey-haired ladies would come in, widows sometimes, and they would say with tears in their eyes, 'I can't say I couldn't sell my house for this amount, but I can't afford to pay the taxes, and I don't want to sell my house! I don't know what I can do about it!' Whereupon, county counsel, quite properly, would be forced to say, 'Well, we certainly sympathize, but that's not a legal reason for reducing the valuation, unless we feel you haven't been fairly evaluated.'… It was never a fair contest."[45]

This disconnect between cuts to progressive federal income taxes and rising regressive state and local taxes, particularly the property tax, was lamented by many experts and policymakers. During the Kennedy tax cut hearings in Congress, Keyserling noted the strange lack of attention to state and local taxes. "My views [that the Kennedy tax cuts are too tilted towards the upper brackets] are immensely strengthened when we consider that the federal personal income tax is not the only tax which bears down upon the American people," Keyserling told the Ways and Means Committee. "Quite the contrary, because of its relatively progressive nature, the federal personal income tax has served, though in my view not served well enough, to redress in part the undesirable and inequitable imposition of the entire tax burden

[45] Peter H. Behr, Oral History Interview, Conducted 1988 and 1989 by Ann Lage, Regional Oral History Office, University of California at Berkeley, for the California State Archives State Government Oral History Program, 314-316

– federal, state, and local, direct and indirect." Keyserling was dismayed that systematic studies of the entire U.S. tax system were neglected by economists, noting that the overall tax system was "not nearly so progressive" as the federal tax burden. The problem of state and local taxes, he continued, was also getting worse. "[T]he significance of the highly regressive nature of state and local taxation has been greatly augmented in the decade since 1954….since the outlays of the states and localities have risen many times as fast as the outlays of the federal government." Given that, Keyserling argued, it was "not the time to diminish the progressive nature of the federal personal income tax, either on economic or social grounds."[46] That is, however, exactly what the Kennedy-Johnson tax cuts did. Even President Kennedy understood that the tax situation at the state and local levels was far different from that at the federal level. "The property tax in most urban communities has reached the point of diminishing returns. It has reached in some communities the point of a capital levy, and we cannot expect that the property tax will furnish, in the 1960s, the same income for the sustenance of the public sector that it has sustained in the 1940s and the 1950s," Kennedy said in a speech on the 1960 campaign trail. "I come from a city where the property tax is about $103 or $104 per thousand dollars, and the assessments reasonably high, and at that point I say it becomes confiscatory. The next administration is going to have the problem of at tempting to provide the necessary revenues to be secured for the local and state and national governments in such a way that these communities can meet their problems."[47] Kennedy was referring to the idea of federal revenue sharing with states and localities in order to lessen their reliance on regressive taxes, an idea proposed his

[46] *Revenue Act of 1963, Part 2*, October 21-25, 1963, Hearings before the Committee on Finance, U.S. Senate (U.S. GPO, 1963)
[47] John F. Kennedy, "Valley Forge Country Club," October 29, 1960, American Presidency Project

future CEA chair, Walter Heller, as early as 1960.[48] However, like tax reform, revenue sharing was not acted upon by either the Kennedy or Johnson administrations, and it would ultimately fall to Republican Richard Nixon to act on it.

By the mid-to-late 1960s, dissent from the liberal status quo on taxes was growing. Many left-leaning grassroots and interest groups became determined not only to push Democrats to act on tax inequities, but also to take action on their own. Black freedom activists, for example, began placing tax unfairness in the context of systemic racial discrimination and economic inequality. Property taxes, in particular, represented both economic hardship and political oppression for African Americans. In cities like Edwards, Mississippi, local officials used assessments to punish black activists, and assessments hikes in many cities also were used to force out black homeowners from white neighborhoods.[49] Likewise, in Canton, Mississippi, blacks who exercised their right to vote often faced targeted property tax reassessment.[50] In response, black activists took action to shift the balance of power when it came to taxes. SNCC offshoot, the Lowndes County (Alabama) Freedom Organization, placed electing a black tax collector and a black property tax assessor at the top of its priority list in 1966. Alice Moore, the LCFO's candidate for assessor, explained, "My platform is to tax the rich to feed the poor." Known for its early use of the "black panther" logo, the Freedom Organization printed pamphlets explaining how tax assessment worked – including detailed cartoons for voters with low levels of literacy – and circulated them in black neighborhoods. Controlling the fiscal structure, the nascent black power organization argued, was the key to controlling the distribution of power.

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[48] "Federal-State Revenue Sharin," *CQ Researcher* (http://library.cqpress.com/cqresearcher/document.php?id=cqresrre1964122300)

[49] The details of the Edwards, Mississippi, case can be found in *Percy Bland, et al. v. Robert McHann, et al.*, U.S. Court of Appeals for the Fifth Circuit, 463 F.2d 21 (1972). See also Andrew Kahrl's excellent HNN article: Andrew Kahrl, "Property Tax Discrimination and the Question of Fair Taxation," *History News Network*, January 2011 (http://www.hnn.us/article/135752).

[50] "Candidate Criticizes Rights Enforcement," *SNCC Student Voice*, May 19, 1964

"If poor people controlled the tax assessor's office, the rich could be taxed fairly," another LCFO pamphlet explained. "The money the county could collect from the rich people could be used for much-needed schools, roads, waters, sewers and other services." As in cities throughout the country, one of the central issues for the LFCO was the unequal distribution of the tax burden thanks to economically and racially discriminatory assessment practices. "Most of the big landowners are paying from one-half to one-tenth of what they should be paying in property tax," SNCC's *The Movement* explained. "The LCFO plans to change that, by raising property taxes to the legal limit." Amid widespread intimidation, violence, and allegations of outright voter fraud, the LCFO's candidates lost their bids for office, despite the fact that 80 percent of Lowndes County was black.[51]

The members of the LFCO were not the only activists from the black freedom movement with an eye towards taxes. Stokely Carmichael and Charles Hamilton championed the LCFO's tax activism in their 1967 book, *Black Power.*[52] And many black leaders linked racial discrimination with the fiscal state. Martin Luther King noted that "the federal government collects taxes from all citizens, Negro and white…yet billions of these tax dollars have gone to support housing programs and hospital and airport construction in which discrimination is an open and notorious practice."[53] The "National Black Agenda" approved at the National Black Political Convention in Gary, Indiana, in 1972 included a section critical of regressive taxes and called for officeholders to pledge to pursue a "steeply progressive income tax," ensure "no

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[51] At a LFCO meeting, members expressed their feelings towards the system of taxation Lowndes Count and what they planned to do with current tax officials by singing, "If you can't find the Tax Assessor/If you can't find the Tax Collector/Come on down to the jail house/They'll be sitting down there." "Lowndes County: Candidates Lose, But Black Panther Strong," *The Movement* 2:11 (December 1966); "Lowndes County Freedom Organization: The Story of the Development of an Independent Political Movement on the County Level" (Southern Conference Educational Fund, 1967); "Lowndes County Negroes Work to Take Over County," *The Movement* 2:4 (June 1966); Hasan Kwame Jeffries, *Bloody Lowndes: Civil Rights and Black Power in Alabama's Black Belt* (NYU, 2009).
[52] Stokely Carmichael and Charles Hamilton, *Black Power: The Politics of Liberation* (Vintage, 1967)
[53] Martin Luther King, Jr., "Equality Now," *The Nation*, February 4, 1961

reliance on regressive taxes," and to "close loopholes," including taxing capital gains at the same rate as earned income.[54] And when Black Panthers Bobby Seale and Elaine Brown ran for Oakland mayor and city council, respectively, their platform called for an end to abatements and exemptions for commercial properties, and for a four-year freeze in homeowners' property taxes. "Property taxes either directly or indirectly impose their greatest burden on small homeowners, renters, and the poor in general," the Panthers argued. "Sales taxes, utility taxes, and many others are consumer taxes. They, too, fall most heavily upon the poor who spen[d] significant proportions of their incomes on food, clothes, rent, utilities, and similar expenses."[55] In Atlanta, Baptist leader Dr. W.J. Stafford's Free for Community Organization went to court in 1972 seeking an injunction to stop disproportionately high property taxes in black neighborhoods. According to Stafford, his organization was urged to tackle tax discrimination by ordinary black homeowners. "We try to deal with all community problems," he explained. "We've had a lot of people calling about taxes… [But] most of the people who called us feared that they would up the value of their property and get more taxes [if they complained]." A study of assessments in Atlanta showed that one affluent, all-white neighborhood was assessed at 24 percent, while a poor, largely black neighborhood was assessed at 44 percent.[56] In the years that followed, national studies would confirm the trend. In nearly every city examined in a 1973 congressional study, "blighted" neighborhoods – which were disproportionately black – paid the highest effective property tax rates. And in the most unequal cities, like Baltimore and Chicago, the

[54] *National Black Political Agenda* (May 6, 1972), 28-29.

[55] "Revenue Raising + Revenue Sharing = Economic Development," *Black Panther*, April 7, 1973; "Citizens Committee to Review City Center Project," *Black Panther*, June 2, 1973; "The Seale-Brown 14- Point Program to Rebuild Oakland," *Black Panther*, May 12, 1973; "Vote for the People's Plan," *Black Panther*, April 14, 1973; "Suggestions for Budgetary and Fiscal Reform in Oakland," *Black Panther*, April 12, 1973; "The City Center Project: The Rich Get Richer," *Black Panther*, March 10, 1973;

[56] George M. Coleman, "Fight Against Tax Hike Continues in Fulton," *Atlanta Daily World*, March 25, 1971; "NAACP Suit Attacks Inequity in County's Tax Assessments," *Atlanta Daily World*, February 9, 1971. See also Andrew Kahrl's excellent HNN article: Andrew Kahrl, "Property Tax Discrimination and the Question of Fair Taxation," *History News Network*, January 2011 (http://www.hnn.us/article/135752).

average tax in "blighted" neighborhoods could be as much as 10 times higher than the rates in "upward transitional" neighborhoods.[57] Inspired, and prodded, by black freedom groups like SNCC, many New Left activists – particularly those affiliated with SDS's own abortive attempt at community organizing, the Economic Research Action Project – attempted to organize poor and working-class white neighborhoods around issues like unfair taxes. Though few had much success, within just a few years (as will be covered in Chapter 3), a group of activists from the Saul Alinksy organizing tradition would do so successfully.[58]

At the federal level, left-leaning activists began taking more strident stances, too. Perhaps the most well-known tax activism on the left in the 1960s came in the form of Vietnam War tax

[57] For the congressional report, see Arthur D. Little, *A Study of Property Taxes and Urban Blight*, U.S. Department of Housing and Urban Development (U.S. GPO, April 23, 1973). The literature on racial discrimination in property tax assessment is voluminous. In many cases, higher assessments for blacks were tied to the racism of assessors, as noted above. Additionally, in general, poor and working-class homeowners of all races were likely to face unequal and discriminatory assessments. And, in many cases, separating racial discrimination from income-based discrimination is difficult. Both undoubtedly existed, sometimes separately, sometimes in concert with one another. Assessors often copied the property tax rolls from previous years, rather than reassessing neighborhoods each year. For well-off neighborhoods, this amount to an artificial tax break. For downwardly mobile neighborhoods, the process created inflated assessments for all residents of such neighborhoods. Additionally, the lack of political clout of the residents in many poor or modest-income neighborhoods meant that assessors often had little incentive to grant favorable assessments. For a sampling of the literature on both racial and income-based discrimination and inequality in assessments, see: Kenneth K. Baar, "Property Tax Discrimination Against Low-Income Neighborhoods," *Urban Lawyer* 13:3 (Summer 1981), 333-406; Edward Greer, "Racial Biases in the Property Tax System," *Review of Radical Political Economics* 7 (October 1975), 22-32; Lee Harris, "'Assessing' Discrimination: The Influence of Race in Residential Property Tax Assessments," *Journal of Land Use* 20:1 (Fall 2004), 1-59.

[58] Indeed, between black freedom groups like SNCC, New Left groups like SDS, and the Alinsky organizing tradition often overlapped. SDS's ERAP project was at least partly inspired by a suggestion from SNCC's Stokely Carmichael that white activists begin organizing lower-income whites. During the 1960s, Alinsky successful organizing in poor and working-class communities, both black and white, served as a model for both ERAP and SNCC activists. Additionally, activists like Paul Booth and Mike Miller moved between black freedom, New Left, and Alinsky groups throughout the 1960s and into the 1970s. See, for example, "Excerpt From SNCC Central Committee Meeting Regarding Forging a Relation With Saul Alinsky January, 1967" (http://www.crmvet.org/docs/alinsky.htm). On the relationships between the black freedom movement, the New Left, and Alinsky, as well as the intertwined issues of race and class in organizing, see Jennifer Frost, *An Interracial Movement of the Poor* (NYU, 2005); Gordon K. Mantler, *Power to the Poor: Black-Brown Coalition and the Fight for Economic Justice, 1960-1974* (University of North Carolina, 2013); Wini Breines, *Community and Organization in the New Left, 1962-1968: The Great Refusal* (Rutgers, 1989); Charles M. Payne, *I've Got the Light of Freedom: The Organizing Tradition and the Mississippi Freedom Struggle* (University of North Carolina, 2007); Greg L. Michel, *Struggle for a Better South: The Southern Student Organizing Committee, 1964-1969* (Palgrave, 2004); David Barber, *A Hard Rain Fell: SDS and Why it Failed* (University Press of Mississippi, 2010); Clayborne Carson, *In Struggle: SNCC and the Black Awakening of the 1960s* (Harvard, 1981); Kirkpatrick Sale, *SDS* (New York: Random House, 1973); Dennis Deslippe, "'We Must Bring Together a New Colaition': The Challenge of Working-Class Ethnics to Color-Blind Conservatism in the 1970s," *International Labor and Working-Class History* 74 (Fall 2008), 148-170

resisters. SANE's famous "Do You Know What Your Tax Dollar Buys?" advertisement, for example, linked high taxes to expenditures for wars past and present. And, in general, anti-Vietnam tax protests called into question the distribution of taxes and spending from a left perspective, usually by comparing the amount of tax dollars spent on the military to the amount spent on education and social welfare.[59] However, tax activism on the left in the 1960s and early 1970s went far beyond the war. By the late 1960s, even the stodgy AFL-CIO had begun to use the language of grassroots tax agitation. The union released pamphlets with titles like "We Want Tax Justice!" and "The Case for Tax Justice" decrying the "loophole"-ridden state of the tax code in both technical and personal terms. "Let's suppose that you and your neighbor are at the check-out-counter of a supermarket," one AFL-CIO pamphlet began. "You each buy a loaf of bread. But the price to you is 30 cents, while your neighbor only has to pay 12 cents." That, the pamphlet, explained, was just what the U.S. tax code did. "A married worker whose sole income is $8,000 a year in wages…will pay $1,000 in federal income tax. But a married investor who sole income in a year is an $8,000 profit from selling a stock or property…will have to pay only $354…. These tax loopholes, intended to benefit the rich, take money out of your paycheck."[60] The AFL-CIO was joined by unions such as the UAW, the Teamsters, and Longshoremen's union, among others, in decrying both federal loopholes and the steep rise in state, local, and payroll taxes that had taken place throughout the 1960s, increases that – for low- and middle-income workers – more than offset the Kennedy-Johnson tax cut.[61] In response, the unions

[59] "Do You Know What Your Tax Dollar Buy?" in B 304, F 8, Fred Harris Collection, CAC. See also various anti-Vietnam tax resistance literature, including the periodical *War Tax Monthly* and Ted Webster, "War tax Resistance: Individual Witness or Community Movement?" (1968); War Resisters League, "Techniques of War Tax Resistance" (Undated [late-1960s]).

[60] AFL-CIO, "We Want Tax Justice!" (Undated [late-1960s]); AFL-CIO, "The Case for Tax Justice" (1969).

[61] The fact that rising state and local taxes, as well as payroll taxes, had offset the Kennedy-Johnston tax cut were widely covered. See, for example: "Where Taxes Keep Going Up and Up," *U.S. News and World Report*, October 25, 1965; "How Tax Cut Is 'Melting Away,'" *U.S. News and World Report*, August 16, 1965; Henry Aaron, "Soak the Poor Has Become the New Trend in Taxation," *New Republic*, September 4, 1965

proposed closing loopholes both to finance new spending and to cut taxes for lower- and middle-income Americans. They also called for public agitation to reform taxes. Near a cartoon depicting angry "tax justice" protestors, the AFL-CIO pamphlet explained that only public outcry could overcome the lobbying of corporations and the rich to keep the current tax code.[62]

However, thanks to the Kennedy-Johnson administrations' inaction on both tax reform and revenue sharing, the tax burden on low- and middle-income Americans continued rising throughout the 1960s. The biggest culprit in this rise came from regressive sources – those that took a greater percentage of income from lower-income taxpayers than higher-income taxpayers – such as the federal payroll tax and state and local taxes such as the property tax (Figure 2). The combination of cuts to the progressive income tax and increases in regressive taxes meant that, between the 1950s and the 1970s, the tax burden went up on average Americans, even as it fell for upper-income Americans (Figure 3).[63] Inflation made matters worse in three significant ways. First, even when the gains where wiped out by inflation, rising nominal incomes pushed taxpayers into higher tax brackets, since brackets were not indexed to inflation. Second, rising prices on consumer goods also indirectly increased sales taxes as a percentage of income for many Americans. Third, rising property values dramatically increased property taxes. Combined with rising rates, the results could be striking. For example, property tax rates on FHA single-family homes increased by nearly 50 percent from 1958 to 1971. Those rates applied to steeply rising housing values. Between 1960 and 1970, median home values in the U.S. increased from $11,900 to $17,000, before soaring to $47,200 in 1980.[64] Taken together, rising taxes and

[62] AFL-CIO, "We Want Tax Justice!" (Undated [late-1960s])
[63] Author's analysis of ACIR data, Table 38, Advisory Commission on Intergovernmental Relations, *Federal-State-Local Finances: Significant Features of Fiscal Federalism*, M-79 (U.S. GPO, 1974).
[64] On the increase in property tax rates on FHA homes, see Table 37, Advisory Commission on Intergovernmental Relations, *Federal-State-Local Finances: Significant Features of Fiscal Federalism, 1981-82 Edition* M-135 (U.S. GPO, April 1983). On median home values, see "Historical Census of Housing Tables, Housing Values"

inflation created what in the years to come would be widely dubbed a "pocketbook squeeze" on low- and middle-income Americans.[65]

Many policymakers and pundits missed this trend, though. As the *Time* magazine cover featuring Keynes and touting the growth-fiscalist policies of the Kennedy-Johnson years demonstrated, many observers believed that they had solved the economic woes that had been in the forefront of the public's mind since the Great Depression. Yet, though growth liberals touted the early postwar decades as a period of prosperity, they had not actually created the "middle-class society" that they imagined they had.[66] In addition to the still-prevalent "poverty amidst plenty" that had been "discovered" in the early-1960s, spurring the War on Poverty, many lower-income and working-class Americans were not sharing in the supposedly abundant prosperity of generated by 1960s growth.[67] According to the Bureau of Labor Statistics, in 1970, more than half of all American families fell below what it called an "intermediate" family budget – a budget that assumed appliances lasted for decades, clothes lasted for years, no income needed to be saved, and families could go to the movies once a month for their only entertainment – and 30 percent fell below the level of its "lower" family budget, which was even tighter than the "intermediate" budget.[68] Taken in the context of rising regressive taxes, rampant loopholes, and

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(https://www.census.gov/hhes/www/housing/census/historic/values.html). On Pope's taxes see Table 11, David Doerr, *California's Tax Machine* (California Taxpayers' Association, 2008), 186. For FHA data, see Table 26-S, *FHA Homes in 1967*, Department of Housing and Urban Development (1967) and Table 31-S, *FHA Homes 1977*, Department of Housing and Urban Development (1977)

[65] See, for example, *Life* magazine's August 15, 1969, cover story, "The Dollar Squeeze," subtitled on the cover, "High Taxes and High Prices Make Everybody Feel Poor." "The Dollar Squeeze," *Life*, August 15, 1969

[66] On the notion of the postwar "middle class society," see Lizabeth Cohen, *A Consumer's Republic: The Politics of Mass Consumption in Postwar America* (Random House, 2008); Daniel Horowitz, *The Anxieties of Affluence: Critiques of American Consumer Culture, 1939-1979* (University of Massachusetts, 2005); Lawrence R. Samuel, *The American Middle Class: A Cultural History* (Routledge, 2013); Barbara Ehrenreich, *Fear of Falling* (Knopf, 1989); John Gilkeson, *Anthropologists and the Rediscovery of America, 1886-1965* (Cambridge, 2010).

[67] On the "discovery" of "poverty amidst plenty," see Chapter 6 in Alice O'Connor, *Poverty Knowledge: Social Science, Social Policy, and the Poor in Twentieth Century U.S. History* (Princeton, 2009) and Chapter 7 in Maurice Isserman, *The Other American: The Life of Michael Harrington* (Public Affairs, 2001).

[68] "Spring 1970 Cost Estimates for Urban Family Budgets," *Monthly Labor Review* (January 1971); "Median Family Income Up in 1970," *Current Population Reports: Consumer Income* P-60: 78 (May 20, 1971). See also, Andrew

policymaker inaction, then, the pocketbook squeeze set the stage for an amorphous, unorganized revolt at the local level, where voters had a direct say in at least one form of taxation.

"The Lesson of Youngstown"

On a February evening in 1969, Americans across the country turned on their televisions to watch the nation's top-rated show, *Rowan and Martin's Laugh-In*. Tamer than the eras most controversial and political variety show, *The Smothers Brothers Comedy Hour*, *Laugh-In* offered a slice of domesticated counterculture that drew nearly 20 million viewers each week during the 1968-1969 season. The show's popularity was buoyed by a young cast that included Goldie Hawn, as well as an ever-changing list of famous guest stars like John Wayne, Sammy Davis Jr., and Jack Lemmon. Richard Nixon even appeared twice on *Laugh-In* that season, including one instantly-memorable campaign-trail appearance where the usually dour Nixon exaggeratedly held on the final word of the show's most-famous catch phrase – "Sock it to *me*?"[69] This particular Monday in November, though, *Laugh-In* featured a significantly less-noteworthy guest star – Davy Jones of the prefabricated early-Beatles knockoff pop group The Monkees. This episode's trademark "party" scenes, featuring a series of rapid-fire one-liners, included jokes about John Lennon and Yoko Ono's nude album cover, Elizabeth Taylor and Richard Burton's rocky marriage, and a quip that wondered, "If the teachers are on strike and the students are on

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Levison, *The Working-Class Majority* (Penguin, 1974), 31-33. Indeed, many Americans were aware of their family's position in relationship to the BLS budgets, as demonstrated by references to the BLS budgets during contract negotiations. "$936 a Year Below State Average – Safety Units Rank 50th in Pay," *Youngstown Vindicator*, December 12, 1967.

[69] Hal Erickson, *"From Beautiful Downtown Burbank": A Critical History of Rowan and Martin's Laugh-in, 1968-1973* (McFarland, 2000), 167-168; Elizabeth Kolbert, "Stooping To Conquer," *New Yorker*, April 19, 2004; Jack Doyle, "1968 Presidential Race, Republicans," *PopHistoryDig*, March 11, 2009; *TV Ratings, 1968-1969* (http://www.classictvhits.com/tvratings/1968.htm)

strike what do they do with our school taxes?" The show returned to the topic of taxes a few sketches later.

Rowan and Martin took to the stage to award the people of the city of Youngstown, Ohio, known for its steel production and organized crime, their dubiously honorable "Flying Fickle Finger of Fate Award," designed to recognize acts of "gigantic stupidity."[70] Rowan explained to the tens of millions of Americans watching that "the voters of the city of Youngstown, Ohio" were selected because "for the sixth time in two years the voters of Youngstown voted down an increase in school taxes." Playing the straight man, Martin questioned the selection, noting, "a lot of cities do that." Then Rowan delivered the punch line: "Yes, but in Youngstown, they don't even have enough money to keep the schools open." Ribbing the city more, Rowan joked that the city's antiquated textbooks told students that "maybe someday soon we can put a man into outer space." Martin responded, "Gadzooks! Youngstown really keeps up, huh?" Then he asked Rowan, "What do you say we give it to 'em." Yes, "they got it coming," Rowan agreed. Then Martin held up the statue depicting a gold hand with a winged index finger thrusting forward. "Voters of Youngstown, see the pretty statue?" he asked, accentuating the words as if talking to a small child. "Take the pretty statue, and stick the pretty statue in your pretty pencil box." Both the hosts cracked up as the audience howled in laughter.[71] Already the subject of dozens and dozens of national articles and nightly news segments on its tax crisis, the mocking *Laugh-In* segment was just the latest in a two-year long string of negative publicity for Youngstown. Now it was literally the butt of jokes.

But Youngstown was only noteworthy for the number of times voters had rejected a school levy, not for the fact that they had voted one down. Though few states kept

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[70] Vernon Scott, "George Points the Fickle Finger," *St. Petersburg Times*, August 5, 1969.
[71] Rowan and Martin's Laugh-In, Episode 33, aired February 10, 1969.

comprehensive records on the fate of local school finance initiatives, those that did revealed a clear pattern. In states from Ohio (Figure 4) to California (Figure 5), approval rates for levies and bonds had been falling since the late-1950s.[72] By 1970, even the White House would take notice. At a March 1970 legislative meeting, Daniel Patrick Moynihan made a presentation on education to President Richard Nixon and his advisers that included a chart showing the success rate of local school bond initiatives with the striking title "SCHOOL BOND DEFEATS HAVE INCREASED 70% IN FIVE YEARS." Moynihan also presented data on the portion on municipal budgets in various cities and suburbs consumed by educational expenditures.[73] According to the national bond data, after seeing approval rates at or above 70 percent at the beginning of the 1960s, local officials faced rates in the low-40 percent range by the early 1970s.[74]

Indeed, the clear connection between the increasing rates of state and location taxation and the increase in defeats of school finance initiatives – the only type of tax in which voters had any say – was unmistakable. As property taxes went up, voters' willingness to approve levies and bonds went down, at both the national (Figure 6) and state levels (Figure 7). Slowly, many experts and policymakers would come around to the idea local property taxes were bearing the brunt of Americans dissatisfaction with both the level and fairness of the tax system at all levels

[72] Author's analysis of levy and bond data for all states available. California data from Arnold J. Meltsner, Gregory W. West, John F. Kramer, and Robert T. Nakamura, *Political Feasibility of Reform in School Financing* (Praeger, 1972). Ohio data compiled by author from various sources. See Richard E. Kelley, "The Diminishing Vote," *Ohio Schools* (May 1963), 16-17; Byron H. Marlowe, "Voter Behavior in School Bond and Tax Elections in Ohio," in *A Time For Priorities: Financing the Schools for the 70s: Proceedings of the 13th National Conference on School Finance* (National Education Association, 1970), 158-167; "Levy Defeats: From Curiosity to Commonplace," *Ohio Schools* 49:1 (January 22, 1971), 8-9. For a national overview of school bond approval rates from 1963 through 1972, see Figure 3-1 in Howard Devon Hamilton and Sylvan H. Cohen, *Policy Making by Plebiscite: School Referenda* (Lexington Books, 1974) and Table 1 in Richard Barr and Irene King, *Bond Sales for Public School Purposes, 1969-1970* (National Center for Education Statistics, 1971). See also various state tables and graphs in *Voter Behavior and Campaign Strategies in School Finance Elections* (Educational Research Service, 1977).

[73] Buchanan to Nixon, March 8, 1970, PNWH-2

[74] National Center for Education Statistics, *Bond Sales for Public School Purposes* (U.S. Dept. of Health, Education, and Welfare, Education Division, National Center for Education Statistics, various years).

of government. As the U.S. Commission of Education Harold Howe II noted in late-1968, “[S]chool bond issues – and school budgets – are particularly vulnerable since they may offer citizens their only chance to cast a direct vote against higher taxes.”[75] A few years later, the school district business manager in Thousand Oaks, California, would wonder, “I can’t help but wonder if schools would have as much trouble getting tax increases approved if voters could set rates for all government spending. All I can conclude is that the schools are the innocent victims of the system.”[76] Likewise, one early-1970s scholarly study speculated that “citizens with little direct control over municipal, state, and federal tax policies may be taking out their frustrations in school tax issues-the one place where they still have a decisive vote.”[77] Indeed, by that time both President Nixon himself and activists like Ralph Nader would be making the same argument in proposing left-distributionist solutions to the tax revolt (as will be discussed in Chapter 3). In the mid-to-late 1960s, however, such insights were rate.

Undoubtedly, the federal government was complicit not only in its inaction on tax reform and revenue sharing, but also in its shifting of funding responsibility to states and localities as it created new programs from the New Deal to the Great Society. Federal mandates in areas such as social welfare, education, and medical care, though they came with partial federal funding, also required states and localities to raise their own revenues. Combined with the public’s growing demands for local services, which went hand-in-hand with a growing, modernizing economy, the stress on state, county, and local budgets was serious. The incentive for all levels of government was to shift the costs to a lower level, with cities and towns being the last in line.

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[75] Harold Howe II, “Why You Should Vote ‘Yes’ on School Bond Issues,” *Parents*, September 1968, 50.
[76] Martha Willman, “Voters Losing Control of School Bonds, Taxes,” *Los Angeles Times*, August 27, 1972.
[77] Robert E. Jennings and Mike M. Milstein, “Citizens’ Attitudes in School Tax Voting,” *Education and Urban Society* 5 (1973), 299-319. A few years later, another confidently concluded that “opposition to property tax increases thus becomes a symbolic form of protest over high taxes in general…[since] it is the only tax which taxpayers normally have an opportunity to vote on directly.” John N Collins and Bryan T Downes, “Support for Public Education in a Racially Changing Suburb,” *Urban Education* 10:3 (October 1, 1975): 221–244.

Just as the federal government cut progressive income taxes, rather than use the money for revenue sharing, most state governments were loathe to enact new taxes, such as state income taxes, or raise existing taxes. Instead, the pushed the burden onto localities. The result was a fiscal crisis that cascaded from the federal government down to states, counties, and cities, even during the seemingly prosperous post-WWII decades. The end point in the cascade of buck-passing was the local taxpayer. Not all taxpayers expressed their frustration at having the buck passed to them, however. As we shall see, low- and middle-income voters, both black and white, were the ones to lead the revolt against rising regressive taxes, such as the property tax. They did so in response to the pocketbook squeeze. However, it was a conclusion that many contemporary observers missed.

Youngstown's levy defeats must be seen in the context of both the governmental buck-passing and the pocketbook squeeze. In Ohio, the state's expenses grew faster than its revenues throughout the 1960s. Ohio's population was growing, which increased demand for all services, and it was getting younger – thanks to the baby boom – which increased enrollment at both K-12 schools and state colleges. The urbanization of the population also increased demands for the types of services typically found in cities. Economic growth, paradoxically, also contributed to budget crunch. On one hand, rising incomes generated new tax revenues. But, on the other hand, rising incomes also generated demand for more government. "As people's personal income rises," one 1970 study noted, "there is a tendency for the citizenry to demand more and better public services." The problem, however, was that inflation made the components of public services more expensive for government at all levels. Despite wage increases, public employees' salaries in Ohio failed to keep pace with inflation during the 1960s. Meanwhile, the physical goods consumed by government were increasing in cost. As a result, nearly half of the state's increase in expenditures from 1959 to 1969 was the result of inflation.[78] And because of Ohio's inelastic revenue structure, often revenue growth was not enough to offset both inflation and the public's demands for new services. For a time, the state government was able to avoid facing its structural fiscal problems head on.

In the decades following the end of WWII, state lawmakers used a variety of methods to avoid dealing with the state's revenue crisis. Like many states, Ohio saw a boom in revenues during WWII, despite its antiquated tax structure and limited revue-raising potential, thanks to rapid growth. This allowed the state to build up a $216 million surplus by 1948, which the legislature gradually spent down during the next 10 years, as postwar demands for infrastructure and services outran the state's yearly revenue intake in all but two fiscal years from 1947 through 1958. Policymakers, in general, and Republicans, in particular, avoided increasing taxes at all costs. They were especially eager to dodge a state income tax. As the wartime surplus wound down, state lawmakers turned towards pursuing austerity on the state level. In the late-1950s, Republican Governor C. William O'Neill chose state budget cuts over new revenue, helping establish the GOP's strategy for managing the politics and the economics of Ohio's budget woes. In 1958, Democrat Michael DiSalle defeated O'Neill despite Ohio's usual Republican tilt, thanks, in part, to Republicans' failed attempt to turn Ohio into an anti-union "right-to-work" state. Like his Republican predecessor, DiSalle opposed a state income tax, though he – usually unsuccessfully – sought increases in a variety of other taxes.[79] This decades-long pattern of de-facto deficit spending "had the unfortunate effect of obscuring the fact that the state was living beyond its means," as Ohio State University economist Frederick Stocker put it, and "allowed

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[78] "Fiscal Position of Ohio, 1970," B41, F Taxation Misc, JJGP, OHS; John F. Burke and Eric A Weld, "A Commentary on the Public Finances in Ohio," December 3, 1970, B 460, F Taxes & Finance: State of the State , JJGP, OHS
[79] Frederick Stocker, "The Rough Road to Tax Reform: The Ohio Experience," March 1972, 336.2 St62r, OHS; "DiSalle Opposes State Income Tax," *Toledo Blade*, July 26, 1956

the people of Ohio to become lulled into the conviction that fiscal conservatism was synonymous with avoidance of tax increases…."[80] Postwar growth helped swell revenues even without major tax increases. But growth was not enough.

To close the gap, state lawmakers shifted more and more services to counties, cities, and other localities. This shift allowed state leaders to pretend that all was fine. But it put cities and other localities in a fiscal bind. Unlike the state government, these localities did not have the benefit of the state's wartime surplus. "Municipalities were the first to experience the [budget] squeeze," Stocker wrote.[81] Many had put off needed capital expenditures, such as building new roads or repairing crumbling old ones, during the war. When the war ended, localities were faced with fulfilling a backlog of expenditures during a period of soaring inflation. The state's shifting of responsibilities to lower levels of government – without shifting comparable funding – only made matters worse. With growing public demands for services and the state unwilling to finance them, the job fell to local governments, who began seeking both increases in existing taxes and new forms of taxation. The situation was the same for cities across the country.[82] However, for Ohio municipalities, raising taxes was particularly complex. Ohio's uncommon "pre-emption" doctrine also prevented many cities from instituting their own sales taxes, since the tax was effectively reserved for state use only. The state also had one of the most stringent constitutional limits on local property taxes, requiring officials to seek voter approval for any property tax level above 10 mills.[83] Nonetheless, localities vigorously pursued both voted and unvoted property tax increases during the postwar years. Between 1960 and 1968, alone,

[80] Frederick Stocker, "The Rough Road to Tax Reform: The Ohio Experience," March 1972, 336.2 St62r, OHS
[81] Frederick Stocker, "The Rough Road to Tax Reform: The Ohio Experience," March 1972, 336.2 St62r, OHS
[82] Frederick Stocker, "The Rough Road to Tax Reform: The Ohio Experience," March 1972, 336.2 St62r, OHS
[83] Howard R. Fleeter, "An Analysis of the Impact of Property Tax Limitation in Ohio on Local Revenue For Public Schools," *Journal of Education Finance* 21 (Winter 1996), 343-365; Frederick Stocker, "The Rough Road to Tax Reform: The Ohio Experience," March 1972, 336.2 St62r, OHS

according to an AFL-CIO study using Ohio Public Expenditures Council data, property taxes increased by an average of 34 percent increase in property taxes statewide, including increases of 68 percent in Columbus, 63 percent in Toledo, and 74 percent in Cleveland.[84]

Throughout the era, both Democratic and Republican governors continued to studiously avoid raising state taxes and, especially, institute a state income tax. Instead, they shifted more and more costs to localities. The numbers made the pattern clear. By 1970, Ohio ranked 40th in public expenditures per capital and 49th in public expenditures per $1,000 of personal income, despite ranking fifth in personal income.[85] In contrast, Ohio's localities spent more than the national average in most areas.[86] The state government share of education funding, for example, had fallen from a high of 50 percent down to 30 percent, forcing localities to make up the difference.[87] At the state level, Ohio relied overwhelmingly on the sales tax, while localities leaned on the property tax.[88] "Ohio ranked 6th in 1968 among the states in the proportion of tax revenue raised at the local level largely from property taxes," one study by two Cleveland State University economists found.[89] The state's high rank was directly related to declining state support for education. By the end of the decade, Ohio was spending spent 70 percent less on per-capita state-to-local intergovernmental transfers for education than the national average.[90] This meant that local governments had to make a greater effort to support their schools than in many other states, and this dynamic increased inequalities between districts. "This has probably

[84] "The Billion Dollar Tax Bite," *Ohio AFL-CIO Focus* 3:4 (April 1969)
[85] Frederick Stocker, "The Rough Road to Tax Reform: The Ohio Experience," March 1972, 336.2 St62r, OHS; "Fiscal Position of Ohio, 1970," B41, F Taxation Misc, JJGP, OHS
[86] "Fiscal Position of Ohio, 1970," B41, F Taxation Misc, JJGP, OHS
[87] John F. Burke and Eric A Weld, "A Commentary on the Public Finances in Ohio," December 3, 1970, B 460, F Taxes & Finance: State of the State , JJGP, OHS
[88] "Ohio Tax Collections, 1968-1970," B41, F Taxation Misc, JJGP, OHS
[89] John F. Burke and Eric A Weld, "A Commentary on the Public Finances in Ohio," December 3, 1970, B 460, F Taxes & Finance: State of the State , JJGP, OHS
[90] Table 10, John F. Burke and Eric A Weld, "A Commentary on the Public Finances in Ohio," December 3, 1970, B 460, F Taxes & Finance: State of the State , JJGP, OHS

increased the inequality of income distribution between rich and poor districts in the State," the CSU study noted, "and the amount of fiscal mismatch between areas with high needs for services and areas with taxable capacity to finance these services."[91] In simple terms, well-off areas had a relatively easy time supporting their schools, while poorer areas struggled to do so, even with very high tax rates. And the story was the same for other services.[92]

As a result, what was actually a political failure at the state level – itself exacerbated by federal cost-shifting to states – took on the appearance of a local crisis. "Although steadily rising property taxes and municipal income taxes caused growing unrest, few people recognized these as the outcome of state tax policies," Stocker noted. "School boards, mayors, city councils, and county commissioners were seen as the culprits, while the state legislature and administration were long able to view the problems as local rather than statewide in nature."[93] To most experts, however, the true cause was clear. "Why have property taxes gone up?" the two CSU economists asked rhetorically. "Inflation and mounting costs certainly have something to do with it. But even more important is how the state government has increasingly neglected its responsibility and shifted taxing burdens on to local governments."[94] This was the context in which the Youngstown levy crisis unfolded – a context missed by most observers. Instead, in Youngstown and elsewhere, local officials and national observers, alike, puzzled at the causes of tax revolts unfolding across the country.

Youngstown's levy crisis began innocuously enough. The first levy failure, in December of 1966, barely made a ripple even in Youngstown's local news. In fact, the levy itself was

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[91] John F. Burke and Eric A Weld, "A Commentary on the Public Finances in Ohio," December 3, 1970, B 460, F Taxes & Finance: State of the State , JJGP, OHS
[92] Table 10, John F. Burke and Eric A Weld, "A Commentary on the Public Finances in Ohio," December 3, 1970, B 460, F Taxes & Finance: State of the State , JJGP, OHS
[93] Frederick Stocker, "The Rough Road to Tax Reform: The Ohio Experience," March 1972, 336.2 St62r, OHS
[94] John F. Burke and Eric A Weld, "A Commentary on the Public Finances in Ohio," December 3, 1970, B 460, F Taxes & Finance: State of the State , JJGP, OHS

initially little more than a side issue in a larger labor battle that swept through the schools that fall. In November, nearly 300 of the city's 1,200 teachers went on strike – the first teachers' strike in the state of Ohio – temporarily shutting down the schools.[95] The striking teachers were members of the AFL-CIO-affiliated Youngstown Federation of Teachers, while most of the remaining teachers were members of its larger rival, the Youngstown Education Association. A month earlier, the board of education unilaterally selected the YEA as the sole bargaining agent for the city's teachers. The striking YFT teachers' single demand was an election to decide which union would represent the teachers of Youngstown.[96] To add insult to injury – and, presumably, to woo teachers who had not yet decided to affiliate with the YFT – the school board gave a five percent raise to all school employees except those in AFL-CIO unions. So while YEA members had raises handed to them, members of six other school unions continued bargaining.[97]

Thankful for the school board's generosity, YEA's leaders proposed a special levy election be held in December in order to pay for the raises.[98] Perhaps not surprisingly, many YEA members crossed the YFT's picket lines during the strike – even when no students attended – and the YEA ran ads in the local paper, the *Vindicator*, declaring that the YFT's "only one goal" was "the complete unionization of Youngstown teachers." The ad claimed that the YFT wanted to "force the Board of Education to its knees," all while the union "recruited" students and "intimidated and threatened" other teachers. Noting how much the strike was hurting students, the YEA's ad concluded, "WHO CARES ABOUT THE CHILDREN? The

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[95] Technically, Youngstown shared that distinction with nearby Hubbard, Ohio, whose teachers went on strike the same day. "Youngstown Strike of Teachers Ended," *New York Times*, November 29, 1966.
[96] "YFT Strike Closes Public Schools," *Youngstown Vindicator*, November 21, 1966; "Strike by Teachers Hits 40,000 Pupils," Norwalk Hour, November 21, 1966; "48 Schools in Ohio Shut Down in Strike," *Chicago Tribune*, November 22, 1966.
[97] "Raise Teachers; Six Unions Wait," *Youngstown Vindicator*, November 18, 1966.
[98] "Raise Teachers; Six Unions Wait," *Youngstown Vindicator*, November 18, 1966.

Youngstown Education Association… WE CARE!... [And] the union won't."[99] The school board had dismissal letters prepared to send to the striking teachers. But before it came to firing, a local judge granted an injunction halting the strike.[100] That same day, the YFT reached an agreement with the school superintendent to hold a union election meeting in 1968, and all of the city's teachers returned to work.[101]

Attention immediately shifted to the levy, and most of the city's prominent institutions quickly rallied to its support. The school board enacted the YEA's proposal for a December 13th special election and set the rate at five mills. With only two weeks to plan before the vote, the president of the board urged all of the district's employees to put the recent problems behind them, "join hands and work as one" to pass the levy.[102] The YEA quickly gave $2,164 to the levy's Citizens Advisory Committee, over three-quarters of the $2,700 the committee hoped to raise.[103] The local Chamber of Commerce announced its support for the levy, and publicized its study supporting the city's claim that it needed new revenue. The study also defended the teachers' raises by showing that Youngstown's faculty had the 34th lowest pay of the 35 Northeast cities with populations of over 150,000 included in the chamber's study.[104] All of the local television stations donated money to the levy campaign.[105] The *Vindicator* not only endorsed the levy in an editorial, but printed supportive letters from Youngstown residents in a special front-page article.[106] All of the city's religious leaders endorsed the levy, including the

[99] "What's Behind This Strike That Has Closed Youngstown Schools?" *Youngstown Vindicator*, November 26, 1966
[100] "School Still Out in Youngstown," Pittsburgh Press, November 23, 1966; "Injunction Halts Teachers' Walkout," *Modesto Bee*, November 27, 1966.
[101] "Youngstown Teachers End Strike; Collective Bargaining Vote Set," *Miami News*, November 28, 1966.
[102] "School Board OKs Teacher Election, Asks Unity for School Levy Vote," *Youngstown Vindicator*, November 29, 1966.
[103] "Citizens Panel Launces Drive – YEA Gives $2,164," *Youngstown Vindicator*, December 7, 1966.
[104] "City School Levy Backed by Chamber," *Youngstown Vindicator*, December 7, 1966.
[105] "Citizens Panel Launches Drive – YEA Gives $2,164," *Youngstown Vindicator*, December 7, 1966.
[106] "Our Problem-Laden Schools," *Youngstown Vindicator*, December 8, 1966; "Election is Tuesday – Leaders Back School Levy," *Youngstown Vindicator*, December 11, 1966.

Youngstown Rabbinical Council, Youngstown Area Council of Churches, and the bishop of the Catholic Diocese of Youngstown, as did most of the city's civic organizations, from the Youngstown Federation of Women's Clubs to various local Kiwanis clubs.[107] Putting their recent battle with the board of education behind it, the YFT's leaders also got behind the levy.[108] But perhaps crucially, nearly all of the other labor unions in Youngstown – including ones representing other school- and public-employees – either openly opposed the levy or tacitly worked against it by uncharacteristically staying neutral.[109] Local Steelworkers head, James Griffin even resigned from the Citizens' Advisory Committee.[110] The message was unmistakable: labor would not back the levy.

In the weeks before the election, doomsday headlines warned of the "catastrophe" that would befall the schools and the city if the levy failed. Responding to criticisms of the proposed tax hike, superintendent Dr. J. H. Wanamaker argued that the raises for the teachers did not create the need for the levy. He also noted the popular courses and programs – like driver's education and vocation programs – that could be added and expanded if the levy passed. If it did not pass, it would be resubmitted the next year, and if it also failed then, the superintendent guaranteed that either the schools would close or they would drastically cut or eliminate things like bus service, kindergarten, and afterschool programs.[111] Youngstown principals sent letters home with students encouraging parents to vote for the levy. These letters cited a topic most Youngstown residents knew well – inflation – as the single factor that most necessitated the levy. Once high school principal's letter implored to parents: "The public schools need your help! The cost of living has skyrocketed. However, school income as not increased. We have now reached

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107 "Election is Tuesday – Leaders Back School Levy," *Youngstown Vindicator*, December 11, 1966.
108 "YFT Officers Urge Members to Back Levy," *Youngstown Vindicator*, December 8, 1966.
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110 Pete Sheehan, "Why the Money Ran Out in Youngstown," *Phi Delta Kappan*, November 1969, 118.
111 "Wanamaker Asks Votes Tuesday – Schools Face Ax if Levy Fails," *Youngstown Vindicator*, December 8, 1966.

a critical stage…. I, along with other school personnel, wish there were some other way than a tax increase [to pay the rising cost of books, supplies, and staff].”[112] Campaign literature dubbed election day “Responsibility Day,” which was to “a day for ALL citizens to vote for THE SCHOOL TAX LEVY.”[113] Wanamaker seemed pleased with the response to the rushed campaign. He gushed to the *Vindicator*, “In 25 years…I have never experienced as much spontaneous offering of assistance as we have had in Youngstown in the past two weeks.”[114]

Whatever optimism existed in the run-up to the election vanished when the votes were counted. Voters trounced the levy. Seven out of every ten voters opposed the levy, and only a third of the city’s eligible voters even went to the polls. Explaining the loss sanguinely, a clerk at the elections board told the *Vindicator*, “It’s the current mood of the voters.”[115] More sympathetically, the YEA president chalked the defeat up to the “economic pressures,” but noted that the pressures facing the schools were even more acute.[116] The *Vindicator*’s editorial writers were less forgiving. Granting that there was “no question that with the cost of living and the inflationary process well developed, most citizens and particularly those with static incomes hesitate to add to their tax burdens,” the paper’s editorial castigated the parents who failed to vote, concluding that those who stayed home or voted no must not “think it’s important to keep the schools running normally and educational standards high.”[117]

Quickly, a new vote was set for May. The levy value was increased from five mills to seven-and-a-half. Yet again, both the local Chamber of Commerce and the *Vindicator* endorsed

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[112] “Election is Tuesday – Leaders Back School Levy,” *Youngstown Vindicator*, December 11, 1966.
[113] Howard Devon Hamilton and Sylvan H. Cohen, *Policy Making by Plebiscite: School Referenda* (Lexington Books, 1974), 164.
[114] “Election is Tuesday – Leaders Back School Levy,” *Youngstown Vindicator*, December 11, 1966.
[115] “City, Struthers Reject Levies; Poland’s Wins,” *Youngstown Vindicator*, December 14, 1966.
[116] “City, Struthers Reject Levies; Poland’s Wins,” *Youngstown Vindicator*, December 14, 1966.
[117] “Levy Loses; So Does Education,” *Youngstown Vindicator*, December 14, 1966.

the levy.[118] This time, the paper abandoned its past finger-pointing and sympathetically asked for levy support from those who stayed home or opposed the levy in December. It understood why taxpayers were "complaining that their burden is becoming difficult to bear," and argued that the levy was "the result of an inflationary period when everyone wants more money for whatever service he renders in order, as he argues, that he can meet the vaulting cost of living." Though "one can hardly blame the taxpayer for pinching pennies," schools were not "the right place to begin to pinch."[119] Forty fifth-graders marched with signs like "Don't Let Education Go Down the Drain" and "Pass the School Levy," chanting "SOS – Save Our Schools."[120] The Citizen's Advisory Committee for the levy also touted the "SOS" slogan in ads that ran in the days leading up to the election. They noted a laundry list of cuts that would result of the levy failed: athletics, kindergarten, field trips, and supplies. The committee blamed the impact of inflation on the schools for the levy, and reminded voters that real estate taxes were income tax deductible.[121] To shore up support among the city's steelworkers, volunteers distributed pro-levy leaflets to workers at plant gates. Other volunteers telephoned skeptical voters, while students contributed "signs, posters, stories in their school papers, and eloquent persuasion at the dinner table at home."[122] In the biggest push for the levy yet, all local television and radio channels simultaneously broadcast a live call-in show the night before the election so that proponents of the levy could answer questions from skeptical Youngstowners.[123]

The expanded efforts failed. Even though twelve thousand more Youngstowners voted, as many voted against the levy as for it. The levy garnered only 35 percent of the vote citywide

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[118] "School Taxes Are Endorsed by Chamber," *Youngstown Vindicator*, April 21, 1967.
[119] "For Quality Education," *Youngstown Vindicator*, April 28, 1967.
[120] "Harding Pupils March for School Levy," *Youngstown Vindicator*, April 30, 1967.
[121] "SOS, Save Our Schools," *Youngstown Vindicator*, April 30, 1967; "SOS, Save Our Schools," *Youngstown Vindicator*, May 1, 1967;
[122] "Citizens' Advisory Group Grateful for Levy Support," Youngstown *Vindicator*, November 5, 1967.
[123] "School Tax Levy Table For Radio-TV Tonight," *Youngstown Vindicator*, May 1, 1967.

and failed to win a majority in any ward.[124] In the wake of the second failure in a row, the president of the YEA complained that "the people of Youngstown did not want to listen to the facts."[125] Putting aside the sympathy for economically pinched Youngstowners it had voiced just a few days earlier, the *Vindicator*'s editorial concluded that "a good many Youngstown citizens do not want the advantages of quality education." It heaped blame on local labor unions for staying silent and on Mayor Anthony Flask, the popular incumbent Democrat, who failed to endorse the levy until the day before the vote.[126]

Five months later, the levy appeared on the ballot again, but at a lower 6.1 mill rate. The usual endorsements rolled in from the *Vindicator*, both political parties, and numerous religious and civic organizations.[127] This time, Mayor Flask endorsed the levy a full month before the vote, pledging that "he and his cabinet are ready to serve in any way to help the Board of Education pass the 6.1-mill school operating levy."[128] A new, more popular superintendant, William Zinser, was expected to boost the levy's chances, too.[129] Labor support was mixed again, with some unions endorsing the levy and others choosing to stay neutral.[130] This time, the Citizens' Advisory Committee's took a more emotional tack. They asked each voter to "examine [his or her] conscience carefully" and "think of the 28,000 children in Youngstown whose very future depends" on the levy. Consistent with the belief of many of the city's elites that the levies'

124 "Every Ward Turns Down 7.5 Mills," *Youngstown Vindicator*, May 3, 1967.
125 "Every Ward Turns Down 7.5 Mills," *Youngstown Vindicator*, May 3, 1967.
126 "Education Loses," *Youngstown Vindicator*, May 3, 1967
127 "Citizens' Advisory Group Grateful for Levy Support," *Youngstown Vindicator*, November 5, 1967; "Sample Ballots, *Vindicator* Recommendations for Tuesday," *Youngstown Vindicator*, November 5, 1968; "Churches, Jaycees OK Levy," *Youngstown Vindicator*, October 27, 1967.
128 "Mayor Urges School Levy OK," *Youngstown Vindicator*, October 10, 1967.
129 Pete Sheehan, "Why the Money Ran Out in Youngstown," *Phi Delta Kappan*, November 1969.
130 "Citizens' Advisory Group Grateful for Levy Support," *Youngstown Vindicator*, November 5, 1967; "Labor Chiefs Scolded for Silence on Levy," *Youngstown Vindicator*, November 5, 1967.

failures resulted from ignorance, the advertisements closed with the line, "Think…then vote."[131] The levy failed again, garnering 44 percent of the vote.

To add insult to injury, Youngstowners passed a different tax hike that November, even as they rejected the school levy. Throughout the year, the city's police and fire employees had been negotiating over wage increases, seeking an additional one hundred dollars per month, parity with other major Ohio city's officers, as well as fringe benefits like time-and-a-half overtime pay and paid holidays. Mayor Flask told the safety forces that the city's finances were already precarious, and that it was likely the city would end the year without enough money to make the January 1968 payroll.[132] Guarding against a covert strike, the city council passed a resolution calling for a doctor's note if an employee missed two days of work.[133] The tax committee of the Youngstown Area Chamber of commerce backed the mayor's claims that the city's finances were stretched thin and asked for the safety forces patience. The Chamber suggested that future raises might be financed by a property tax special levy or an income-tax increase.[134] Nothing changed as the 1967 dragged on. Fed up with the lack of progress, police officers and firefighters staged a strike in early September with strong – if less-than-unanimous – participation. The striking police officers and firefighters gathered at a local union hall for a continuous "professional meeting" that constituted a de-facto – and illegal – strike.[135] This strike set in motion the tax hike that eventually secured raises for the safety forces.

In retrospect, passage of a safety forces tax hike in 1967 might not seem all that surprising. The late-1960s were besotted by protests, riots, and rising crime rates. In 1968, Richard Nixon would win the presidency on a "law-and-order" platform. But the passage of the

[131] "THINK," *Youngstown Vindicator*, November 6, 1967.
[132] "Can't Find the Funds for Raises – Council Tightens Sick Leave," *Youngstown Vindicator*, June 15, 1967.
[133] "Can't Find the Funds for Raises – Council Tightens Sick Leave," *Youngstown Vindicator*, June 15, 1967.
[134] "Can't Find the Funds for Raises – Council Tightens Sick Leave," *Youngstown Vindicator*, June 15, 1967.
[135] "10 Fire Stations Closed; Many Policeman Off Job," *Youngstown Vindicator*, September 7, 1967.

safety levy – and not the school levy – surprised many of the city's leaders at the time. Despite its exaggerated "murdertown" nickname, the city had one of the lower crime rates in the state in the late-1960s, and Humphrey won Mahoning County with 55 percent in 1968.[136] Rather than law-and-order, the passage of the police-and-fire tax increase had everything to do with the type of tax selected. During the same late-night secret union meeting where Youngstown's police officers and firefighters approved their strike – a less-than-unanimous vote with a "stormy" debate – the membership also "passed unanimously a resolution condemning a proposed 2.5 mill [property tax] levy," which the city council had suggested to raise money for the safety raises. The members of the gathered unions argued it would "penalize[e] property owners while all residents enjoy the services of city employees, and would further jeopardize the voters' consideration of other issues, including the 6.1 mill school levy."[137] The attorney for the police and fire unions, Donald Hanni, said he believed that a property tax levy would fail. [138]

No matter the form, the odds seemed worse for a police-and-fire than for the schools. Levies for current operational expenses – such as the police-and-fire levy – needed 60 percent approval to pass, not the simple majority that governed school tax votes. Many observers felt that the schools were more popular than the safety forces, too. "If they won't pass [a tax increase] for their kids, they aren't going to pass one for us," one police office said. "Every time a policeman has made out a ticket he's lost one vote."[139] Needing some form of revenue, the city council took the demands made by the safety forces during the surprise strike seriously. Meeting in "the wee-

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[136] "District's Crime Rate is 2nd Lowest in State," Youngstown *Vindicator*, August 13, 1969. Democrats did attempt to hedge their bets on crime, though. Humphrey's Vice Presidential candidate, Senator Edmund Muskie, told a "cheering crowd" of 500 steelworkers at a Youngstown Polish-American center that the Democrats, not Nixon or Wallace, knew how to handle crime. "Muskie Plays Hard on Law and Order Theme," *Charleston (South Carolina) News and Courier*, September 14, 1968.

[137] "10 Fire Stations Closed; Many Policeman Off Job," *Youngstown Vindicator*, September 7, 1967.

[138] "Judge Will End Strike If Talks Fail – Injunction Hearing to Be Saturday," *Youngstown Vindicator*, September 8, 1967

[139] "Judge Orders Police, Fireman Back to Jobs – Mayor Calls Meeting of Councilmen," *Youngstown Vindicator*, September 9, 1967.

hours of the morning," the council turned away from the property tax idea, and began considering a half-percent income tax increase.[140]

With only a small number of police officers at work, the council also weighed its options of how to protect the city. They considered invoking the state's Ferguson Act, which banned strikes by public employees and the governor rejected a hasty appeal for National Guard assistance.[141] Eventually, the council decided to petition the local common please court to issue an injunction ending the strike.[142] Sidney Ringelhaupt, a "short, silver-haired judge," gave the council what they wanted. But he also used his opinion to castigate them for their treatment of safety forces. According to Ringelhaupt, the issue had "gone far beyond the question of politics." Taxes needed to be increases for police and fire pay raises even "if the levying of an additional tax will result in the defeat of the mayor and member of the council…[because] there is no question that the member of the police and fire departs of this city are entitled to a raise in pay; that they are inadequately paid; and that something must be done in this regard." The night before the judge's order, representatives of the safety forces and the city negotiated into the early morning. Mayor Flask and the city council proposed placing a one-half percent income on the December special election. Flask proposed that the majority of the money would go to provide Youngstown's police officers and fire fighters wage parity with their counterparts in Ohio's ten largest cities. The safety force's representatives rejected the offer. The union wanted firm numbers outlining raises. Unable to reach an agreement, the meeting "almost came to blows." The national president of the Fraternal Order of Police, John Harrington, came to Youngstown

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140 "In Emergency Session – Flask, Council Study 3 Moves," *Youngstown Vindicator*, September 7, 1967.
141 "In Emergency Session – Flask, Council Study 3 Moves," *Youngstown Vindicator*, September 7, 1967.
142 "Judge Will End Strike If Talks Fail – Injunction Hearing to Be Saturday," *Youngstown Vindicator*, September 8, 1967

for the negotiations. He castigated the city's negotiation tactics, but also told union members that he "had no doubt" that an income tax increase would pass.[143]

With the safety forces vowing to continue their strike despite his order and the city unwilling to budge on its offer, Judge Ringelhaupt personally intervened in the negotiations, bringing both sides into his chambers to reach a compromise. In the end, a deal was reached that promised an immediate twenty-six dollars per month raise for all city employees and an additional seventy four dollars per month if a half-percent income tax levy on the December special-election ballot passed. This raised the yearly salaries of most police and fireman from $6,330 to $6,642 immediately, with the promise of $7,530 if the levy passed.[144] In a near-unanimous voice vote, the safety forces accepted the deal.[145] After the contentious negotiations, all sides seemed happy with the settlement and praised each other for their cooperation. Harrington told the Youngstown safety forces that it was the first time a police force had gone on strike and won in the country's history.[146]

Immediately, the income tax's supporter sprung into action. The dean of Youngstown State University, John J. Gillespie, headed the Mayor's Citizens Committee, which planned a door-to-door campaign and designated speakers – including the USW's Griffin – to stump for the income tax.[147] Learning from the failures of the school levies, the income tax Citizens' Committee stressed unity. "All segments of the Youngstown area community are represented on the Citizens' Committee, including business, industry, education, church, civic, and labor

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[143] Martin Arnold, "Youngstown Judge Orders Halt to Municipal Strike by Today," *New York Times*, September 9, 1967; "Judge Orders Police, Fireman Back to Jobs – Mayor Calls Meeting of Councilmen," *Youngstown Vindicator*, September 9, 1967.
[144] "City to Vote Dec. 14 on Higher Tax – Will Seek Half Pct. Increase," *Youngstown Vindicator*, September 12, 1967.
[145] "Youngstown Police, Fire Strike Ends," Toledo Blade, September 12, 1967.
[146] "City to Vote Dec. 14 on Higher Tax – Will Seek Half Pct. Increase," *Youngstown Vindicator*, September 12, 1967.
[147] "Dean Gillespie of YSU Heads Tax Committee," *Youngstown Vindicator*, December 1, 1967.

groups," reported the *Vindicator*.[148] Unlike the school property tax issue, Youngstown's organized labor leaders readily endorsed and campaigned for the income tax increase. In addition to his speaking role, Griffin had headed the Youngstown Citizens Wage and Revenue Study Committee and promised "to do everything I can and will ask other in the steelworkers movement to go out and support the [income tax] levy."[149] The YFT, Youngstown Board of Realtors, AFL-CIO, Teamsters, and Building Trades all endorsed the income tax levy. So did both political parties.[150] The Youngstown Board of Education even endorsed income tax hike, the first time it had ever endorsed a municipal levy.[151] The only group that refused to unreservedly endorse the income tax was the Chamber of Commerce. Like the school levies, the Chamber of Commerce did endorsed the income tax increase, but unlike the schools levies, it did so only with the condition that it had a say in how the money raised would be allocated. Specifically, the chamber wanted to the council to close some fire stations and negotiate what it called "responsible long-term contracts" with the safety forces that would prevent future strikes.[152]

Even with the proclamations of unity, the income tax levy campaign paled in comparison to the various school levy campaigns. Supporters held several rallies in support of the income tax.[153] But it seems that many of the Citizens' Committee's more ambitious plans never came to fruition. Yet, the levy's greatest strength lay in the type of tax it was proposing. Mayor Flask reminded voters that "only persons who work will pay the increase and not senior citizens on

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[148] "Dean Gillespie of YSU Heads Tax Committee," *Youngstown Vindicator*, December 1, 1967.
[149] "City to Vote Dec. 14 on Higher Tax – Will Seek Half Pct. Increase," *Youngstown Vindicator*, September 12, 1967.
[150] "800 Workers Rally to Back Tax Hike," *Youngstown Vindicator*, December 9, 1967.
[151] "First Municipal Endorsement – School Board Backs Income Tax," *Youngstown Vindicator*, December 5, 1967.
[152] "Dean Gillespie of YSU Heads Tax Committee," *Youngstown Vindicator*, December 1, 1967.
[153] "Income Tax Drive – 400 Workers Attend Rally," *Youngstown Vindicator*, December 2, 1967; "800 Workers Rally to Back Tax Hike," *Youngstown Vindicator*, December 9, 1967.

retirement or fixed income."[154] And other supporters tirelessly pointed out that the income tax would be "collected only from those who live in the city and have a taxable income, or who live elsewhere and work in the city," which meant that "old-age pensions, Social Security payments, payments for poor relief and workman's compensation, and unemployment benefits" would not be taxed, facts that the *Vindicator* dutifully and repeatedly reported.[155]

The committee also tried to dispel doubts about the need for the levy. It touted studies from local accountants that showed how no amount of economizing in other areas could generate enough money to bring Youngstown's police and fire employees into parity with similar Ohio cities.[156] Even after the twenty-six dollar pay increase, the city's safety forces still ranked fiftieth in the state in pay, despite being Ohio's seventh-largest city. In fact, even if the income tax passed and they received an additional seventy-four dollar increase, the city's safety forces would still be eighteenth in pay in Ohio.[157] Trying to put the safety forces on common ground with most workers, both the police and fire campaign leaders "point[ed] out that recent Bureau of Labor statistics revel that more than $9,000 has been cited as the annual salary required for a moderate standard of living for a family of four," while the average police officer or firefighter would still only make $7,530 after both raises.[158] Based on these studies, a front-page *Vindicator* editorial told readers, "There has been no question all along that the safety forces have been, and

[154] "800 Workers Rally to Back Tax Hike," *Youngstown Vindicator*, December 9, 1967.
[155] "800 Workers Rally to Back Tax Hike," *Youngstown Vindicator*, December 9, 1967.
[156] "Dean Gillespie of YSU Heads Tax Committee," *Youngstown Vindicator*, December 1, 1967.
[157] "$936 a Year Below State Average – Safety Units Rank 50th in Pay," *Youngstown Vindicator*, December 12, 1967.
[158] "$936 a Year Below State Average – Safety Units Rank 50th in Pay," *Youngstown Vindicator*, December 12, 1967.

are, underpaid."[159] The half-percent income tax increase passed with nearly sixty-five percent of the vote, raising the city's income tax to one-and-a-half percent.[160]

Hoping Youngstown voters had turned generous, the school board announced that the property tax levy would face another vote. The higher turnout and support for the levy in November – and now the police-and-fire levy's passage – gave hope to the levy's supporters, and this time they doubled the levy value to 12 mills.[161] With a date set for June, the board, citizens' committee, and other levy supporters launched a more aggressive public relations campaign than the last three attempts. Superintendent Zinser also tried to address the public's skepticism about the necessity of the levy by appointing a twenty-two-person committee to study the district's finances, find ways to economize, and independently validate the district's claim that it needed new revenue. The makeup of the committee, however, signified just how scarce unity was. Dominated by business officials, it included no labor representatives and only a few token African Americans.[162] In what had become routine, many religious and community groups dutifully announced their support for the levy in the months leading up to the vote.[163] What set this campaign apart from those that preceded it, though, was its tone. To be sure, many of the ads seemed like they could have come from any of the earlier campaigns. The citizen's committee ad asked simply, "Do You Care?" and an open letter to Youngstowners from the NEA closed with the aphorism "Good schools make good citizens."[164] But overall this campaign had less moral, more instrumental appeals that played on fears of both local and national economic decline.

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159 "The Public Safety Must Be Maintained," *Youngstown Vindicator*, September 9, 1967.
160 "City Votes Tax Hike, Assures Police, Fireman Pay Boost – 64 1/2% Back 50% Boost on Incomes," *Youngstown Vindicator*, December 15, 1967.
161 "Another Blow at Education," *Youngstown Vindicator*, November 8, 1967; "Zinser Pledges Effort to Maintain Schools," *Youngstown Vindicator*, November 8, 1967.
162 "21 to Help Schools in Financial Study," *Youngstown Vindicator*, December 12, 1967.
163 "School Levy Is Backed By Three Groups," *Youngstown Vindicator*, May 2, 1968.
164 "An Open Letter to Youngstown Voters," *Youngstown Vindicator*, May 3, 1968.

Two themes – protecting property values and defending the country's economic preeminence – ran throughout the campaign. When the Ohio superintendent of instruction, Dr. Martin W. Essex, visited Youngstown to make a headline-grabbing address the YEA's annual dinner, he tied the levy to broader economic matters. Essex argued that "Youngstown citizens must support their schools in order to maintain their own property vales, build an advancing economy for the city, and provide opportunities for young people." Playing on fears of American decline, Essex told the crowd, "The answer is in the Japanese enthusiasm for education."[165] The bishop of the Catholic Diocese of Youngstown also put aside moral suasion in favor of economic hard-headedness, writing that "In our competitive world, we must not allow students of our city schools to be at a disadvantage."[166] The Youngstown Area Board of Realtors tied the school levy to homeowners' self-interest in a *Vindicator* ad: "Good schools attract home buyers and thus support property values. Protect the value of your property and your neighbor's, too; urge them to vote 'YES' for the school levy."[167] In its endorsement editorial, the *Vindicator* restated both points, noting that "Good schools are conductive to stable growth; poor schools encourage deterioration of the entire civic structure."[168] These new appeals to self-interest were not enough. The levy failed again, its support dipping slightly, to 42 percent. Perhaps the only consolation for levy's supporters came in the fact that most other revenue-raising measures in nearby towns failed that day, including a tax hike in nearby Campbell, where hand-written signs against the measure appeared in yards throughout the city. Only more well-off suburbs approved levy measures. [169]

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[165] "Dr. Essex Addresses YEA – Ties Economy to School Levy," *Youngstown Vindicator*, May 2, 1968.
[166] "Bishop Supports School Levy," *Youngstown Vindicator*, May 2, 1968.
[167] "VOTE YES For the Youngstown School Levy," *Youngstown Vindicator*, May 4, 1968.
[168] "Our School System: A Measure of Civic Progress," *Youngstown Vindicator*, May 6, 1968.
[169] Clingan Jackson, "School, TB Levies, Income Taxes Fail," *Youngstown Vindicator*, May 7, 1968.

Superintendent Zinser wasted no time resubmitting the levy. Waiting only a few days more than the 25-day minimum, another vote was set for June. This time, because it was a special election, the board had to foot a $45,000 bill.[170] It also adopted new tactics. As one analyst put it, "the desperate board resorted to the sleeper strategy, truly a 'quiet election' – no media publicity, no billboards, and no literature."[171] Put more diplomatically, the levy's backers used a "soft sell," meaning that "little was said about the levy, in the hope that opponents would stay home."[172] The school board predicted that the schools would close for part of the upcoming school year if the levy failed again, and the YEA's attorney flatly stated his union's members would strike if the board pursued deeper cuts in order to stay open. Clearly frustrated, one board member complained at the levy resubmission meeting, "Parents bring children into the world, feed and clothe them, but then don't pay to educate them so they can take care of themselves."[173]

In the month between the 4th and 5th votes, the levy received almost no coverage other than what were now almost perfunctory endorsements by the *Vindicator* and the Chamber of Commerce.[174] Letters filled the void left by supporter's "sleeper strategy." One Youngstowner wrote to Mayor Flask asking the popular Democrat to more actively support the levy, which the writer believed would allow the levy's supporters to overcome the "credibility gap" created by the school board.[175] Three days before the vote, the *Vindicator* allowed readers to have their say in a special full-page spread. Even supporters of the levy acknowledged the economic pain inflicted by inflation and rising taxes. "There are very few tax levies on which citizens have the

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170 "New School Levy Vote Could Be Held in June," *Youngstown Vindicator*, May 7. 1968.
171 Howard Devon Hamilton and Sylvan H. Cohen, *Policy Making by Plebiscite: School Referenda* (Lexington Books, 1974)
172 Pete Sheehan, "Why the Money Ran Out in Youngstown," *Phi Delta Kappan*, November 1969, 119; Clarence T. Sheehan, "Will Mean Doors Shut on Nov. 27," *Youngstown Vindicator*, November 6, 1968.
173 "School Levy to Get 5th Vote June 5th," *Youngstown Vindicator*, May 9, 1968.
174 "The Schools and Taxes," *Youngstown Vindicator*, June 3, 1968.
175 "Urge Mayor Lead Fight for Schools," *Youngstown Vindicator*, June 2, 1968.

right to vote," one woman wrote. "[But] just because you can say 'NO' doesn't necessarily mean that is what you should do." Even though "the real estate tax is out of date and in some instances unfair as it is not based on ability to pay," she argued, "education of young people is important."[176] Another woman wrote that the school tax portion of her property tax bill would jump from $138 to $210 if the levy passed, but argued that public schools were still a bargain. Like many, she worried that the levy defeats were further hurting Youngstown's image, closing with the prediction that "as the levy goes, so goes Youngstown."[177] Inflation in school costs proved to be the biggest issue in the minds of the teachers and other levy supporters who wrote to the *Vindicator*. A high school librarian wrote in, providing figures demonstrating that the cost of many popular books that need constant replacing had doubled since 1950.[178] Another Youngstowner implored his fellow citizens to remember that "costs have risen not only in groceries and taxes, but also in labor, books, salaries, paper, pencils, etc."[179]

The "sleeper strategy" succeeded in one sense: turnout plummeted over 25 percent from the previous two elections. Unfortunately for the levy's supporters, more pro-levy voters than levy opponents stayed home. This time the levy garnered only 37 percent of the vote. The many Youngstowners who missed the vote also likely missed its defeat. It barely made a blip in the local news, having been obscured by Robert F. Kennedy's assassination.[180] In fact, the levy defeat was not even the biggest local story of the day. The *Vindicator*'s business editor penned a story largely based on unnamed sources that "a major national conglomerate" could take control of Youngstown Sheet & Tube, the largest mill in the city, a takeover that the writer reported

[176] "Lack of Funds May Put Schools in U.S. Control," *Youngstown Vindicator*, June 2, 1968.
[177] "As Levy Goes, So Goes the City – More Than Schools at Stake Wednesday," *Youngstown Vindicator*, June 2, 1968.
[178] "Aware of Rising Costs – Librarian Knows School Needs," *Youngstown Vindicator*, June 2, 1968.
[179] "Santa Claus Can't Help City Schools," *Youngstown Vindicator*, June 2, 1968.
[180] "School Levy Is Beaten, Fear Strike," *Youngstown Vindicator*, June 6, 1968.

"could spell danger to the hard-pressed Youngstown district as a major steel producing center." Youngstowners feared that the city could become a "remote control" community, with absentee ownership and few long-term guarantees.[181]

Despite the levy's loss, schools opened that November. On the recommendation of Superintendent Zinser, the board also voted to grant raises to district employees, a move that the school board's "liberal faction" opposed as fiscally irresponsible until a levy passed. In effect, "the vote [to grant raises] was to close the schools when the money ran out if the next levy didn't pass."[182] For those who worried that voters rejected the levies because of greedy public employees, the raise could not have been worse news. To make matters worse, another group often blamed for the public's rising anti-tax sentiment – welfare recipients – made headlines in October. Welfare recipients staged a sit-in at the county's offices to ask for a cold-weather supplement to Ohio's five-dollar yearly budget for children's clothing. Most of the parents in attendance were African American women who belonged to the Youngstown chapter of the growing National Welfare Rights Association (NWRO), a group founded by George Wiley, the former associate director of the Congress for Racial Equality. Thirty of the sixty protestors stood outside carrying signs that read "Welfare is not a privilege, it is a right" and "Ohio is the 5th richest state in the union, 45th in welfare."[183] County AFL-CIO chairman, Al Shipka, attended the protest. He supported the welfare recipients, he said, because "you cannot have law and order in a community unless something is done about these basic fundamental problems." Shipka argued that "welfare recipients receive less" than in the past, noting that the current system "destroys everything decent in a human being."[184] Commissioners blamed the low welfare

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[181] "S&T Rumors Spell Danger, *Youngstown Vindicator*, June 5, 1968.
[182] Pete Sheehan, "Why the Money Ran Out in Youngstown," *Phi Delta Kappan*, November 1969, 120.
[183] "Parents Demand More Relief," Youngstown *Vindicator*, October 7, 1968.
[184] "Welfare Parents Demand More Relief," *Youngstown Vindicator*, October 17, 1968.

payments on state cuts to the county, explaining that a half-cent "permissive" sales tax might be the only untapped source of revenue for the county, but one that would likely be overturned by voters if enacted.[185] That Shipka – who refused to support the levy because of the board's "anti-labor position" – supported the welfare protestors had to irk the levy's supporters.[186] The sit-in ended uneventfully, but one sign held aloft by a WRO protester outside the meeting seemed to foreshadow that the issue was not settled: "Money is the root of all evil. We want some of that evil."[187]

With school in session, the school board scheduled another levy vote on the 12-mill levy for November. They warned that if this vote failed the schools definitely would close.[188] The recent closing of Perry Local Schools, outside of nearby Cleveland, made the threat all the more real.[189] The school board pleaded for unity to avoid closings. "Youngstown voters must awaken to their responsibilities," board member Robert Murphy implored. "Black, white, Catholic, Protestant, labor, management all must unite to keep our schools open."[190] But the board ensured unity would be hard to come by on the labor front. Shipka denounced the recent raises granted by the board as politically motivated, saying that they "demonstrated to the teachers that [the board] was anti-YFT."[191] Now the board broke its election agreement with the YFT by declaring that it would allow principals and supervisors to vote in October's union-recognition election. The YFT

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[185] "Permissive tax" is a catchall term for various types of taxes allowed counties by the state government. In Ohio, that list includes sales taxes and motor vehicle license taxes, among others. "The 'Permissive' Taxes," Toledo Blade, August 19, 1967; James B. Bland, "Ohio House Passes Permissive Taxes, Lowers Property Tax," Bryan Times, August 18, 1967; "Ohio Local Government Structure and Finance," *The Ohio State University Bulletin*, June 2011 (http://ohioline.osu.edu/b835/b835_10.html); Clingan Jackson, "Mayor Benefits from 3-Way Race," Youngstown *Vindicator*, April 13, 1969; [185] "Parents Demand More Relief," Youngstown *Vindicator*, October 7, 1968.
[186] "Kelly Backs Schools, Labor Ignores Levy," *Youngstown Vindicator*, October 22, 1968.
[187] "Parents Demand More Relief," Youngstown *Vindicator*, October 7, 1968.
[188] "Will Close Schools Nov. 27 to January if Levy Is Beaten," *Youngstown Vindicator*, October 22, 1968.
[189] "Will Close Schools Nov. 27 to January if Levy Is Beaten," *Youngstown Vindicator*, October 22, 1968
[190] "Will Close Schools Nov. 27 to January if Levy Is Beaten," *Youngstown Vindicator*, October 22, 1968
[191] Alvin Rosensweet, "Crisis in Youngstown – Vote Against the School Levy," *Pittsburgh Post-Gazette*, November 19, 1968.

cried foul, removed its name from the ballot, and boycotted the election. The board also gave teachers another wage increase just before the election, part of what Shipka called an "anti-labor" strategy."[192] In what was essentially an uncontested election, the YEA won with 889 votes. Its supporters noted that even if all of those who refused or neglected to vote supported the YFT, it would still have won by a 600-vote margin. But the damage to the board's appeal to organized labor was done.[193] Once again, the levy's supporters would run a levy campaign with little-to-no support from organized labor.

In a last-ditch effort to avert the catastrophe of school closure, the board and other levy supporters eschewed the failed "sleeper strategy" of the June vote and staged their most publicized and provocative campaign yet. Levy supporters tapped former mayor Charles P. Henderson – viewed by one longtime reporter as "probably the most respected political figure in town" – to head the new Committee to Keep Schools Open, which essentially replaced the old Citizens Advisory Committee. The new committee adopted the "shock[ing]" slogan "Give a damn" for its campaign, buying ads with those bold words in large type in the city's black newspaper, the *Buckeye Review*, as well as the local *Catholic Exponent* and *Jewish Times* before changing the phrase to the tamer "Give One."[194] The committee also ran large, emotional ads in the *Vindicator*, asking Youngstowners to "VOTE FOR ALBERT...And Mary, and Jack, and Pete, and Joan." In the fine print, both the "Give a damn" and "ALBERT" ads warned that, if the schools closed, "all our children lose…no one will want to move to Youngstown…business will not want to locate here…[and] all property values fall, that means dollars to *you*."[195] More

[192] Pete Sheehan, "Why the Money Ran Out in Youngstown," *Phi Delta Kappan*, November 1969, 120
[193] "Laud's YEA's Victory; Urge Levy's Passage," *Youngstown Vindicator*, October 23, 1968.
[194] Pete Sheehan, "Why the Money Ran Out in Youngstown," *Phi Delta Kappan*, November 1969, 120; "Give a Dam," Buckeye Review, October 25, 1968, "Give a Dam," Buckeye Review, November 1, 1968.
[195] "Vote for Albert," *Youngstown Vindicator*, October 20, 1968; "Vote for Albert," *Youngstown Vindicator*, October 24, 1968; "Vote for Albert," *Youngstown Vindicator*, October 26, 1968; "Vote for Albert," *Youngstown*

simply, another of the committee's ads told Youngstowners, "It's your decision… If our kids don't make it, neither do we. Neither does Youngstown."[196]

Putting even more cracks in the thin wall that separated the *Vindicator*'s editorial endorsements of the levy from its news coverage of the campaign, the paper ran a series of drawings from school children supporting levy. One drawn by a high school junior showed a forlorn little girl with the words "LOOKING THE OTHER WAY WON'T HELP, VOTE YES NOV. 5" emblazoned beside her.[197] Another student drawing pictured three children tied together with rope, as if in on the train tracks in the dramatic final scene of a western movie. But the hoped-for heroes were not cowboys. They were the voters of Youngstown. The ad asked them, "WILL YOU HATE YOURSELF NEXT SEPT. FOR WHAT YOU DIDN'T DO THIS NOVEMBER [?]" Returning to a strategy from the May 1967 campaign, local television station WFMJ aired another hour-long call-in program where the board of education, superintendent Zinser, and committee chairman Henderson all answered questions about the levy.[198] Some citizens even took matters into their own hands, like the owner of a clothing store who bought ten billboards throughout the city that stated "Pass the School Levy" in big letters.[199]

Besides the more visible advertising and organizing, virtually nothing changed from the previous campaigns. The *Vindicator,* the Chamber of Commerce, and nearly all of the city's religious and civic organizations endorsed the levy.[200] Like the past campaigns, most organized

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Vindicator, October 27, 1968; "Vote for Albert," *Youngstown Vindicator*, October 28, 1968; "Vote for Albert," *Youngstown Vindicator*, October 29, 1968; "Vote for Albert," *Youngstown Vindicator*, October 31, 1968; "Vote for Albert," *Youngstown Vindicator*, November 2, 1968; "Vote for Albert," *Youngstown Vindicator*, November 4, 1968; "Give a Dam," Buckeye Review, October 25, 1968; "Give a Dam," *Buckeye Review*, November 1, 1968.
[196] "It's Your Decision…," *Youngstown Vindicator*, October 29, 1968.
[197] "Please Help Me," *Youngstown Vindicator*, October 28, 1968.
[198] "School Levy Program on 21 Tonight," *Youngstown Vindicator*, October 29, 1968.
[199] Alvin Rosensweet, "Just Out of Money – Youngstown Ready to Close Schools," *Pittsburgh Post-Gazette*, November 18, 1968.
[200] "Chamber Unit Endorses District School Levies," *Youngstown Vindicator*, October 24, 1968; "School, TB Levies Get PTA Support," *Youngstown Vindicator*, October 29, 1968; Pete Sheehan, "Why the Money Ran Out in

labor "ignored" the levy, though a few smaller unions and union leaders decided to endorse in its sixth attempt.[201] The Youngstown area AFL-CIO even went so far as to hold a meeting where it gave endorsements candidates and other levies without even holding a vote on the school levy.[202] Once again, the mayor and city council supported the levy, going to far as to appear in multiple advertisements in the *Vindicator* paid for by the Henderson committee. Sandwiched between photos of all the council members and mayoral staff – a prominent image of racial and ethnic unity for the levy, if only in the form of photos city's elected leaders – were the "CITY HALL SUPPORTS THE SCHOOL LEVY," encouraging Youngstowners to support the levy "FOR THE GOOD OF YOUR COMMUNITY, YOUR CHILDREN, AND YOURSELF."[203]

But the levy still failed for the sixth time. This time, it narrowly lost, garnering 49 percent of the vote.[204] Its near success did not stop name-calling and recriminations from dominating the local news for the next several weeks, however. The president of the board of education, Dr. Earl H. Young, took to the pages of the *Vindicator* to call the local Steelworkers head, James Griffin, "Mr. Big" and blame him for the levy's defeat.[205] Griffin and other union leaders, in turn, responded that the board was anxious to "find scapegoats among ethnic, religious, and labor groups," saying that the board had only itself to blame, while the YFT published an open letter calling for Young's resignation.[206] The *Vindicator* editorialized that "when the school is debated, it seems to be easy to pass out the blame…. James Griffin, United Steelworkers district director,

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Youngstown," *Phi Delta Kappan*, November 1969, 120; "Bishop and Rev. Parr Support School Levy," *Youngstown Vindicator*, November 2, 1968.

[201] "Why the Money Ran Out in Youngstown," *Phi Delta Kappan*, November 1969, 120; "Trade Unions Support Levy," *Youngstown Vindicator*, November 2, 1968.

[202] "Kelly Backs Schools, Labor Ignores Levy," *Youngstown Vindicator*, October 22, 1968.

[203] "City Hall Supports the School Levy," *Youngstown Vindicator*, November 2, 1968; "City Hall Supports the School Levy," *Youngstown Vindicator*, November 4, 1968.

[204] Clarence T. Sheehan, "Will Mean Doors Shut on Nov. 27," *Youngstown Vindicator*, November 6, 1968.

[205] "Dr. Young Raps Griffin Over Letter from YFT," *Youngstown Vindicator*, November 25, 1968.

[206] "Young Errs Over Levy – Griffin," *Youngstown Vindicator*, November 26, 1968; "YFT Urges Dr. Young Quit Board, *Youngstown Vindicator*, November 27, 1968.

is blamed. Catholics are blamed. The school board is blamed. School administrators are blamed." But, the paper's editorial board argued, "hundreds and hundreds" of union members and Catholics "voted their own convictions, and no one else's," meaning that ultimately "voters make the decisions…not labor leaders or anyone else."[207] Regardless of who was to blame, the sixth defeat produced one unmistakable fact: the schools closed.

The closing brought with it a degree of national attention that undoubtedly surprised Youngstown's leaders and its citizens. National coverage of the Youngstown levy defeats before the closings came mostly in the form of wire-service articles. Now print and television reporters from across the country descended on Youngstown for a first-hand view of the crisis. The closing made Youngstown the butt of jokes and the object of finger-wagging scorn, confusion, and pity even before *Laugh-In* poked fun at the city. National news agencies, all three national television networks, and reporters from newspapers across the county often treated the city as little more than a bizarre spectacle.[208] Many journalists noted the human effects of the school closing. "Mrs. Jack W. Sullivan has three school-aged boys who are not in school," read an Associated Press article. "They are home underfoot, watching television and fighting boredom." Not surprisingly, Mrs. Sullivan was not thrilled with her new company. "You just can't teach them at home," she complained. "When they first got home, they thought the school closing would be just one big blast. Now they're bored to death. I just hope other parents are as tired of their children as I'm tired of mine, and they are tired of me."[209] The school closings presented other problems for the city. It "dumped more than 13,000 bodies into the city's labor market…[creating] a sudden, fierce competition for full- and part-time jobs…in a town where

[207] "Some Education Is Needed in Leadership," *Youngstown Vindicator*, November 26, 1968.
[208] "Youngstown Pupils Get Long Vacation," *Williamson Daily News*, November 29, 1968.
[209] "In Youngstown, Ohio, Shutdown of Schools Leaves Children at Home – Bored," *Meriden Journal*, December 26, 1968.

there are already layoffs at some mills and strikes at other." Many teachers found work, but students did not. Local churches and civic organizations created youth programs, local businesses offered tours, and two local movie theaters offered two free movies a week to the displaced students. While the closing disappointed some students, one high school senior noted that many of his friends viewed it as "just a long vacation."[210]

When interviewed, local leaders seemed unable to make the city's shameful crisis understandable to outsider. Instead, they offered diverse and sometimes conflicting accounts of how the city reached this point. National reporters solved the problem by offering a litany of potential causes. Oddly, though, taxes themselves – and pocketbook economic matters, generally – were relegated to the second-tier of explanations. Some speculated that levy defeats were sparked by a white "backlash" against funding schools and, especially, welfare payments for African Americans. They worried, in other words, that the same people voting against the levies were the people supporting George Wallace, who had made a controversy-filled campaign stop in Youngstown, in the Democratic Primary.[211] Others believed that the city's poor and working-class residents – perhaps even including, or especially, black ones – either did not value education or were expressing some type of anger against the schools or local government by defeating the levies. Regardless, all observers wondered why voters had, seemingly irrationally, spited their own schools. In an interview with NBC's Del Donahoo, Superintendent Zinser speculated that "white ethnic groups" were to blame for the levy defeats.[212] Likewise, he told the

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[210] "In Youngstown, Ohio, Shutdown of Schools Leaves Children at Home – Bored," *Meriden Journal*, December 26, 1968.

[211] Among northern cities, Youngstown's support for Wallace was actually rather unremarkable. Youngstown's Mahoning County gave Wallace less than 10 percent of the vote in 1968, compared to 15 percent in Genesee County, Michigan, home of Flint, or 16 percent in Lake County, Indiana, home of Gary. (County-level data from uselectionatlas.org). "Wallace/Muskie," *NBC Evening News*, October 23, 1968; "Wallace-Lemay/Hecklers," *CBS Evening News*, October 23, 1968; "Wallace/Hecklers," *ABC Evening News*, October 23, 1968; "Hecklers Hear Sidewalk Schools May Open Here," Youngstown *Vindicator*, October 24, 1968.

[212] "School Funds / Ohio," *NBC Evening News*, November 25, 1968;

Pittsburgh Post-Gazette that the levies were failing because white ethnics were refusing "to spend any money for other minority groups."[213] Paradoxically, however, local black leaders worried that the city's African American voters were the ones who were failing to support the levy. Rumors circulated that some African Americans in the city were voting against the levy en masse, perhaps as a form of social protest at the ballot box.[214] In response Reverend Lonnie A. Simon, the Vice Chairman of the School Levy Campaign, had published a letter in the *Vindicator* before the sixth vote urging the city's African Americans to vote for the levy. Likewise, the city's black newspaper, the *Buckeye Review*, had published two pro-levy editorials, on of which argued, "Negroes without question should vote for the school levy…. We say that because Negroes are poor. And the poor are the ones who are in greatest need of public schools…. Youngstown Negroes should not cut off their nose to spite their face by ignoring the school levy."[215] No one, it seemed, had a clear idea what was happening.

The few observers who came to the conclusion that taxes were the root cause of the "tax revolt" came to it slowly and tentatively. The NBC correspondent covering the Youngstown crisis explained in one segment that "there is a theory the defeat of many school levies lately represents more than just opposition to school financing, that the schools are being used as whipping boys in a general protest against all forms of taxation."[216] Yet, even that conclusion contained its own vagaries. Assuming voters were upset about taxes themselves, it was still not clear why they were angry about taxes. Some conservatives claimed, for example, that voters opposed the levies because they were in revolt against coddled public-sector workers. For

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[213] Alvin Rosensweet, "Crisis in Youngstown – Vote Against the School Levy," *Pittsburgh Post-Gazette*, November 19, 1968.
[214] J. Kiriazis and S. Hotchkiss, "Community Attitudinal Survey of Youngstown Voters on the School Tax Levies," Youngstown State University Archives and Special Collections, LB 2823.K5
[215] "The School and Levies Are a Must," *Buckeye Review*, November 1, 1968.
[216] "Tax Reform / Ohio / New York / Michigan," NBC *Evening News*, March 28, 1969

example, the *New York Times* placed all the blame for Youngstown's school closing on the teachers in a lengthy front-page story. In it, reporter Anthony Ripley wrote that the teachers used a "reverse strike" – "a new shock tactic" that "has been widely used by affiliates of the Ohio Education Association" – to force the school's closings, which the union would scare voters into approving tax hikes.[217] The conservative *National Review* likewise gleefully predicted that Youngstown represented the "new mood" – an increasingly "conservative mood" – of voters when it came to taxes.[218]

One theory rarely voiced throughout the early defeats was that voters were expressing distaste with regressive taxes, in particular – a development that could be a boon to the left. The approval of the safety services' income tax had already given a hint that the distribution of the tax burden, not all taxes, was the subject of voters' ire. Regardless, such debate and speculation was common in the face of levy defeats. Without a comprehensive study, however, it was difficult for local officials to know exactly what voters were thinking when they cast their ballot against the levy. The city would eventually have such a study, but not until after the levy crisis was already over. Even before the study, however, Youngstown voters never shied away from explaining the relationship between taxes and their votes on school finance referenda. Nearly every levy opponent who voiced his or her views in letters to the *Vindicator* called attention to taxes and the cost of living. One explained how "a great number of [Youngstown] taxpayers are presently living (or existing) on fixed incomes, pensions, Social Security, low wages, or even unemployment." Low-income residents "are unable to bear this additional burden no matter how good the cause may be." Asking cash-strapped Youngstowners to support the cash-strapped

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[217] Anthony Ripley, "Ohio Teachers Adopt 'Reverse Strike,'" *New York Times*, December 6, 1968.
[218] George Gallup, "Second Annual Survey of the Public's Attitude toward the Public Schools," *Phi Delta Kappan* 52:2 (October 1, 1970): 97-112; M. Stanton Evans, "At Home," *National Review*, April 21, 1972, B62.

schools, the writer concluded, is "like robbing Peter to pay Paul."[219] One man wrote to the *Vindicator* days before the third levy vote complaining, "I work four days a week [a common occurrence for steelworkers], and I can't afford to pay more taxes."[220] Many letter writers, in fact, made distribution-based fairness arguments. "We must have education for our children…but it its not necessarily so that it must be borne on such an unequitable basis," one resident wrote. "[L]awmakers must change our present laws…[to place the tax burden] where it rightfully belongs – [a] tax on income according to ability to pay."[221] Another argued: "It has been stated many times that the lawmakers must change our present laws if the burden is to be relieved from the taxpayers and placed where it rightfully belongs – tax on income according to ability to pay…. Failure of this levy should help to wake up the lawmakers to the injustices as they now exist."[222]

Late in the levy crisis, some local officials, levy advocates, and media outlets would also come to the conclusion that the distribution of the tax burden and the perceived fairness of the tax system were to blame for the levy defeats. One pro-levy speaker in city's seventh ward – which Zinser and other claimed was the center of the white backlash in the city – pleaded with residents not to "sacrifice the schools in our disgust with the taxation system."[223] In public statements, school board member Abe Harshman concluded that "many people are revolting against taxes in general and against specific taxes in particular." Specifically, he said, Youngstowners felt "that the 12-mill levy was a regressive and unfair tax."[224] Its "unfair burden" hurt retired, disabled, and other low-income Youngstown residents, in particular. Even the

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[219] "Voter Fears Tax Buren if Levy Wins," *Youngstown Vindicator*, November 5, 1967.
[220] "Workers Can't Afford More, Higher Taxes," *Youngstown Vindicator*, November 5, 1969.
[221] "Voter Fears Tax Buren if Levy Wins," *Youngstown Vindicator*, November 5, 1967.
[222] "Voter Fears Tax Burden if Levy Wins," *Youngstown Vindicator*, November 5, 1967.
[223] "Cite Benefits of Education," *Youngstown Vindicator*, May 2, 1969.
[224] Alvin Rosensweet, "Just Out of Money – Youngstown Ready to Close Schools," *Pittsburgh Post-Gazette*, November 18, 1968.

supposed aristocracy of Youngstown's blue-collar labor force, the steelworkers, felt "a sense of insecurity" that the property tax exacerbated, Harshman argued, because many could not count on steady five-day work weeks.[225] Similarly, even as it endorsed Youngstown's levy, the Chesterson Club, a Catholic lay group, "strongly recommend[ed] to all who are working for passage of the levy to expend equal energy and attention to redress the inequities of the present system of taxation with an end toward affording relief for those on retirement, Social Security, or other fixed limited income" – a recommendation that underscored the link between the levies and the injustices of the entire tax system in the minds of many Youngstowners.[226] Late in the levy crisis, the *Buckeye Review* also began arguing that voters were defeating the levies for clear-cut pocketbook reasons. "The defeat was caused…by the attitude of the public against taxes in general, and more specifically a rebellion against property taxes," as the paper put it in one editorial. "Property owners feel that the 12 mill levy would be paid by them only, while other would be exempted from the tax."[227] In another article, the *Review* called the "already heavy financial burden" on homeowners the "principal reason" for the levy failures. Specifically, the *Buckeye Review* faulted the property tax for falling on those who "can least afford to pay extra taxes." The paper noted that many Youngstowners argued, "and probably justly so, that the tax should be more equitable and in some other form – a sales tax or income tax."[228] Despite these inequities, the *Review* hoped voters would approve the levy "even though the property tax may seem inequitable."[229] However, the paper noted that, even if Youngstown passed its levy, the

[225] Alvin Rosensweet, "Crisis in Youngstown – Vote Against the School Levy," *Pittsburgh Post-Gazette*, November 19, 1968.
[226] "Clubs Unite for School Levy," *Youngstown Vindicator*, April 26, 1969.
[227] "The School Crisis," *Buckeye Review*, November 22, 1968.
[228] "Support the School Levy," *Buckeye Review*, April 11, 1969.
[229] "The School Crisis," *Buckeye Review*, November 22, 1968.

"taxpayers' revolt" would not be stopped. "The man in the middle is really feeling the bind," the *Buckeye Review* concluded.[230]

Now the word "revolt" was in regular use when describing the situation in Youngstown, and local officials wanted to end it more than ever. Following the sixth defeat, *Vindicator*'s political editor Clingan Jackson wrote only that "the politically-minded are getting more and more cautious as some evidence develops of a taxpayers' revolt." The only wonder was why Jackson believed that six defeats constituted only "some evidence" of a tax revolt.[231] Nonetheless, the city's leaders were determined to end Youngstown's tax revolt at six defeats. Pro-levy messages flooded the city like never before in the run-up to the seventh vote. Local media put aside any pretense of objectivity and aggressively supported the levy, while advertisements and a variety of door-to-door campaigns ensured that no Youngstown resident could miss the upcoming vote. The idea that gave the campaign shape came from two senior girls at Chaney High School. They proposed something called "Operation Armband" to drum up sympathy for the levy. Organized with the full support of Cheney's administration, Nancy Cossler and Marianne Rubbo received 6,000 yards of red ribbon donated from a local department store, McKelvey's, to create armbands for all 7,000 of the city's high-school students. In their letter to principals of the city's six high schools – partially reprinted in the *Vindicator* – Cossler and Rubbo wrote that the red armband "symbolizes our appeal, as students, to the heart of the community…. [It] is not a negative symbol of dissent or protest. It is rather a positive symbol of hope."[232]

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[230] "Lookin' 'Em Over," *Buckeye Review*, April 4, 1969.
[231] Clingan Jackson, "Mayor Benefits from 3-Way Race," *Youngstown Vindicator*, April 13, 1969
[232] Ann Przelomski, "Girls Seek Votes for School Levy – Begin Operation Armband," *Youngstown Vindicator*, April 6, 1969

What began as a heartfelt, emotional appeal by two motivated high school girls quickly morphed into an expensive media campaign in the hands of city leaders eager to publicize a genuine grassroots appeal after so many failed top-down strategies failed. Reporting on the newly professionalized efforts, the *Vindicator* predicted, "Youngstown is really going to be painted RED in the coming few weeks." It explained how "the red armband theme launched last week by high school students themselves is being adopted as the official theme of the levy campaign with the permission of the young originators."[233] School board president Abe Harshman served as the coordinator for a coalition of affiliated "red ribbon committees." The committee met at the YMCA with school administrators, board members, students, and business and government leaders to plan the armband campaign.

Youngstown Sheet & Tube's "advertising men" pledged their expertise and the company's resources in making the armband campaign successful. They told the community leaders gathered at the YMCA that the girls' appeal "makes great copy." Even though the armband campaign was less than a week old, the ad men had already produced mock-ups of large "Join the Arm Band" advertisements, along with smaller "mats" for individual merchants to incorporate them into their own ads. They also outlined a plan for 20 armband-themed billboards throughout the city and widespread radio and television interviews with pro-levy students. Finally, the ad men asked the students in attendance to ensure that all of the city's students wore the armbands from April 16 through the May 6 levy vote.[234]

The YS&T-backed ad campaign would be just the beginning. Cossler planned for students to distribute pro-levy literature throughout the city with the aid of student service

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[233] Ann Przelomski, "Rival Parties Join Giant Levy Campaign – City Uniting Behind Schools," *Youngstown Vindicator*, April 13, 1969.
[234] Ann Przelomski, "Rival Parties Join Giant Levy Campaign – City Uniting Behind Schools," *Youngstown Vindicator*, April 13, 1969.

organizations and for employed students to wear their armbands at work.[235] The Youngstown PTA planned to distribute bumper stickers and literature. The NAACP had begun planning a giant door-to-door and telephone campaign in support of the levy even before the school board decided on a date for the seventh vote. The organization met with Zinser to go over their plan, which included gathering “mostly housewives, assisted by high school seniors and juniors” for the phone bank and other 150 volunteers “to conduct a door-to-door canvass on behalf of the levy and plead for citizen support.”[236] A ministerial group planned studies of local referenda in other cities to look for lessons that could be applied to Youngstown’s campaign.[237] With Harshman already the coordinator of the armband campaign, the PTA’s Benjamin Donahue was named chairman, and Chamber of Commerce’s George Fried was named treasurer.[238] A church coalition planed – as Revered Richard Braun put it – “to get off its knees and start knocking on doors.”[239] Clarence Barnes of the Urban League instructed critics to put aside issues of racial discrimination in the city’s school and fight for the levy, saying that black leaders “recognize that we must fight one battle at a time and the present one is to pass the levy.”[240]

The overarching goal of the armband campaign became creating the image that the levy had vast popular support. With the support of Zinser, Harshman, and other levy leaders, the PTA and the NAACP also planned “a giant sign-up campaign,” where volunteers from the two organizations would “canvass every home asking for signers, whose names will be printed in advertisements backing the levy.” PTA mothers also manned distribution centers every day from

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[235] Ann Przelomski, “Rival Parties Join Giant Levy Campaign – City Uniting Behind Schools,” *Youngstown Vindicator*, April 13, 1969.
[236] “NAACP Plans Campaign for Next School Levy,” Youngstown *Vindicator*, January 24, 1969; “NAACP To Push School Levy,” Buckeye Review, January 31, 1969.
[237] Ann Przelomski, “Rival Parties Join Giant Levy Campaign – City Uniting Behind Schools,” *Youngstown Vindicator*, April 13, 1969.
[238] Ann Przelomski, “Rival Parties Join Giant Levy Campaign – City Uniting Behind Schools,” *Youngstown Vindicator*, April 13, 1969.
[239] Ann Przelomski, “Levy Canvass Opens Friday,” *Youngstown Vindicator*, April 17, 1969.
[240] Ann Przelomski, “Levy Canvass Opens Friday,” *Youngstown Vindicator*, April 17, 1969.

April 18 through the levy vote so that interested residents could pick up armbands, literature, and other materials at their leisure.[241] Local Democratic Party leaders passed out circulars endorsing the levy, and Republican 3rd Ward Councilman Emanuel Catsoules pledged similar action from his party, saying, "This matter is beyond politics. It is a matter of life and death."[242]

The pro-levy campaign's biggest asset remained the city's students. Student coordinators dubbed the 16th a "RED LETTER DAY" to kick-off the campaign, and the *Vindicator* noted sunnily that "if Youngstown is painted RED in the next few weeks, everyone will know it's to represent courage of convictions about the needs of the school and a bright hope for passage of the levy."[243] The day before the "red letter day" saw a flurry of activity. The "grass roots committee" briefed reporters in a morning press conference at the board of education building.[244] Schools throughout the city dismissed students a half-hour early so teachers and school staff could attend a pro-levy rally headed by Harshman and Zinser. At the rally, the two school leaders asked for teachers' enthusiastic support, and a YEA representative asked school employees to allow their names to be published on pro-levy petitions. The YS&T ad specialists also shared their campaign slogan – "27,000 Youngstown students ask you to keep our schools open. Please Join the Arm Band" – which they planned to plaster on newspaper, radio, and television ads, as well as on signs in buses, taxis, trucks, and store windows, all in addition to strategically placed billboards, whose numbers had been upped to 42 from 20.[245]

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[241] Ann Przelomski, "Rival Parties Join Giant Levy Campaign – City Uniting Behind Schools," *Youngstown Vindicator*, April 13, 1969.
[242] Ann Przelomski, "Rival Parties Join Giant Levy Campaign – City Uniting Behind Schools," *Youngstown Vindicator*, April 13, 1969.
[243] Ann Przelomski, "Rival Parties Join Giant Levy Campaign – City Uniting Behind Schools," *Youngstown Vindicator*, April 13, 1969.
[244] "Educators Meet Today to Aid Levy," *Youngstown Vindicator*, April 15, 1969.
[245] "Educators Meet Today to Aid Levy," *Youngstown Vindicator*, April 15, 1969; "School Board Members Talk at Rally – Asks Teachers Back Levy," April 16, 1969; Ann Przelomski, "Levy Canvass Opens Friday," *Youngstown Vindicator*, April 17, 1969.

Levy campaign leaders also took pains to answer critics' complaints this time around. The same day as school employees' rally, the PTA president held a meeting at a local restaurant to inform business, labor, civic, and political leaders, as well as 100 interested citizens, about the door-to-door signature campaign and plans to distribute literature and stickers in conjunction with the NAACP. Harshman and Ray Horn, the coordinator of the signature drive, encouraged the canvassers to answer citizens' questions or complaints about the levy and to take the names and addresses of concerned citizens whose queries they could not answer so that the board could contact them later. "We're trying most to reach the 10 to 15 percent who didn't vote on previous tries," Horn told the crowd.[246] The PTA planned to distribute a "fact sheet detailing Youngstown's school tax rate compared with surrounding communities and other big Ohio cities…and an explanation of how the householders can figure rapidly just how much the 12 mills will raise his taxes," which was just over $55 per year on an $11,000 house according to the sheet.[247]

The armband campaign quickly became ubiquitous throughout the city. Eye-catching YS&T-designed ads ran in the *Vindicator* almost every day in the weeks leading up to the levy and also appeared with regularity in the *Buckeye Review* and other smaller publications. The ads implored "27,000 YOUNGSTOWN STUDENTS ASK YOU TO KEEK OUR SCHOOLS OPEN…PLEASE." Below that message, the ad read "*Join the Arm Band* VOTE FOR THE SCHOOL LEVY MAY 6th." An image of an interracial group of boys and girls smiling and talking filled bottom of the ad.[248] Another version instructed Youngstowners to "FOLLOW THE *ARM BAND TO THE POLLS ON MAY 6th…VOTE FOR THE SCHOOL LEVY." The text explained, "Your 'Yes' vote keeps our schools open/gives our young people a chance/maintains

[246] "Educators Meet Today to Aid Levy," *Youngstown Vindicator*, April 15, 1969.
[247] Ann Przelomski, "Levy Canvass Opens Friday," *Youngstown Vindicator*, April 17, 1969.
[248] "27,000 Students Ask you to Keep Our Schools Open…Please," Youngstown *Vindicator*, April 22, 1969.

your property values/insures continued business development (this means jobs) and provides your family with a secure future here," before concluded with the question "Wouldn't your parents have done as much for you?" and the same image of smiling interracial students.[249] The Armband Committee took out yet another ad featuring the signatures of hundreds of the city's teachers stating, "FROM THESE YOUNGSTOWN TEACHERS TO ALL THE YOUNGSTOWN VOTERS. WE DO OUR THING. WE TEACH. DO YOUR THING. JOIN THE ARM BAND. VOTE FOR THE SCHOOL LEVY MAY 6th."[250]

The "arm band" campaign seemed to bring with it a degree of positivity and enthusiasm that surpassed previous campaigns and overshadowed the harsh words for the city in the news coverage that accompanied the closing. The *Vindicator* reported that "help is coming from all corners of the city, from people at the grass roots and of different political persuasions as they set aside their difference and concentrate on keeping the doors open for the city's 27,00 public school children."[251] Unlike sunny predictions of unity in the past, this time it seemed close to the truth. With this campaign, it seemed, no segment of Youngstown's population wanted receive blame if the levy failed again. Superintendent Zinser met personally with the executive committees of the county Democrats and Republicans to secure their unqualified endorsements.[252] The issue was especially sensitive for Republicans, who Mayor Flask had chastised for only allegedly only tepidly supporting previous levy campaigns. In response, Republican county chairman Elton W. Luckhart gave the levy his party's formal endorsement at a city council meeting. Luckhart told the council, "A city can withstand many trials and many shortcomings, but it cannot stand without education for all its children…[and] cannot stand for

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249 "Follow the Arm Band to the Polls May 6th," *Youngstown Vindicator*, April 28, 1969.
250 "Do Your Thing," Youngstown *Vindicator*, May 2, 1969
251 Ann Przelomski, "Rival Parties Join Giant Levy Campaign – City Uniting Behind Schools," *Youngstown Vindicator*, April 13, 1969.
252 "Zinser Talks to Democrat, GOP Panels," *Youngstown Vindicator*, April 17, 1969.

the defeat of another levy…. Passage of the levy at this time is more important than the nomination and election of any candidate." Luckhart pledged to take out an advertisement in the Vindicator expressing his party's support of the levy and noted that Nancy Cossler, one of the two high school girls behind the "Arm Band" campaign, was his niece.[253] With both parties committed to unity on the levy, Luckhart and the Democratic county chairman made a joint appearance endorsing the levy for news reporters and television cameras. They posed with an interracial group of students holding "Join the Arm Band Vote for the School Levy May 6" signs.[254]

In the most significant shift for the seventh levy campaign, the Greater Youngstown Area AFL-CIO announced at an April 21st meeting that instead of holding locals to neutrality, it was now giving each a "a free hand" to endorse and campaign for the levy. According to one account, some locals had forced the executive board's hand by endorsing the levy despite the neutrality stance. Faced with the prospect it would be blamed again if the levy lost, the board decided to change its position. "Labor is bigger than the school board," one district AFL-CIO representative explained. "Even after a slap in the face from the board, we are willing to let the locals decide for themselves." Even an AFT leader now argued that, in spite of "lost battles" with the board, "the future of education…comes before the principles of a minority organization."[255] For his part, AFL-CIO president Al Shipka reiterated his support of neutrality, but agreed to let the locals "act as you want."[256]

Freeing locals to endorse the levy marked a second phase in labor's attempt to remove the cloud of doubt and blame that had hung over Youngstown's unions since the levy failures

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[253] "Luckhart Places GOP Solidly Behind Levy," *Youngstown Vindicator*, April 24, 1969.
[254] "Boost School Levy," Youngstown *Vindicator*, April 22, 1969; "Luckhart Places GOP Solidly Behind Levy," *Youngstown Vindicator*, April 24, 1969.
[255] "AFL-CIO Frees Locals to Back School Levy," *Youngstown Vindicator*, April 22, 1969.
[256] "AFL-CIO Frees Locals to Back School Levy," *Youngstown Vindicator*, April 22, 1969.

began. Defending labor's past neutrality, Shipka explained that the city's board of education had long been "dominated by the Chamber of Commerce and Mahoning Valley Industrial Institute, a group of manufacturers." The board let the chamber distribute pro-business teaching materials and allowed for "no recognition in the curriculum of labor's role in society." The recent election of three more labor-friendly board members represented progress for unions. But business still held the balance on the seven-member board. Shikpa and other labor leaders saw the YEA-YFT skirmish as the latest in a long-line of battles between city government, business, and the unions where organized labor ended up getting the short end of the stick.[257]

Despite lingering conflict between the school board and Youngstown's unions, locals quickly came out in favor of the levy. The 1,200-member Northeastern Ohio Public Employees District Council No. 18 argued that the necessity of the levy "for the moment exceeds any temporary labor differences."[258] The largest United Steelworkers local in Mahoning County came out in favor of the levy, at least partly because of labor's shifting relationship with the board of education. "Labor endorsed and helped elected two outstanding members of the Youngstown Board of Education and therefore has an obligation to support them when they appeal for desperately needed money to operate our school system," USW Local 1418 president Jack Kaminksy said, noting that he went out of his way to speak in favor of the levy in his neighborhood and on the job at YS&T's Campbell Works.[259] Calling education "the best guarantee we have for the future of our children, of ourselves, and the city of Youngstown, the Fraternal Order of Police endorsed the levy, as it had in the past, since the FOP had no formal

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[257] Alvin Rosensweet, "Crisis in Youngstown – Vote Against the School Levy," *Pittsburgh Post-Gazette*, November 19, 1968.
[258] "Public Unions Work for School Levy," *Yougstown Vindicator*, April 24, 1969.
[259] "Union Leader Backs Schools," *Youngstown Vindicator*, April 26, 1969.

affiliation with the AFL-CIO.[260] The Plumbers and Steamfitters Local 87 and its auxiliary endorsed the levy, too.[261]

Some unions went even further, creating their won advertisements and publicity for the levy. The Teamsters Local 377 endorsed the levy, because, as the union's secretary-treasurer put it, "kids [must] be able to compete for jobs when they become men and women." Somewhat puzzlingly, the Teamsters' pro-levy ad featured a drawing of a waving, smiling police officer standing behind smiling children.[262] Operating Engineers Local 66 endorsed the levy and took out a personal ad in support.[263] George Phillips, president of a 300-person public employees local that endorsed the levy, even posed for a photo opportunity at Roosevelt School, attaching armbands to the custodians in the boiler room – an image which the *Vindicator* fittingly captioned "Putting the Heat On."[264] The president of the Builders Association of Mahoning County and the chairman of the local AFL-CIO Building Trades Council created a photo opportunity in the support of the levy, too. Standing in front of a cement mixer with a "Join the Arm Band" banner, they presented a $10,000 check to help finance the pro-levy campaign to the PTA president. Not missing yet another opportunity for a pun, the *Vindicator* reported that the mixer "was a 'concrete' expression of the support of the construction industry for the 12-mill school operating levy." The union's donation "would fill the concrete mixer with 10,000 $1 bills." Keeping with the theme, the construction group also promised to send out pro-levy mailings to 10,000 Youngstowners.[265]

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260 "Police Tie City's Future to Levy's OK," *Youngstown Vindicator*, April 29, 1969.
261 "Plumbers Union, Auxiliary Join in Backing Levy," *Youngstown Vindicator*, May 4, 1969.
262 "Teamsters Add Their Support to Levy," *Youngstown Vindicator*, April 28, 1969; "Join Us," *Youngstown Vindicator*, May 2, 1969.
263 "Operating Engineers Favor Levy," *Youngstown Vindicator*, May 2, 1969; "Be Proud of Youngstown and Your Children's Future," Youngstown *Vindicator*, May 4, 1969.
264 "Public Unions Work for School Levy," *Youngstown Vindicator*, April 24, 1969.
265 "Money Mix for School Levy," *Youngstown Vindicator*, April 20, 1969.

Not all unions jumped at the chance to support the levy. But even these reluctant unions failed to dampen the campaign's sprits. Often, when a local voted to stay neutral, its leader would endorse the levy personally. Irwin L. Ferencak, of Steelworkers Local 1331, reported that his local had voted to remain neutral, but he told the *Vindicator* that personally endorsed the levy. "Today we are in a position where we have no choice," he explained. "It's close the schools or pass the 12 mills."[266] James "Zip" Sutherland, President of Laborers International Union Local 125 – and one of the city's only African American labor leaders – endorsed the levy, too. He called the levy "Youngstown's greatest need today," noting that he had personally supported every school levy. "In today's world, [students] need a lot more opportunities [than in the past] even though the cost is greater."[267] Steelworkers Local 7300 also officially stayed neutral, but its president endorsed the levy, too.[268]

Religious leaders from around the city also touted the "Arm Band" campaign. The Youngstown Area Council of Churches dedicated the first two pages of the April 25th issue of its newsletter, *Good News*, to reasons why the levy should be passed. Editor Reverend Norman Parr explained that "Protestants, Catholics, Eastern Orthodox, and Jewish representatives got together…to shed some light on a great deal of information."[269] The American-Hungarian Federation of Churches and Societies endorsed the levy.[270] Reverend Homer J.R. Elford warned, "A city which does not make adequate provision for the education of its children and youth of the community will, before long, be a dead city,"[271] The Board of Rabbis of Greater Youngstown also threw its support behind the levy calling "quality education…the safeguard of America's

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[266] "Union Chief Says Levy Must Pass," *Youngstown Vindicator*, April 30, 1969.
[267] "Laborer's Chief Calls Levy 'Greatest Need," *Youngstown Vindicator*, May 1, 1970.
[268] Clarence T. Sheehan, "Curl Says Voters Must Pass Levy," *Youngstown Vindicator*, May 5, 1969
[269] "Area Church Council Ask Levy Support," *Youngstown Vindicator*, April 26, 1969.
[270] "Support School Levy," Youngstown *Vindicator*, May 2, 1969.
[271] "Says City Will Die Without Good Schools," *Youngstown Vindicator*, May 5, 1969.

freedom and tranquility" and necessary "to keep pace with the needs of business and industry [and] to prepare our children adequately for acceptance into colleges and universities."[272] The rabbis were joined by the local B'nai B'rith and National Council of Jewish women chapters.[273] Not missing the chance for another targeted ad, the Arm Band Committee ran a full-page ad with the names of dozens of local religious leaders. It asked, "YOUNGSTOWN'S CLERGY HAVE JOING THE *Arm Band, HAVE YOU? JOIN ON MAY 6th BY VOTING 'YES' FOR THE SCHOOL LEVY."[274]

Local businesses and professional organizations also enthusiastically joined the "Arm Band" campaign. Nearly every store and restaurant in the city placed "Join the Arm Band" placards in their windows. Many retailers, companies, and business associations put pro-levy messages in their own advertisements. Sav-Mor placed the message "Youngstown Schools Need Your Support…Deserve Your Support, Join the Arm Band, Vote for the School Levy May 6" in their ads advertising discount concrete mix and men's dungarees.[275] The West Side Merchants and Civic Association took out an ad asking Youngstowners to "Vote Yes For Schools…For a Progressive Youngstown…For the School Levy."[276] A local Volkswagen even dealer bought his own "Join the Arm Band" ad.[277] Endorsements rolled in from Mahoning County Bar Association, Mahoning County Medical Society, Mahoning County Society of Professional Engineers, Corydon Palmer Dental Society, Mahoning Valley Podiatry Society, the local chapter

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[272] "Six Rabbis Back City School Levy," *Youngstown Vindicator*, May 4, 1969
[273] "Six Rabbis Back City School Levy," Youngstown *Vindicator*, May 4, 1969
[274] "Youngstown's Clergy Have Joined the Arm Band," *Youngstown Vindicator*, May 4, 1969.
[275] "Sav-Mor," Youngstown *Vindicator*, April 24, 1969.
[276] "West Side Merchants and Civic Associations," *Youngstown Vindicator*, April 29, 1969.
[277] "John Scotford Volkswagen," *Youngstown Vindicator*, May 5, 1969.

of the Ohio Osteopathic Association, Youngstown Club of Negro Business and Professional Women, and the Downtown Board of Trade, among other business groups.[278]

Business groups took divergent routes to persuade voters to approve the levy. Youngstown Sheet & Tube took a positive approach. "The very survival of basic industry here begins on making Youngstown a desirable area which attracts new families and commercial enterprise," YS&T president Robert E. Williams said. "A faltering school system makes it difficult…to keep property values up, as well as maintain a capable labor force."[279] The Arm Band Committee also took out a full page ad emblazoned with YS&T's iconic logo and the text "THE YOUNGSTOWN SHEET AND TUBE COMPANY supports the School Levy because the future of our city…our employees and our industry depends on it. *Join the Arm Band, keep Youngstown's schools open."[280] In contrast to the positive, altruistic themes of the "Arm Band" campaign, many business groups appealed to Youngstown homeowners' self-interest. Once again, the Youngstown Area Board of Realtors pitched the levy as a necessary investment to protect property values – a matter in which the realtors clearly had a professional stake. This campaign, the realtors mounted their own door-to-door campaign. They YABR printed up 50,000 flyers, which were brought to distribution centers at dozens of schools throughout the city where realtors and volunteers picked up stacks to take door-to-door. The blunt leaflets read: "IF YOU HAD TO SELL YOUR HOUSE TOMORROW? DON'T PAINT IT. DON'T FIX IT UP. DON'T CUT THE GRASS. IT WON'T BE WORTH ANTHING WITHOUT SCHOOLS. VOTE FOR THE SCHOOL LEVY."[281]

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[278] "More Groups Cite School Levy's Need," *Youngstown Vindicator*, May 2, 1969; "Six Rabbis Back City School Levy," *Youngstown Vindicator*, May 4, 1969
[279] "S&T Backs 12-Mill Measure," *Youngstown Vindicator*, April 30, 1969.
[280] "Youngstown Sheet and Tube Company Supports the School Levy," *Youngstown Vindicator*, May 4, 1969.
[281] "Realtors Plan Door-to-Door Levy Drive," *Youngstown Vindicator*, April 29, 1969.

The YABR also publicized its own study, which purported to show that another levy failure would decimate home values in Youngstown. In a "random survey of 402 sales their real estate offices," two of the board's past presidents found "that 80 percent of buyers of residential real estate are interested in homes for children and rearing a family." Their report asked: "What would happen to the market if 80 percent of the buyers were eliminated because of lack of schools?" The study claimed that home values in Youngstown were down 20 percent compared to surrounding suburbs because of the failure of the six previous levies. "Neither of us has children in local schools, yet we pay city taxes because we believe in Youngstown [and] we support the school levy and urge the passage to protect our investment in property," the two realtors said their statement. The levy – like buying insurance and keeping up repairs on one's home – "costs money, yet we do it for selfish reasons and for pride in ownership." Taxes, the two argued, provide services that ensure "the stability of the area and solidifies our property value." The levy came down to "a safeguard to our investment…. None of us can afford to give away value in our property…. The way to stop this future loss is to buy our insurance now in the form of approving the school levy."[282] Current YABR president, William C. D'Amica put it even more starkly, "If the school levy fails…the present homeowner will face a serious decrease in the value of his home if, in fact, the property can be sold at all."[283] In a separate statement, the president of the Downtown Board of Trade framed the same problem from a business viewpoint. Levy failures, he argued, "have created an alarming trend of outward movement from the city…weaken[ing] the city's tax base and threaten[ing] to increase the ultimate tax burden for those remaining."[284] Youngstowners, it seemed, could not avoid paying more, one way or

[282] Ann Przelomski, "Realtors Support School Levy – Cite Benefits to Homeowner," *Youngstown Vindicator*, April 26, 1969.
[283] "Realtors Plan Door-to-Door Levy Drive," *Youngstown Vindicator*, April 29, 1969.
[284] "More Groups Cite School Levy's Need," *Youngstown Vindicator*, May 2, 1969.

another. Either they paid more in taxes by approving the levy, or the lost money in the form of declining home values and increased assessments.

If the pocketbook fears were not enough, some levy proponents tied its passage to public safety. Ohio Attorney General Paul W. Brown linked faulty education to unrest on campuses and the "drug problem." Introduced by former mayor and levy committee chairman Charles Henderson, Brown – a Clevelander who had previously practiced law in Youngstown – told a crowd of more than 500 that he had resigned from the Ohio Supreme Court to accept Republican Governor Jim Rhodes's offer to become the state attorney general because he was disturbed by the unrest of 1960s and the issues facing the country, including high taxes. But in spite of his concern with rising taxes and government spending, he urged Youngstowners to support the city's schools. "We can afford it, and we have to do it," he said. "Hard core unemployment and rising crime…are more ominous than dangers from abroad," Brown noted ominously. "We won't have a future if we can't educate our children."[285] Echoing Brown's claims, the local chapter of the Ohio Association of Social Workers endorsed the levy, because "many of the social problems of family and individuals are related to the lack of a sound educational background."[286] Despite its commitment to positivity, the "Arm Band" committee itself indulged in doom-and-gloom appeals to voters, too, when it reprinted an with a photo of an impoverished white family in a dimly lit room that blamed "the roots of poverty" on "cheap education."[287]

With lingering concerns about insufficient black support for the levy, the *Buckeye Review* enthusiastically pushed the levy in the final month before the election. The official "Arm Band"

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[285] Clingan Jackson, "Paul Brown Urges Help For Schools," *Youngstown Vindicator*, April 20, 1969.
[286] "Six Rabbis Back City School Levy," *Youngstown Vindicator*, May 4, 1969
[287] "The Trouble with a Cheap Education," *Youngstown Vindicator*, May 5, 1969.

committee ran its standard full-page ad in the *Buckeye Review*.[288] But the most eye-catching pro-levy ads in the *Review* came from the "The Committee Concerned for Children," whose secretary was Dr. B.B. Burrowes, a Jamaica-born, Howard University-educated physician, who also happened to edit the *Review*.[289] Like the "Arm Band" committee's ads, the CCFC's ads featured interracial group of students around a long table. The text read "VOTE VOTE, PLEA OF THE CHILDREN, PLEASE DON'T STOP THE PROGRAM OF OUR COMMUNITY, VOTE FOR The School Levy, VOTE VOTE VOTE VOTE."[290] Another version concluded "Don't Let Our Children or Our Schools Deteriorate, Cast Your Ballot in Favor of the School Levy."[291] Yet a third version featured a black music teacher directing a neatly dressed girls-and-boys choir and the same message as the others.[292] If the CCFC and "Arm Band" committee's ads were not enough, the Review also funded its own "Arm Band" ads, as well as smaller ads that asked, "If the schools have to close who loses, the Board of Education or the school children? Vote for the school levy."[293]

While the *Review* worked on shoring up black support for the levy, white community leaders made extra efforts to reach out to the working-class white ethnics' many blamed for the levy defeats. Levy supporters focused specifically on the largely foreign-board white seventh ward, which Zinser had repeatedly singled-out for criticism. Harshman and Zinser recruited several prominent ward residents – including the city council president, a judge, the county auditor, and a court clerk – to appear at a pro-levy rally at a school in the district and asked a

[288] "Join the Arm Band," *Buckeye Review*, April 25, 1969; "*Join the Arm Band," *Buckeye Review*, April 25, 1969; "Join the Arm Band," *Buckeye Review*, May 2, 1969; "*Join the Arm Band," *Buckeye Review*, May 2, 1969
[289] "Dr. Burrowes Dies; Leader," *Youngstown Vindicator*, January 13, 1981.
[290] "Vote Vote," *Buckeye Review*, April 4, 1969.
[291] "Vote Yes Vote Yes," *Buckeye Review*, April 11, 1969.
[292] "Vote Yes Vote Yes," *Buckeye Review*, April 25, 1969; "Vote Yes Vote Yes," *Buckeye Review*, May 2, 1969.
[293] "Join the Arm Band," *Buckeye Review*, April 25, 1969; "*Join the Arm Band," *Buckeye Review*, April 25, 1969; "Join the Arm Band," *Buckeye Review*, May 2, 1969; "*Join the Arm Band," *Buckeye Review*, May 2, 1969; "If the Schools Have to Close," *Buckeye Review*, February 21, 1969; "If the Schools Have to Close," *Buckeye Review*, February 28, 1969.

local eight grader to serve as "master of ceremonies." Echoing the realtors' arguments, speakers advised the seventh ward's oppositional residents that property values would plummet and taxes would actually go up if the levy lost, since business and industry would leave the city.[294] Despite these appeals, outside events seemed to conspire against the levy if the main opposition was, in fact, coming from a white backlash.

Only a few weeks before the seventh levy vote, the Youngstown Welfare Rights Organization revived its protests. Unlike the October 1968 sit-in, which received only brief coverage from the *Vindicator*, the April 1969 protests received extensive coverage in local media. In many cases, reporters described the protests and protestors using unmistakably racial terms. The *Vindicator* played up the drama in "sometimes stormy" meeting between the WRO and the county commissioners. Welfare activists asked the commissioners to increase the county's payments, which sat at only 80 percent of the 1959 standard.[295] With commissioners divided on the issue of even exploring use the use county "permissive" taxes to finance increased welfare payments, the meeting descended into a "storm of words and gestures of disgust" that resulted in "WRO people stalk[ing] out" and "the commissioners walk[ing] out."[296] Less than two weeks later, WRO protestors staged a sit-in at the Mahoning county jail and office building. The peaceful overnight sit-in eventually resulted in 23 arrests. It made the *Vindicator*'s front page, accompanied by several images depicting frazzled county administrators, a protester with a young child asleep on her lap, and a browline glasses-wearing Reverend Douglas Shamburger jutting his index finger forward to emphasize a point to the crowd. For a day at least, the importance of the levy fell, as the *Vindicator* devoted several articles and spread dozens photos

[294] "Community Leaders Support School Levy," *Youngstown Vindicator*, April 30, 1969; "Cite Benefits of Education," *Youngstown Vindicator*, May 2, 1969.
[295] "Group Meets County Commissioners – Asks New Taxes for Welfare," *Youngstown Vindicator*, April 11, 1969.
[296] "Group Meets County Commissioners – Asks New Taxes for Welfare," *Youngstown Vindicator*, April 11, 1969.

over multiple pages to document the peaceful, if contentious, sit-in. The paper's coverage vacillated between portraying the protestors as disrespectful, cigarette-smoking rabble-rousers and harmless annoyances that did not need to be taken seriously. One article explained how "shouted, clapped hands, argued and threatened public officials" during commissioners' Monday-afternoon meeting.[297] But another made light of the events, focusing more on what the protestors ate during their overnight stay than what they asked of the commissioners. [298]

Reiterating demands from the October protest, WRO activists asked the commissioners to increase benefits. The protestors circulated a "position paper" questioning the use of two million dollars of welfare funds over three years, which they claimed the commissioners could not account for and indicated that they would lessen their benefit demands to 91 percent of the 1966 welfare standard, which would mean an additional $40 per month for most recipients.[299] Insisting that they could not promise any increase in welfare payments, the commissioners left the room, but not before passing resolutions putting Mahoning County Sheriff Ray T. Davis in charge and asking him to clear the room and the arrest protestors. But rather than remove the protestors immediately, Davis allowed them to continue their sit-in and negotiations with the commissioners by personally relaying messaged between the protestors and the commissions, who were now safely ensconced in their offices. The sheriff also stationed guards around the building, informing the protestors of their presence and explaining that noting that the guard's records of the protest would ensure that "no one can accuse you or taking anything or damaging anything." Davis told the protestors that they could stay overnight, but that some of those who

[297] "23 Face Court After All-Night Welfare Sit-In," *Youngstown Vindicator*, April 22, 1969.
[298] "10 Children Join All-Night Vigil – Chicken Is 'Sit-In' Menu," *Youngstown Vindicator*, April 22, 1969.
[299] "10 Children Join All-Night Vigil – Chicken Is 'Sit-In' Menu," *Youngstown Vindicator*, April 22, 1969.

chose to stay would need to be arrested in the morning for trespassing. Some protestors chose to leave, but many stayed throughout the night.[300]

The spectacle of this almost wholly African American crowd staying after hours in the county building seemed to fascinate *Vindicator* reporters. The paper noted how protestors sang "We Shall Overcome" and spirituals with altered lyrics to reflect their cause. At night, Davis allowed protest leaders to leave the building to gather blankets and food for the rest of the protestors. Noting in a headline that "chicken is 'sit-in' menu," the paper told readers in the first paragraph that "the county commissioners' conference rooms deteriorated into a confusion of orange peels, chicken bones, wax paper, and sleepy children late Monday night." Young children "lay on the floor, intent on crayons and coloring books…. [while] some of the older children frugged to lively radio music [and] adults sat playing cards."[301] Throughout the evening "the soft drink machine in the hall got considerable workout from the children."[302] The *Vindicator* also reported with interest on the "lone white mother" among the protestors. A fiery character, she loudly told some of the men in the group to "get off your fat [expletive] and bring these children some blankets." When asked by the *Vindicato*r how she felt being the only white mother there, she told the reporter that she "was not embarrassed because she considered this matter economic, not racial [and that] there are many other white women in a similar plight."[303]

The chairman of the Youngstown Urban League, Clarence Barnes, chided reporters for their focus on trivial issues related to the protest. "You shouldn't be talking to us," he said. "You should be talking to the commissioners. Tell the public how they're misusing public welfare

[300] "10 Children Join All-Night Vigil – Chicken Is 'Sit-In' Menu," *Youngstown Vindicator*, April 22, 1969.
[301] "10 Children Join All-Night Vigil – Chicken Is 'Sit-In' Menu," *Youngstown Vindicator*, April 22, 1969.
[302] "23 Face Court After All-Night Welfare Sit-In," *Youngstown Vindicator*, April 22, 1969.
[303] "10 Children Join All-Night Vigil – Chicken Is 'Sit-In' Menu," *Youngstown Vindicator*, April 22, 1969.

funds."[304] The WRO protestors understood the risks of such bold protest measures. "Such actions as these may be regrettable but they are necessary to dramatize the plight of these people for the public," Reverend Reginald Dockens explained to the *Vindicator*. One mother told the paper, "If they take me to jail, they [are] going to have to take my kids, too." She simply could not support her children on $110 a month. "By the time I pay rent and my utilities, there's just no money left for groceries."[305] The protestors greeted workers arriving early Monday morning with "singing and clapping." By 9:00 a.m., the commissioners began discussing legal action to force the sheriff to begin making arrests. In response, Davis, his deputies, and several city police officers peacefully arrested 23 protestors, including several local pastors and reverends. Davis walked the arrested protestors a few blocks to the courthouse, where they pleaded innocent to charges of trespassing and were released on their own recognizance before noon.[306]

The welfare protests undoubtedly captured the Youngstown public's attention. The *Buckeye Review* reported that "much of the white community appeared to be shocked over the welfare protests" and described how "persons who telephoned the various 'talk' radio programs [to discuss the protests] expressed everything from concern to outfight racial bigotry."[307] While some whites undoubtedly supported the protest – as the efforts of Al Shipka and some white community and religious leaders showed – the tone of media coverage of the events seemed unlikely to garner support among those not already inclined to look favorably on welfare recipients. Simply put, if working- and middle-class whites' voted against taxes because of rising race-based anti-welfare sentiment, as many pundits suggested, then the WRO protests were serious setbacks for pro-levy efforts.

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[304] "10 Children Join All-Night Vigil – Chicken Is 'Sit-In' Menu," *Youngstown Vindicator*, April 22, 1969.
[305] "10 Children Join All-Night Vigil – Chicken Is 'Sit-In' Menu," *Youngstown Vindicator*, April 22, 1969.
[306] "23 Face Court After All-Night Welfare Sit-In," *Youngstown Vindicator*, April 22, 1969.
[307] "The Welfare Protest," *Buckeye Review*, May 2, 1969

Levy supporters could only hope that the "Arm Band" blitz of the final weeks would overwhelm controversies like the welfare protest. The *Vindicator* dubbed Tuesday May 6th the schools' "D-Day" for a fourth-month closing, and in the weeks leading up to that "D-Day" levy's supporters – and the *Vindicator* itself – seemed determined to pass the levy by sheer force of action.[308] Schools across the city planned "Join the Arm Band" events. Thorn Hill school made the week leading up to the election "Pass the Levy Week," complete with daily levy-related activities. Principal George Kesner and Thorn Hill also used their afterschool hours to go door-to-door in support of the levy.[309] Three hundred Youngstown State University students spent the Saturday before the election going canvassing all seven of the city's wards as their contribution to the pro-levy "Arm Band" campaign.[310] Boosters opened a booth in Youngstown's Central Square to distribute information about the school levy to passersby.[311] On the Saturday before the election, students gathered outside the "Arm Band" information distribution center in Youngstown's public square. Below a giant "Join the Arm Band, Vote for the School Levy May 6" banner, the students held hand-made signs with messages like "Please Help," "Vote Yes," and "We Need Books." Karate students even broke blocks with their hands in front of the demonstration to help draw the attention of passersby.[312] The Youngstown Education Association turned its 14th annual dinner into a pro-levy extravaganza, adorning the meeting's venue, the Ohio Hotel, with a huge "Keep Education Going, Vote Yes" banner.[313]

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[308] Ann Przelomski, "Tuesday Is Schools' 'D-Day'; Face Four-Month Shutdown," *Youngstown Vindicator*, May 4, 1969; Clingan Jackson, "Levy Vote Is Tossup, Final Poll Predicts," *Youngstown Vindicator*, May 4, 1969.
[309] 300 YSU Students Plan School Levy Canvass; Teachers Aid Drive," *Youngstown State University*, May 1, 1969.
[310] "300 YSU Students Plan School Levy Canvass; Teachers Aid Drive," *Youngstown State University*, May 1, 1969.
[311] "Boost School Levy," *Youngstown Vindicator*, April 22, 1969.
[312] "Bust Block For Levy," *Youngstown Vindicator*, May 4, 1969.
[313] "Ohio Education Official Says – Without Taxes, School's Out," *Youngstown Vindicator*, May 1, 1969.

Completely abandoning any veneer of objectivity, the *Vindicator* now devoted much of each issue to advocating for the levy. In a series that culminated a few days before the seventh vote, the paper profiled every one of the city's 46 schools. It even included a 47th article covering the city's bus garage and stockroom. Filled mostly with effusive praise for the schools and cataloged lists of areas of need that could be helped by additional funding, the series also featured numerous photos of smiling black and white students enjoying their schools together, which seemed designed to emphasize the benefits of the school system to both blacks and whites in the city. Even it was not labeled as such, the series served as an unmistakable plant in the pro-levy platform.[314] The *Vindicator* also announced that it would print a series of "cartoons illustrating the plight of Youngstown's public school children." Titled "Bottled Up," the stark series of cartoons aimed at the heartstrings of anti-levy voters.[315] The first full-page spread in the series asked, "What will Youngstown do with 27,000 public school children? Squeeze them? Bottle them up? Drown them?" Each question featured an accompanying cartoon. The first showed an anti-levy voter pushing a child into an inadequate school, the second depicting a sad-looking boy reading an "outdated" text book trapped inside a bottle covered in cobwebs, and the third pictured students and teachers on a rickety school-shaped boat, faring rocky seas. The tag line at the bottom read, "Vote in Favor of the Levy, For the Good of the Children…for the Good of Youngstown." The accompanying text asked, "Does a child's parent deliberately shorten his offspring's life? Or send him out in the world…badly prepared?.... Youngstown voters…will be doing just that if the do not…vote for the 12-mill school levy." Running through a laundry list of reasons proving the necessity of the levy, the ad explained, "Youngstown students already are in

[314] See, for example: Marie Aikenhead, "Madison School Staff Shows Concern for Pupils," *Youngstown Vindicator*, April 14, 1969; Marie Aikenhead, "Sheridan Has Pilot Program on Team Teaching," *Youngstown Vindicator*, April 20, 1969; Marie Aikenhead, "Tod School Has Inadequate All-Purpose Room," *Youngstown Vindicator*, April 24, 1969; Marie Aikenhead, "Williamson Is One of Most Modern Schools," *Youngstown Vindicator*, April 28, 1969;
[315] '"Youngstown Students Bottled Up," *Youngstown Vindicator*, April 25, 1969.

a partial education vacuum, bottled up with old textbooks that say 'some day man may explore the moon.'" This line – not coincidentally – was the one picked up by Rowan and Martin for their "Fickle Finger" *Laugh-In* big on Youngstown, illustrating the *Vindicator* cartoon series' outsized impact.[316] The next cartoon in the series was a full-page drawing of a huge, Huck Finn-like schoolboy carrying a stack of books in a book strap over his shoulder. The boy towered over a man in a shirt, tie, and sports jacket, carrying a newspaper advertising new spring suits. The words "27,000 NEEDY STUDENTS" hovered above the boy. Below him, a paragraph explained that "Youngstown doesn't just have a couple of thousand or several needy children…[and] their educational 'suit' was bought by the voters five years ago…the last time voters approved any money for the schools. But in 1969, that 1964 suit has become frayed, the pant legs are shorter and the sleeves are too tight." The ad's text warned, "Unless Youngstown schools can keep pace with the knowledge explosion all over the world, they will send children out into that world ill-equipped…using textbooks which say man MIGHT reach the moon someday…. Help Youngstown's children stand up as tall as those in the rest of the United States."[317]The third full-page Vindicator ad, titled "Keep Education Alive in Youngstown," featured two cartoons. The first, and most eye-catching, shoed a teacher rushing a sick student to the emergency room, only to find that the doctor is an angry voter wielding a butcher's knife. The second showed a student's giant foot, ready to step on an anti-levy voter holding a sign reading "Down with Education! Too Many Frills!"[318]

The *Vindicator* also encouraged levy supporters to go to polls in an editorial. "Few issues in recent decades in Youngstown have been so effective [as the levy] in winning approval from so many diverse groups…[including] organizations which ordinarily might not be found working

[316] "Vote in Favor of the Levy," *Youngstown Vindicator*, April 25, 1969.
[317] "27,000 Needy Children," *Youngstown Vindicator*, April 30, 1969.
[318] "Keep Education Alive in Youngstown," *Youngstown Vindicator*, May 1, 1969.

together," the editorial agued. But despite the appeals of diverse groups of community leaders, many voters stayed home or voted for other candidates without weighing in on the levy measure. Six months before Nixon's famous "Silent Majority" speech, the *Vindicator*'s editorial board appealed to these "silent vote[rs]." The 5,000 people who failed to select any option on the levy ballot in 1968 "were not absolutely opposed to the levy or they would have marked their ballots that way," the paper reasoned. But "there out to be little doubt" that "opponents of the school levy will vote," meaning it was "the responsibility of those who want to keep the schools running [to] also cast their ballots." The "greatest responsibility" of levy supporters would be "to see that the 'Yes' voters get to the polls next Tuesday," including the great mass of previously "silent" voters.[319] Another *Vindicator* editorial tugged at readers' heartstrings and funny bones by printing quotes from junior-high students about the levy, "youngsters [who] don't know much about millage…but are sure…that there's not much ahead of them if they can't go to school." One seventh-grade boy wrote, "Education is important to me because I want to be something when I grow up and not just a dropout. If the levy doesn't pass, I won't have a chance," a statement the *Vindicator* sized up as "a pretty accurate appraisal."[320] An editorial cartoon printed three days before the levy showed a variety of paunchy white men representing industry, business, construction, and property owners laughing heartily while standing over a tiny boy representing the levy, who asked, "Will I have a chance to grow, too?"[321]

The paper also published numerous pro-levy photos, usually without any accompanying story or context. One striking photo showed a student, Nancy Zimmerman, surrounded by all of the teachers, administrators, and staff at Chaney High School who had educated her for $623 dollars per year. They were "all smiles" because Zimmerman would graduate on time, unlike the

[319] "It's the Vote the Counts," *Youngstown Vindicator*, April 30, 1969.
[320] "School Children Put High Value on Good Education," *Youngstown Vindicator*, May 4, 1969
[321] "Will I Have a Chance to Grow, Too?" *Youngstown Vindicator*, May 4, 1969.

"lower classmen who may not graduate in future years if the 12-mill school operating levy fails May 6."[322] The Sunday before the election, the *Vindicator*'s tabloid-style "Rotogravure Section" featured a front-page overhead shot of hundreds of the city's students in a field with the headline "A Generation of Dropouts?" and text that argued "unless Youngstown voters approve a 12-mill levy for their public schools on May 6 they may be helping to create a generation of school dropouts in reverse," since if the levy failed and the schools did not open in the fall, 1970's seniors would not graduate in time to begin college the following fall and "some might even be drafted into the Army right out of [what would be] their fifth year of high school."[323] A vote against the levy was a vote for a child to die in combat.

In the days leading up to the election, pro-levy messages were inescapable. The combination of official "Arm Band" advertisements, pro-levy advertisements from smaller organizations, and various thinly veiled pro-levy photos and articles meant that in the days leading up to the levy, every third or fourth page of the *Vindicator* contained some kind of pro-levy message. Out in the city, billboards, rallies, and marches reminded voters to pull the lever for the levy. Finally, the bevy of door-to-door campaigns and phone banks meant that thousands and thousands of Youngstown residents received personal contact about the levy. These strands of the campaign came together in a final – and powerful – advertisement. Marking the culmination of both the NAACP/PTA joint door-to-door campaign and the "Arm Band" committee's levy push, the advertisement took up 10 pages in the Vindicator the day before the levy with the names of thousands of levy supporters in fine print. The first page read "*Join the Arm Band. WE DID! IT'S GROWIN AND GROWING… YOU CAN JOIN US ON MAY 6th

[322] "City Schools Spent $623 Per Pupil Last Year," *Youngstown Vindicator*, April 26, 1969.
[323] "A Generation of Dropouts?" *Youngstown Vindicator*, May 4, 1969.

BY VOTING "YES" FOR THE SCHOOL LEVY."[324] If this campaign failed, it was hard to see what could top it. "We've done everything humanly possible to explain and clarify the issue for the people of Youngstown. Now it's up to them," Harshman told the Vindicator.[325]

Luckily for its supporters, the levy passed. The victory understandably left many of the campaign's organizers patting themselves on the back. But the voting statistics cast some doubt on their self-congratulation. In fact, a *Vindicator* "straw poll" conducted prior to the final campaign's kick-off already showed public opinion shifting in favor of the levy.[326] It is more likely that the combination of the closing – and all the problems involved with having children out-of-school all day for weeks on end – and the shaming attention directed at the city pushed enough previous opponents of the levy to either reluctantly support it or, perhaps more often, to simply stay home. After the record 53,000 turnout of the November 1968 election, the May special election saw less than 48,000 Youngstowners cast ballots. The levy received about 1,500 more votes in May than it had in Decembers, but due to a whopping 8,500 fewer opposing votes, it passed by a substantial 57-43 percent margin.[327]

Now that the city's levy crisis was over, local officials would have clear answers for what, exactly, had caused the tax revolt – even if few paid attention to the results. After the sixth levy failure, representatives from Youngstown State University, the Board of Education, and the Chamber of Commerce all seized on the idea of a comprehensive study to assess the causes of the levy failures. With the Board of Education's blessing and $3,000 of Chamber's funding, two YSU professors – James W. Kiriazis, chairman of the Sociology Department, and Sanford N.

[324] "*Join the Arm Band," *Youngstown Vindicator*, May 5, 1969.
[325] Ann Przelomski, "Tuesday Is Schools' 'D-Day'; Face Four-Month Shutdown," *Youngstown Vindicator*, May 4, 1969; Clingan Jackson, "Levy Vote Is Tossup, Final Poll Predicts," *Youngstown Vindicator*, May 4, 1969.
[326] "Survey Reveals Trust in Zinser and Board," *Youngstown Vindicator*, April 11, 1969.
[327] Levy returns in Sylvan Cohen, "Voting Behavior in School Refereda: An Investigation of Attitutes and Other Determinants by Q Technique and Survey Research" (Ph.D. Dissertation, Kent State University, 1971), 31 fn 2.

Hotchkiss, chairman of the Psychology Department – began designing a questionnaire based on complaints voiced in call-in talk radio shows, letters to the editor, and interviews with Youngstown voters. The two professors planned a 1,000-person survey broken into two waves so that the second wave could correct for any lack of representativeness in the first random sample and ensure that the final sample contained representative samples of "public vs. parochial school parents; union vs. non-union voters; Blacks vs. Caucasians; home owners vs. renters; the childless vs. those with school-age children; and other pertinent categories." The two professors trained 80 undergraduates to conduct the survey, while the Chamber ensured the survey would receive "wide local coverage through the paper and, especially, over radio and TV" so that the public would believe "the legitimacy of purpose, the anonymity of responses, and the authenticity of the interviewers," including showing examples of the students' research identification cards.[328]

Though it purported to be purely investigative, the study's main purpose was to provide levy supporters like the Board of Education and Chamber of Commerce with better data to craft their levy appeals in the final month leading up to the seventh vote. The manual given to the YSU students conducting the interviews instructed them to respond to questions about the purpose of the interviews by saying, "We are trying to find out the opinions of Youngstown citizens about the Youngstown schools." It emphasized, "DO NOT say, 'So we can figure out what approach to use to get the levy passed in May.'" That was the true purpose, though. As Kiriazis and Hotchkiss put it, "The survey was not an academic exercise but was designed to render some assistance to the community in helping to secure passage of the School Tax

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[328] J. Kiriazis and S. Hotchkiss, "Community Attitudinal Survey of Youngstown Voters on the School Tax Levies," Youngstown State University Archives and Special Collections, LB 2823.K5

Levy."[329] Despite this intent, as well as the study's extensive funding and planning, circumstances dramatically dulled survey's impact in several ways. First, because analyzing the data involved transferring responses to punch cards, which then had to be processed at facilities provided by the Youngstown Technological Institute and the Youngstown Steel Door Company, only the results of the initial wave of interviews – which featured too-small samples of men and African Americans – could be reported before the final levy vote.[330] Second, the results of the initial survey seemed almost self-defeating in terms of affecting strategies for the levy. They predicted that the levy would narrowly pass and contained no bombshell discoveries pointing to discontent or lack of support in one particular segment of the community. Kiriazis and Hotchkiss "comment[ed] upon the survey and the preliminary results before local groups and upon the news media and local television panels."[331] But the *Vindicator* dedicated only a brief article to the study. The article emphasized that the public trusted the school board and mentioned only in passing that "there was very little difference in attitudes on most questions between white and Negro groups but there appeared to be a little more favorable support among Negro groups."[332]

Released after the levy had passed, the final report – titled simply "Community Attitudinal Survey of Youngstown Voters on the School Tax Levies" – failed to garner a mention in either not the *Vindicator* or *Buckeye Review*. But it offered the most complete and compelling account of the heart of Youngstown's problems. Nothing in the study, the authors noted, demonstrated "organized resistance against the school tax levies." Kiriazis and Hotchkiss also emphasized that the survey found "no evidence of a 'white backlash' or organized union hostility as proposed by

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[329] J. Kiriazis and S. Hotchkiss, "Community Attitudinal Survey of Youngstown Voters on the School Tax Levies," Youngstown State University Archives and Special Collections, LB 2823.K5
[330] J. Kiriazis and S. Hotchkiss, "Community Attitudinal Survey of Youngstown Voters on the School Tax Levies," Youngstown State University Archives and Special Collections, LB 2823.K5
[331] J. Kiriazis and S. Hotchkiss, "Community Attitudinal Survey of Youngstown Voters on the School Tax Levies," Youngstown State University Archives and Special Collections, LB 2823.K5
[332] "Survey Reveals Trust in Zinser and Board," *Youngstown Vindicator*, April 11, 1969.

some diagnosticians of the school levy failures." They also argued that level of black support for the levy "should place to rest any rumor that there was concerted Negro opposition to the school tax levy." The survey found only small differences in support for the levy between African Americans and whites, dealing the white backlash thesis a blow, too. Approximately 59 percent of blacks said the voted for the levy, while 53 percent of whites did.[333] Kiriazis and Hotchkiss's analysis also suggested that the majority of those who declined to tell interviewers how they were voting actually planned to vote against the levy, and approximately 10 percent more African Americans than whites declined to indicate a voting preference, suggesting that even the six percent difference in voting between blacks and whites may have been exaggerated. Moreover, on a range of specific school and community issues the study found that "the attitudes of the Caucasians and Negroes were quite similar."[334] Contrary to the conservative argument that the levy defeats portended an anti-government backlash generated by resentment of government workers, the Youngstown survey found that only 15 percent of respondents felt that either teachers or non-teaching staff like janitors made too much money. Finding no root cause of the resistance to the levies apart from taxes themselves, they predicted a rough road for future tax increases. "Resistance [to the levy] was due primarily to rejection of increased taxes," the study concluded. The "rejection of increased taxes," however, was not evenly distributed among the city's economic classes. Both the 1968 and 1969 waves of the survey found a clear income-based patter to voting. The lower one's income, the less likely he or she was to vote for the levy

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[333] This result echoed the *Vindicator*'s 400-person "straw poll" taken before the seventh vote found "no nationality, racial, or political party group voting differently on the school question than others." Granted, this mail survey was a little less-than-scientifically sound, even if it attempted to gather a representative sample of the community and correctly predicted the levy outcome. Clingan Jackson, "Poll Shows School Levy Has Trend in Its Favor," *Youngstown Vindicator*, April 13, 1969.

[334] J. Kiriazis and S. Hotchkiss, "Community Attitudinal Survey of Youngstown Voters on the School Tax Levies," Youngstown State University Archives and Special Collections, LB 2823.K5

(Figure 8).[335]

Viewed with the benefit of the survey, it seemed clear that most of the speculation as to the cause of the revolt has missed the point. Youngstown's low- and middle-income voters were caught in the middle of a pocketbook squeeze. That squeeze was generated, in part, by the state government's continued shifting of costs to localities like Youngstown. Combined with anti-levy voters' preference for types of taxation they saw as fairer than the property tax, such as the income tax, local officials' attempts to exhort these voters to pass the school levies seemed almost comically misguided.

The causes of the revolt were not to be found within the hearts and minds of individual voters. Instead, they could be found within voters' household budgets, as well as budgets of the levels of government above Youngstown. Yet, while the causes of Youngstown's levy defeat seemed clear in retrospect, more and more cities would find themselves in Youngstown's positions and would, likewise, find themselves searching for answers and ways to quell to the tax revolt.

From Local Shame to National Crisis

When Youngstown's levy finally passed, the community let out a collective sigh of relief. The *Buckeye Review* conceded that Youngstowners were "licking our political wounds" because of the "bad national publicity after the last couple defeats." But the victory meant that the city's residents could finally "lift our heads high after doing the decent thing."[336] Positive publicity mostly eluded the city, though. After years of column inches and nightly news broadcasts charting Youngstown's levy crisis, few national outlets even bothered to note the levy's passage.

[335] J. Kiriazis and S. Hotchkiss, "Community Attitudinal Survey of Youngstown Voters on the School Tax Levies," Youngstown State University Archives and Special Collections, LB 2823.K5
[336] "Lookin' 'Em Over," *Buckeye Review*, May 16, 1969.

The NBC *Evening News*' short segment credited the "Arm Band" campaign with drumming up support for the levy and concluded that the school closing let voters know that they "had to choice" but to approve the levy, even if "they weren't any happier."[337] With its levy crisis, however, Youngstown had become a national story. One national journalist wrote of "the lesson of Youngstown," though the article did not make clear what the "lesson" was. [338] Many observers remained uncertain about the cause of the revolt. The *Wall Street Journal*, for example, speculated that the revolt "undoubtedly stem[med] partly from a general voter reluctance to approve new local taxes at a time when inflation and higher federal and state taxes already are pinching family budgets." However, in the same article it reminded readers, "the reasons for the rebellion run deeper," including "white voter reactions against demonstrations by Negroes."[339] What was clear, however, was that Youngstown had become the poster child for the local tax revolt.

Commentators had no shortage of opportunities to invoke the city's name. Ironically, a day of victory in Youngstown proved to be a day of crisis in the rest of the state. The executive secretary of the Ohio Education Association dubbed May 5th "black Tuesday," because less than 50 percent of the 181 tax and bond proposals on ballots around the state were approved, a record low in the state's history. In Parma, Ohio, a Cleveland suburb, voters rejected a levy for the third time in six months, despite threats that the schools would close.[340] In Ohio alone, Youngstown was only one of three districts that had to close in the fall of 1968 for lack of funds.[341] In Columbus the following year voters defeated a school bond issue for the first time 30 years and

[337] "Ohio School Funds/Tax Vote," *NBC Evening News*, May 7, 1969
[338] Ralph E. Winter, "School's Out," *Wall Street Journal*, December 19, 1969.
[339] Ralph E. Winter, "Strangled Schools," *Wall Street Journal,* December 18, 1968.
[339] Ralph E. Winter, "Strangled Schools," *Wall Street Journal*, December 18, 1968.
[340] "Taxpayer Revolt Keeps on Rolling," *U.S. News & World Report*, May 19, 1969, 81.
[341] "Ohio Schools in Tax Bind, Due to Close," *Milwaukee Journal*, November 29, 1968.

did so by a three-to-one margin. United Press International covered a "taxpayers' revolt" in Freemont, Ohio, where levy defeats forced a seven-week "recess."[342] By November 1970, the "black Tuesday" of the previous year was forgotten, as the Ohio Education Association issued a new statement dubbing that election "the most disastrous in Ohio school history," with voters approving only 68 of 243 requests for increases in school taxes.[343] In a survey of special school elections in Ohio, the Associated Press found only a few victories in the several dozen it covered.[344] Every election, it seemed, marked a new low. The final 1970 tally found that Ohio voters had approved just 29 percent of proposed school tax levies, the fewest on record.[345] In 1971, 67 districts put previously defeated school issues – new or renewal property taxes and bonds – including 17 up for the fourth time or more, like Newton Falls, which had already defeated six previous attempts. Twenty-five schools applied to the state auditor's office for a special audit, the first step towards closing the schools. In districts around the state "operating costs…have run ahead of property taxes." But the prospect of school closings failed to faze voters the way it had in Youngstown. "The public seems in no mood to pay higher taxes," the *New York Times* reported, referring to Ohio, in particular, "even at the expense of its children's education."[346]

Unfortunately for school administrators across the country, Ohio was not alone and its problems were not unique. A 1969 front-page *Christian Science Monitor* cheekily noted that "voters [were] in 'no' mood" for school taxes, pointing out that "the December shutdown of Youngstown, Ohio, schools for lack of funds may well prove pattern-setting rather than

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[342] "'Taxpayers' revolt' Will Close Schools," *Bryan Times*, October 7, 1969.
[343] "Voters on Spending: Schools Down, Environment Up," *U.S. News & World Report*, November 16, 1970, 60-62
[344] "Ohio Voters Rejet School Levies," *Portsmouth (Ohio) Times*, December 10, 1970.
[345] "Levy Defeats: From Curiosity to Commonplace," *Ohio Schools* 49:1 (January 22, 1971), 8-9;
[346] Michael Kelley, "Ohio: A Lesson in Artithmetic: No Money Euqals No Schools," *New York Times*, October 31, 1971.

exceptional. Right and left voters have been saying 'no' to local bond issues and tax hikes – this year at a staggering rate of 55 percent."[347] One 1968 report found that at least 150 school systems across the country had recently experienced a budget crisis.[348] For the first time in 19 years, Grosse Point, Michigan, rejected a tax proposal, and it did so by a two-to-one margin. Over half of all local spending referenda in California were being defeated "and the percentage is rising every year," as one observer put it. In New Jersey, 145 school budgets were rejected during the 1968-1969 school year, a state record.[349] *U.S. News and World Report* explained that the "taxpayer revolt ke[pt] on rolling" in 1969.[350] Once again, the example of Youngstown was never far away. For example, schools in New York faced budget shortfalls and potential closings, reporters and public officials referenced Youngstown.[351] By the time a *Wall Street Journal* reporter called the national epidemic of school levy and bond rejections a "taxpayer revolt," the phrase had already become a cliché.[352] Surveying the wreckage of fallen school levies and bonds in 1970, a *New York Times* reporter mused hyperbolically: "This year no one asked for a constitutional convention, but for reasons no one has explained voters said yes."[353] The situation had become so dire by the late 1960s, that the U.S. Commission of Education Harold Howe II took the pages of *Parents* magazine to plead for votes and stress importance of passing school bonds. In an article titled "Why You Should Vote 'Yes' on School Bond Issues," Howe despaired over "disturbing trend" of school bond failures and called on parents to do their

[347] Lucia Mouat, "Voters in 'No' Mood – U.S. Schools Fight Fiscal Pinch," *Christian Science Monitor*, January 1, 1969.
[348] Bruce Biossat, "Schools in Financial Peril as Voters Nix Tax Boosts," *Sumter Daily Item*, December 1, 1968.
[349] George Taylor, "American Taxpayers Starting to Revolt," *Fredericksburg (Virginia) Freelance Star*, April 23, 1968.
[350] "Taxpayer Revolt Keeps on Rolling," *U.S. News & World Report,* May 19, 1969, 81.
[351] Leonard Buder, "Board of Education Refuses to Take 'Even One Step Backward' Because of Budget Reductions," *New York Times*, June 11, 1969.
[352] Ralph E. Winter, "Strangled Schools," *Wall Street Journal,* December 18, 1968.
[353] John Herbers, "Survey Finds Voters Across the Nation Opposes Bonds or Taxes for Education," *New York Times,* November 8, 1970.

part to stem the tide.[354] Increasingly, though, it became clear that the revolt was not limited to schools and all their attendant political controversies. Subsequent research would show that all municipal bonds – including infrastructure bonds – began a downward trend in the 1950s, which accelerated through the 1960s, not just school bonds.[355]

For a time, many observers believed that the problem of the tax revolt would be contained to urban areas. Numerous studies showed a widening gap within metropolitan areas between older core areas with high tax burdens and newer suburban areas with relatively low tax burdens.[356] The ACIR report put it bluntly: "Time is definitely working against most central cities with respect to relative tax burdens."[357] Specifically, ACIR argued that "heavy pressure on property and consumer levies poses sharp equity and fiscal problems." ACIR found that "local taxes in the central cities average 7.6 percent of the personal income of their residents; outside the central cities they equal only 5.6 percent of income"[358] Given the twin pressures on residents' pocketbooks and policymakers' budgets, the committee predicted that "unless the subsistence of low income families is shielded from the reach of property and sales tax collectors, the productivity of these powerful revenue instruments is bound to be jeopardized by growing public protest. The demand of elderly homeowners for property tax relief is becoming especially strident, and public opposition to bond issues is becoming more apparent."[359]

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354 Harold Howe II, "Why You Should Vote 'Yes' on School Bond Issues," *Parents*, September 1968, 50.
355 Edward M. Gramlich, "Infrastructure Investment: A Review Essay," *Journal of Economic Literature* 32:3 (September 1994), 1183.
356 Steven J. Weiss and Robert W. Eisenmenger, "The Problem of Redistribution of Federal and State Funds," paper presented at Federal Reserve Bank of Boston conference, "Financing State and Local Governments, June 1970.
357 United States. Advisory Commission on Intergovernmental Relations and United States. Dept. of Housing and Urban Development, *Fiscal Balance in the American Federal System. Volume 2: Metropolitan Fiscal Disparities* (GPO, 1967), 87.
358 United States. Advisory Commission on Intergovernmental Relations and United States. Dept. of Housing and Urban Development, *Fiscal Balance in the American Federal System. Volume 2: Metropolitan Fiscal Disparities* (GPO, 1967), 5.
359 United States. Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Federal System: Basic Structure of Fiscal Federalism* (GPO, 1967), 1-2.

However, the eroding tax bases and maxed-out "tax efforts" that crippled urban centers like Youngstown and Detroit spreading outward. "The older suburban communities are taking on physical, social, and economic characteristics similar to the central city's…[they] are neither uniformly affluent nor free of fiscal woes," one 1968 study concluded.[360] By the mid 1960s, it seemed few areas were free of fiscal woes, except perhaps high-income suburban communities that could rely on nearly urban areas for key services. One survey found problems in "low-income, rapidly growing suburban communities, where expansion of basic service facilities can cause tax rates to leap sharply to high levels despite concurrent growth in the property tax base," as well as rural areas "where local tax rates are exceptionally high because – for one reason or another – the tax base has deteriorated." It concluded, "high local tax burdens can crop up in individual communities under a variety of different economic circumstances."[361]

Indeed, within a few years, many white suburbs faced serious financial crises. When four suburban districts north of St. Louis closed their doors to 46,000 students in 1970, the *New York Times* called the "major revolt of taxpayers…the biggest and most serious of its kind to date." Strangely, the paper noted, all were "predominantly white, middle-class districts." Here, the "backlash" explanation held no sway. Instead, the *Times* argued "the crisis appears to grow out of a tax structure that is widely criticized as placing to heave a burden of localities," as well as "inflation and recession," among other issues facing voters. In the Ferguson-Florissant district of "modest brick and frame homes on wide tree-lined streets" property taxes fell "most heavily on homeowners," because the community had little in the way of industry. Blue-collar workers had

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[360] Karl D. Gregory, "Detroit: Crisis in the Central City," in *Fiscal Issues in the Future of Federalism (*Committee for Economic Development, 1968), quoted in Steven J. Weiss and Robert W. Eisenmenger, "The Problem of Redistribution of Federal and State Funds," paper presented at Federal Reserve Bank of Boston conference, "Financing State and Local Governments, June 1970,
[361] Steven J. Weiss and Robert W. Eisenmenger, "The Problem of Redistribution of Federal and State Funds," paper presented at Federal Reserve Bank of Boston conference, "Financing State and Local Governments, June 1970.

recently been moving into the district and, after the financial stretch of affording a suburban home was taken into account, few could afford additional taxes. Structural issues likewise played a key role in Ferguson-Florissant's crisis. The state had recently considered an income tax to help relieve the local property tax burden, but mostly rural voters defeated the measure, while it carried in suburban areas like Ferguson-Florissant. "If the state money had come through," the Ferguson-Florissant superintendent Dr. Warren M. Brown said, "we wouldn't have had to ask for a local tax increase." Brown also blamed rising inflation, which he said both drove up school costs and hurt residents' pocketbooks, making them less likely to support finance measures. "Don't they stop to consider how hard it is on us retired folk when they raise taxes," 73-year-old Leroy Kapller asked.[362] In nearby Hazelwood, one senior girl mused, "I never thought we'd have to campaign to stay in school." Like Youngstown, students tried to convince voters in their communities vote for a school tax levy. "We've been parading, ringing door bells, and talking with older folks…to get them to approve a tax."[363] Looking at a similar tax revolt in suburban Pacifica, California, one report concluded that "the fiscal crisis has come to suburbia, the land of milk and honey." Urban problems could be ignored. Suburban ones could not. "Now that fiscal crisis has come to suburbia, the land of milk and honey, perhaps drastic financial reforms – reforms long urged by schoolmen from bankrupt cites and impoverished rural areas – will at last be engaged by sluggish, shortsighted state legislatures," the study concluded.[364]

As in Youngstown, academics and civic boosters across the country began undertaking studies that sought to identify and explain the typical anti-levy or anti-bond voter. Even as late as the 1950s, few examinations of the dynamics of a local finance election even existed. Now, cities funded surveys, scholars drafted monographs, government agencies issued reports, and think-

[362] William K. Stevens, "Tax Revolt: 46,00 Shut Out of School," *New York Times*, September 14, 1970.
[363] "Plan School Closings in St. Louis Area," *Chicago Tribune*, September 28, 1970.
[364] "When the Dollars Dry Up in Suburbia," *School Management*, November 1969, 55-59.

tanks published large-scale analyses.[365] Many of these studies took an almost anthropological stance to these "no" voters that belied their status as neighbors and fellow community members, rather than some strange and foreign culture. Relying on popular sociological theory of the time, some social scientists in the late-1960s approached local finance elections as opportunities to examine "alienation," usually of lower-income, less-educated citizens.[366] Alienation, some sociologists believed, was related to "quasi-paranoia," but it was "most accurately understood as an emergent response to social structure in action, a reaction to perceived relative inability to influence or to control one's social destiny."[367] According to this definition, the alienated would agree with statements that were implied to be irrational, like "it doesn't matter which party wins elections, the interests of the little man don't count."[368] Most "alienation" studies tapped into long-standing fears of "a reservoir of discontent among the usually inarticulate and seemingly powerless masses, a discontent which may explode into radical protest whenever the powerless

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[365] Among the most important book-length studies of school finance elections (wholly or in large part) are: Philip K. Piele and John Stuart Hall, *Budgets, Bonds, and Ballots: Voting Behavior in School Financial Elections* (Lexington Books, 1973); Howard Devon Hamilton and Sylvan H. Cohen, *Policy Making by Plebiscite: School Referenda* (Lexington Books, 1974); Frederick M. Wirt and Michael W. Kirst, *The Political Web of American Schools* (Little, Brown, 1972). Among the dissertations published on school finance election are: Sylvan Cohen, "Voting Behavior in School Referenda: An Investigation of Attitudes and Other Determinants b Q Technique and Survey Research" (Ph.D. Dissertation, Kent State University, 1971); Douglas Bowen Cole, "A Study of Factors Influencing Voter Attitude Toward Schools and the Relationship of Those Factors to Voter Support of School Bond Proposals" (Ed.D. Dissertation, Western Michigan University, 1972); James S. Ginocchio, *Fiscal Policy Making by Plebiscite: Local Tax and Bond Referenda in Ohio* (Ph.D. Dissertation, Bowling Green State University, 1971); Frank Logan Croskey, "Socioeconomic Variables as Predictors of School Financial Referenda Voting Behavior" (Ed.D. Dissertation, University of Kansas, 1974); Bernard F. Saafeld, "Taxpayers and Voters: Collective Choice in Public Education" (Ph.D., University of Oregon, 1972); Steven Kent Humphrey, "The Relationship of Administrative, Socioeconomic, and Fiscal Variables to Education Tax Referenda" (Ed.D. Dissertation, Illinois State University, 1980). Each state often featured extensive studies into its school crises. Besides Ohio, which has been well-covered in this chapter, Iowa had the following studies conducted in the mid-1960s by outside social scientists to explain its finance election problems: George M. Beal, Virgil Lagomarchino, and John J. Hartman, "Iowa School Bond Issues: Summary Report," (Iowa State University, 1966); George M. Beal, Virgil Lagomarchino, John J. Hartman, and Judith Murphy, "Iowa School Bond Issues: Data Book" (Iowa State University, 1966); John J. Hartman and George M. Beal, "Role Performance of Selected Individuals and Groups in School Bond Elections," paper presented at the Rural Sociological Society Meeting in Boston, August 24, 1968;

[366] Wayne E. Thompson and John E. Horton, "Political Alienation as a Force in Political Action," *Social Forces* 38, no. 3 (March 1, 1960): 190–195.

[367] Wayne E. Thompson and John E. Horton, "Political Alienation as a Force in Political Action," *Social Forces* 38, no. 3 (March 1, 1960), 190.

[368] Wayne E. Thompson and John E. Horton, "Political Alienation as a Force in Political Action," *Social Forces* 38, no. 3 (March 1, 1960), 191.

exercise their power." For better or worse, the literature on working-class alienation was inextricably linked with studies of working-class "authoritarian" personality undertaken in the 1950s. These studies linked the alienated mass of working-class voters with the rise of totalitarian regimes in Germany, Italy, and the Soviet Union.[369] To say the least, these were not the people one wanted in a nearby voting booth pulling the lever against the next school tax hike.

These studies reported that whites with low socioeconomic status were most likely to experience "alienation." While alienated voters might sit out national elections, "in local referenda it is possible for voters more clearly to perceive their action as participation in the decision-making process…provid[ing] the opportunity to express their alienation…. [V]ery often the rallying cry of these voters is not so much concerned with the issue at hand as with preventing an ill-defined 'them' from putting 'this' over on 'us.'"[370] Alienated voters "translated [their discontent] into either an undirected vote of resentment or an organized vote of opposition."[371] In local finance elections, then, alienating acted as "a kind of desultory conservatism which nevertheless has impact upon the course of development of the community, in the form of a brake if nothing else."[372] Another study linking alienation and voting on local school bond issues found that anti-bond voting "does not represent an organized, class-conscious opposition, but a type of mass protest, a convergence of the individual assessments of the powerless who have projected into available symbols the fears and suspicions growing out of

[369] John E. Horton and Wayne E. Thompson, "Powerlessness and Political Negativism: A Study of Defeated Local Referendums," *American Journal of Sociology* 67:5 (March 1, 1962), 487.
[370] Wayne E. Thompson and John E. Horton, "Political Alienation as a Force in Political Action," *Social Forces* 38, no. 3 (March 1, 1960), 191.
[371] Wayne E. Thompson and John E. Horton, "Political Alienation as a Force in Political Action," *Social Forces* 38, no. 3 (March 1, 1960), 190.
[372] Wayne E. Thompson and John E. Horton, "Political Alienation as a Force in Political Action," *Social Forces* 38, no. 3 (March 1, 1960), 195.

their alienated existence."[373] Voting against local issues was less an opposition to the particular initiative than an "expression of general discontent on the part of the politically alienated."[374] Simply put, "both alienated and non-alienated taxpayers went to the polls; however, the non-alienated taxpayer voted 'yes' and the alienated taxpayer 'no.'"[375]

Though, in the wake of the survey data collected by Youngstown State, it would seem misplaced, Youngstown's levy crisis was subjected to the "alienation" framework, too. An unpublished pilot study carried out in Youngstown by a Kent State University doctoral student during the levy crisis attempted to identify patterns in voters' attitudes. The study asked several small – and unrepresentative – focus groups of Youngstown voters to order 54 statements about the levy – designed to represented "expressions of feeling and cognition derived from monitoring press, radio, and conversations in Youngstown, just prior to and immediately following the fifth referendum" – based on how much the sorter agreed with the statement.[376]A "Q-factor analysis" of the focus groups' statement sorting generated several "empirical constructs." Though not meant to represent "ideal types" of voters, each clearly evoked certain stereotypical groups, including upstanding white upper-middle-class pro-levy voters and irrational blue-collar whites. The "good citizenshipping" construct was associated with support for school authorities and the school system, rejection of racism sentiments, and "distrusted ill-informed, emotional voters." In contrast, the "alienating" construct represented strong reaction against taxes, "parochialism,"

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[373] John E. Horton and Wayne E. Thompson, "Powerlessness and Political Negativism: A Study of Defeated Local Referendums," *American Journal of Sociology* 67:5 (March 1, 1962), 485.
[374] John E. Horton and Wayne E. Thompson, "Powerlessness and Political Negativism: A Study of Defeated Local Referendums," *American Journal of Sociology* 67:5 (March 1, 1962), 487.
[375] John E. Horton and Wayne E. Thompson, "Powerlessness and Political Negativism: A Study of Defeated Local Referendums," *American Journal of Sociology* 67:5 (March 1, 1962), 492.
[376] Sylvan Cohen, "Voting Behavior in School Referenda: An Investigation of Attitudes and Other Determinants b Q Technique and Survey Research" (Ph.D. Dissertation, Kent State University, 1971), 68-77, 85.

“ethnocentrism or super-patriotism,” and “distrust of authority,” among other opinions.[377] Needless to say, these conclusions were much different from the relatively simple idea that many low- and middle-income voters felt too economically squeeze to afford another increase in a regressive tax.

Faced with implacable, possibly alienated and irrational, voters and the need for more revenue, local officials tried to shift voters’ opinions on finance measures, anyway they could. Though Youngstown’s pro-levy campaigns may have seemed excessive to many observers at the time, by the late-1960s, extensive levy campaigns like the one waged in Youngstown became the norm.[378] In Sylvania, Ohio, a subcommittee of the main levy committee, dubbed the “Small Group Discussion Committee” deployed 200 volunteers to speak to groups of 8 or 10 neighborhood residents at a time, with the goal of reaching more than 8,000 homes in the school district. The campaign was coordinated with the “In-service Training and Audio-Visual Materials” subcommittee, which provided materials to others interested in pitching the levy to friends, relatives, and small groups. Finally, the levy committee set up a telephone hotline that rang the superintendent’s office in case any volunteers ran into unexpected questions.[379]

With local officials grasping for public relation’s solutions to what was, in truth, a structural problem, a flood of reports and handbooks explained to school officials how to pass initiatives in the face of the taxpayers’ revolt. This school-finance literature ignored structural issues like the level and mix of taxes, and instead argued that better campaign strategies, improving public relations, and the like, maybe school measures would once again find favor

[377] Sylvan Cohen, “Voting Behavior in School Referenda: An Investigation of Attitudes and Other Determinants b Q Technique and Survey Research” (Ph.D. Dissertation, Kent State University, 1971), 87-117.
[378] Howard Devon Hamilton and Sylvan H. Cohen, *Policy Making by Plebiscite: School Referenda* (Lexington Books, 1974), 106-111.
[379] “Small Groups Pushing Sylvania Levy,” *Toledo Blade*, May 31, 1969.

with voters.[380] With titles like "How to Pass a Bond Issue, "Four Things to Do When the Public Votes No," "Get the Taxpayers on Your Team," and "Take These Six Steps to Pass a Bond Issue," many articles and reports billed themselves plainly as instruction manuals for how to a pass measure.[381] When print material mentioned costs at all, experts urged that it be put in the smallest amounts possible – weekly or daily amounts, rather than yearly totals.[382] The *American School Board Journal* even published a tongue-in-cheek 1970 article titled "How to Lose Your Next Referendum," which advised school leaders to "carefully time the bond issue vote to coincide with political elections, and stir, making sure that local politicians take a stand on the bond issue amount and resultant tax rate," "place communications responsibility in the hands of an advertising firm with a good record in marketing toothpaste or eye shadow," and "suddenly approach those church leaders you've been ignoring all along and ask them to promote the bond issue," among other approaches. Finally, "when the bond issue fails, rationalize the failure in terms of voter apathy, student unrest, or tight money."[383] Some articles went so far as to print general campaign materials that could be used in campaigns across the country. One "worksheet" to help superintendents or school boards guide principals began: "Each principal should schedule at least three coffee klatches between ________ and ________."[384]

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[380] A perfect example of a study that focuses on campaign strategies and community communication and attitudes, to the complete exclusion of socioeconomic and structural factors is Thomas A McCain and Victor D Wall, "A Communication Perspective of a School Bond Failure," *Educational Administration Quarterly* 12:2 (May 1, 1976): 1–17.

[381] Carroll B. Hanson, "How to Pass a Bond Issue," *School Management* 13 (July 1969): 67-69; Charles H. Harrison, "Four Things to Do When the Public Votes No," *Nation's Schools* 87 (May 1971): 92; Charles H. Harrison, "Take These Six Steps to Pass a Bond Issue," *Nation's Schools* 89 (June 1972): 56; Barbara Everitt Bryant, "Get the Taxpayers on Your Team," *School Management* 12 (January 1968): 45; Frank C. Mayer, "How to Find Out Why the Voters Said No," *School Management* 11 (October 1967): 78-79; Thomas A McCain and Victor D Wall, "A Communication Perspective of a School Bond Failure," *Educational Administration Quarterly* 12:2 (May 1, 1976): 1–17.

[382] Howard Devon Hamilton and Sylvan H. Cohen, *Policy Making by Plebiscite: School Referenda* (Lexington Books, 1974), 108.

[383] J. Aaron Bowman, "How to Lose Your Next Referendum," *American School Board Journal* (March 1970), 47.

[384] Arnie Rubin, "Election Strategy that Works," *NASSP Bulletin* 63 (1979), 54-57

Keeping with a variant of the "backlash" thesis, many of these often surprisingly data-free guides argued that there existed a "large reservoir of potential pro-voters" comprised of women, blacks, who needed to be motivated to get to the polls. In contrast, they instructed officials to appease or demobilizing the "white, working class, residents of single dwellings, with moderate or low incomes" who consistently showed up at polling places to vote down school issues.[385] Given the omnipresent power of "alienated" blue-collar whites, local finance experts encouraged levy and bond campaigners to reach out to "alienated" average voters and win their trust.[386] Typical advice to school administrators encouraged simple, emotional appeals focused on children. "Graphs, charts, tables – these hold little interest for the bridge devotee, the factory worker, the housewife, or many professional people. Keep the language simple and to the point. Pitch it to the man on the street…and remember that the public has little idea of what the term 'mill' means." In many cases, this advice was unwise. One teacher canvassing an area with low educational levels in Columbus, Ohio, "tried to achieve rapport by using the language of the people." But this stab at affability backfired. "That man who came down here to talk to us talked so bad and seemed so stupid that we figured if he was educated, we didn't want our kids to have none of it," the parent explained.[387]

Indeed, when taken together, the studies, manuals, and articles often offered confusing and downright contradictory advice to local officials. For example, many studies seemed to show that renters actually helped pass levies and bonds.[388] But local officials in Youngstown and elsewhere

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[385] Quoted in Howard Devon Hamilton and Sylvan H. Cohen, *Policy Making by Plebiscite: School Referenda* (Lexington Books, 1974), 75-76.
[386] Howard Devon Hamilton and Sylvan H. Cohen, *Policy Making by Plebiscite: School Referenda* (Lexington Books, 1974), 87.
[387] Howard Devon Hamilton and Sylvan H. Cohen, *Policy Making by Plebiscite: School Referenda* (Lexington Books, 1974), 105.
[388] Howard Devon Hamilton and Sylvan H. Cohen, *Policy Making by Plebiscite: School Referenda* (Lexington Books, 1974), 184.

seemed convinced that limited the vote to property would bring greater success. Some studies claimed high turnout helped finance referenda, while other suggested low turnout aided victory.[389] This type of confusion resulted from the fact that both local officials and many academic studying the school finance crisis of the late-1960s labored under the same set of misapprehensions about who opposed school levies and bonds and why they suddenly began voting them down. In fairness to the advice-givers, however, there was little that most local officials could do to solve the structural problem of the pocketbook squeeze.

Conclusion

By the early-1970s, the speculation over the causes of the tax revolt could be put to rest by all but the most hardened ideologues. New studies demonstrated that the link between the tax revolt, income, and the pocketbook squeeze was clear not just in Youngstown, but also nationally – even if many observers still missed it. National polling done by Gallup for *Phi Delta Kappan* would echo the Youngstown survey's results. The willingness of white and "non-white" Americans to support a local school finance initiative were remarkable similar (Figure 9). Likewise, Youngstown's class-based voting held up nationally, too (Figure 10). Moreover, the Gallup survey showed that nationwide less than 10 percent of Americans felt teachers were being paid too much.[390] Additionally, local studies in areas as diverse as Austintown, Ohio, Bowling Green, Ohio, and Dekalb County, Georgia, displayed similar linear relationships when it came to income and voting – the lower one's income, the less likely he or she was to vote in support of

[389] Howard Devon Hamilton and Sylvan H. Cohen, *Policy Making by Plebiscite: School Referenda* (Lexington Books, 1974), 72-81.
[390] See *The Gallup/Phi Delta Kappa polls of attitudes toward the public schools, 1969-88: a 20-year compilation and educational history* (Phi Delta Kappa, 1989)

the levies or bonds.[391] More in-depth studies found that, in general, lower-income voters worried more than upper-income voters that their tax bills would become "excessive" if school finance measures passed.[392]

Low-to-middle income Americans had good reason to resent the property tax. An ACIR study of local property tax burdens found that local property tax could eat up over 16 percent of poor homeowners' incomes, between four and seven percent middle- or working-class homeowners'' incomes, and less than 3 percent of rich homeowners' incomes. The committee concluded that "no other major tax in our public finance system bears down so harshly on low-income households, or is so capriciously related to the ability to pay taxes."[393] In 1974, the Ford Foundation and RAND Corporation undertook what was arguably the most intensive study of school finance referenda, comprising 1,600 California school tax elections from the mid-1950s through the early 1970s. Linking rising tax rates to falling approval rates, the Ford/RAND study noted that, between the mid-1950s and mid-1960s, "electoral success rates dropped from 80 percent to 50 percent while tax rates rose from an average of slightly over $1.00 per $100 of assessed value (one quarter of market value) to somewhat more than $2.00." In the early-to-mid 1950s, "the proposed tax rates were lower and voters were more willing, in general, to assent to higher taxes." But that changed as tax rates rose in the following years. To test the significance of taxes on approval rates, the authors of the Ford/RAND study attempted to predict the percent of "yes" votes a levy would receive using only a district's on change in taxes, household income, and turnout. In fact, the model predicted the approval level with surprising accuracy. After

[391] Sylvan Cohen, "Voting Behavior in School Refereda: An Investigation of Attitutes and Other Determinants by Q Technique and Survey Research" (Ph.D. Dissertation, Kent State University, 1971), 184.
[392] Robert E. Jennings and Mike M. Milstein, "Citizens' Attitudes in School Tax Voting," *Education and Urban Society* 5 (1973), 299-319.
[393] Advisory Commission on Intergovernmental Relations, Financing the Schools and the Property Tax: A State Responsibility (Washington, D.C., 1973), 30, 36.

considering its wide array of evidence, the study concluded: "We can say with confidence that the proposed tax rate and the increase in tax rate are the strongest and most consistent correlates of tax election passage."[394] The undeniable conclusion from the data, in other words, was that taxpayers' revolt against school levies and bonds was inextricably linked to income – the so-called "ability to pay." As the blue-collar black worker had told both NBC cameras and the Youngstown State survey, "I earn approximately seven-to-eight thousand dollars a year…. I have five kids, and we don't have any new automobiles… [and] we can't save money because I think the taxes are too high."[395]

The only question that remained was whether the local property tax revolt was over and whether the federal government would intervene. To the latter question, most public officials in the late-1960s continued to answer a decided "no." The Johnson administration's Commission of Education, Harold Howe II, flatly rejected calls for federal intervention into local finance reform. Instead, he called on "citizens in every community to accept the responsibility for the quality of their schools."[396] Many conservatives' shared Howe's conclusion, if for different reasons. Hoover Institution economist Roger Freeman – who would go on to serve as a local finance expert in both Richard Nixon's presidential administration and Ronald Reagan's gubernatorial administration – dismissed public complaints about the unfairness of the property tax. Battling against the overwhelming evidence to the contrary, Freeman argued that the property tax was "substantially proportional" and that claims of its regressivity were little more than the ideologically-driven complaints of those "who believe that the present American tax structure is

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394 Arthur J. Alexander and Gail V. Bass, "Schools, Taxes, and Voter Behavior: An Analysis of School District Property Tax Elections" (RAND Corporation/Ford Foundation, 1974), 47.
395 "Tax Reform / Ohio / New York / Michigan," *NBC Evening News*, March 28, 1969.
396 Harold Howe II, "Why You Should Vote 'Yes' on School Bond Issues," *Parents*, September 1968, 50.

not sufficiently progressive."[397] To the former question, the Ford/Rand study had a confident conclusion. The tax revolt was over, the authors argued. "Taxpayers have revolted," the study declared. "But recent years in California have been characterized by stability…. 1966-1972 [were] years of revolt, but not for taxpayers."[398]

As later events would demonstrate, there was still plenty of tax revolt to come in California – and elsewhere.

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[397] Roger A. Freeman, *Financing the Public Schools, Volume II: Taxes for the Schools* (Institute for Social Science Research, 1960)

[398] Arthur J. Alexander and Gail V. Bass, "Schools, Taxes, and Voter Behavior: An Analysis of School District Property Tax Elections" (RAND Corporation/Ford Foundation, 1974), 2, 50.

CHAPTER 2

The Tax Revolt Goes to Washington

President Nixon's first inaugural address on January 20, 1969, contained only a single reference to the economy. Echoing the triumphalism of the 1960s "New Economics," Nixon declared, "The second third of this century has been a time of proud achievement. We have made enormous strides in science and industry and agriculture. We have shared our wealth more broadly than ever. We have learned at last to manage a modern economy to assure its continued growth." The problems facing the country, Nixon argued, were not material. "We find ourselves rich in goods, but ragged in spirit; reaching with magnificent precision for the moon, but failing into raucous discord on earth…," Nixon intoned. "To a crisis of the spirit, we need an answer of the spirit. And to find that answer, we need only look within ourselves."[1] But even before Nixon delivered his inaugural address, events were conspiring against the new president's hope that economic policy would continue to play second fiddle to issues where Nixon was on surer political footing, like Vietnam and law-and-order. The president may have been calling on Americans to "look within" to solve the nation's spiritual crisis, but soon they would be looking to Nixon to solve a growing tax crisis – and to do so at the same time that he was fighting rising inflation and the fear of unemployment.

By the time Nixon took office, the "tax revolt" had been gaining steam at the local level for a decade. But few national politicians were aware of it. That all changed in 1969. By the end

[1] Richard Nixon, "Inaugural Address," *Public Papers of the President*, January 20, 1969

of the year, no one could miss the existence of the tax revolt. Yet, attempts to address the tax revolt at the federal level were complicated by rising inflation. Together, taxes and inflation were increasingly recognized as creating a "pocketbook squeeze" on lower- and middle-income Americans. The meaning of the tax revolt remained hotly contested, however. Some observers, including the president, doubted whether the public really wanted tax reform. Many moderates and conservatives in both parties believed that inflation was a more pressing issue than tax reform. They hoped to quell the public's discontent with minor, piecemeal reform and relief, rather than with sweeping changes to the tax code. In the end, that is exactly what the public received. As a result, the legislative and political outcomes of 1969 – including Tax Reform Act of 1969 – failed to end the revolt. But they did shape the debate over tax reform and the meaning of the tax revolt for years to come.

Announcing the Revolt

Just three days before Nixon's inauguration, President Johnson's outgoing Treasury secretary, Joseph Barr, dropped a political bombshell in front of the congressional Joint Economic Committee. "[I]n the year 1967, there were 155 tax returns in this country with incomes over $200,00 a year and 21 returns with incomes over a million dollars a year on which the 'taxpayers' paid the U.S. government not one cent of income taxes," Barr declared in testimony ostensibly dedicated to the Economic Report of the President – not tax reform.[2] In a measured tone and with little drama – save for taking off his thick glasses and gesturing with them for emphasis – Barr predicted an imminent "taxpayer revolt." The revolt, Barr said, was "going to come from the middle class…who pay every nickel of the going rate" and who "don't

[2]"The 1969 Economic Report of the President," Hearings Before the Joint Economic Committee, Part 1, January 17, 1976 (GPO 1969)

have the loopholes and the gimmicks to resort to."[3] In his invocation of middle-class anger Barr echoed Nixon's nomination acceptance speech from the previous summer, which had been a hosanna to the "voice of the great majority of Americans, the forgotten Americans – the non-shouters; the non-demonstrators." "They are good people, they are decent people," Nixon said, "they work, and they save, and they pay their taxes, and they care."[4] The forgotten Americans were paying their taxes, Barr said, but the rich were not.

The release of the Johnson Treasury Department's full tax reform report a few weeks later further exposed the various tax avoidance strategies available primarily to the rich. By calculating effective tax rates as a percentage of "amended taxable income" – a measure that added in excluded capital gains and some other deductions to provide what the Treasury considered a more accurate picture of real-world income – the Treasury revealed wide inequities in the tax code. Except for the very poorest – those making between zero and three thousand dollars – most taxpayers making less than $10,000 paid between 15 and 20 percent in income taxes, but so did nearly 30 percent of those making between $20,000 and $50,000, as well as five percent of those making $50,000 to $100,000, and small fraction of those who made even more. In fact, four percent of millionaires paid less than five percent in income taxes. More than 30 percent of millionaires paid between 20 and 25 percent, but so did more than five percent of those making between $7,000 and $10,000 and nearly seven percent of those making between $10,000 and $15,000.[5]

The Treasury report included real-world examples of a variety of strategies the rich used

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[3] "The 1969 Economic Report of the President," Hearings Before the Joint Economic Committee, Part 1, January 17, 1976 (GPO 1969); "Nixon Appointees/Committee Hearings," *NBC Evening News*, Jan 17, 1969.
[4] Richard Nixon, "Address Accepting the Presidential Nomination at the Republican National Convention in Miami Beach, Florida," Public Papers of the President, August 8, 1969
[5] Table 4, "Tax Reform Studies and Proposals, U.S. Treasury Department," Joint Publication, Committee on Ways and Means of the U.S. House of Representatives and Committee on Finance of the U.S. Senate, February 6, 1969 (GPO, 1969)

to avoid taxes. Among all the various deductions, exemptions, and other "loopholes" benefitting upper-income taxpayers, the preferential treatment of capital gains was the largest.[6] Charitable contributions, large itemized deductions, the oil depletion allowance, farm losses, and real estate deductions, among others, could also dramatically reduce or eliminate upper-income taxpayers' income tax burdens.[7] The report found that high-income taxpayers tended to fall into two groups – those who paid high rates year-after-year and those who paid low rates year-after-year. In other words, they found that the rich taxpayer who paid low rates one year rarely had that low rate balanced out by a higher rate in one of the next several years.[8] Through a series of anonymous case studies, the report revealed specific examples of how rich taxpayers sometimes ended up paying much less than lower- and middle-income taxpayers. "An individual had a total income of $1,284, 718 of which $1,210,426 was in capital gains, the remaining $74,292 from wages, dividends, and interest. He excluded one-half of his capital gains, which he is allowed to do under present law, thereby reducing his present law (adjusted gross) income to $679,405 (after allowing for the $100 dividend exclusion)," the report explained. "From this income he subtracted all his personal deductions, which amount to $676,419 and which included $587,693 for interest on funds borrowed presumably for the purpose of purchasing the securities on which the capital gains were earned. As a result, after allowing $1,200 of personal exemptions his taxable income was reduced to $1,786 and he paid a tax of $274. His overall tax rate, therefore,

[6] Table 6, "Tax Reform Studies and Proposals, U.S. Treasury Department," Joint Publication, Committee on Ways and Means of the U.S. House of Representatives and Committee on Finance of the U.S. Senate, February 6, 1969 (GPO, 1969)
[7] Cases 1-11, "Tax Reform Studies and Proposals, U.S. Treasury Department," Joint Publication, Committee on Ways and Means of the U.S. House of Representatives and Committee on Finance of the U.S. Senate, February 6, 1969 (GPO, 1969)
[8] Table 11, "Tax Reform Studies and Proposals, U.S. Treasury Department," Joint Publication, Committee on Ways and Means of the U.S. House of Representatives and Committee on Finance of the U.S. Senate, February 6, 1969 (GPO, 1969)

was about two-hundredth of one percent."[9]

Barr was an unlikely candidate for the role of the Paul Revere of the tax revolt. Far from having his finger on the pulse of the average taxpayer, Barr based his populist pronouncement on an unlikely, elite source. As a result, his interpretation of the revolt proved to be idiosyncratic and largely inaccurate. In his testimony, Barr referenced "taxpayers' letters to the Treasury" complaining about loopholes. But in an interview with *Newsweek*, he told a different story. "You know where I got this idea about the possibility of a taxpayer's revolt?" Barr asked rhetorically. "It was from talking to a lot of bankers who were tired of financing fellows who were paying no taxes." Not surprisingly, given his source, Barr's analysis of the revolt missed the mark in several significant ways. Barr told *Newsweek* that the revolt was "strictly a middle-class phenomenon."[10] But Barr's concept of "middle-class" was startlingly broad and inconsistent. In 1969, the median household income was less than $8,500. It took less than $23,000 to be in the top five percent of American families, and less than $22,000 to be in the top five percent of households.[11] Yet, Barr told *Newsweek* that the middle-class stretched "from $7,000 to $50,000."[12] In his prepared JEC testimony and in a subsequent *Saturday Review* article he penned, Barr put it at $7,000 to $20,000. In his actual spoken JEC testimony, he said $7,500 to $25,000."[13] At another point, he offered $10,000 to $25,000 as the range.[14] The only consistency in Barr's analysis was his insistence that low-income taxpayers were *not* part of the revolt. "[T]he revolt is not going to come from the poor," Barr testified. "They do not pay very much in

[9] "Tax Reform Studies and Proposals, U.S. Treasury Department," Joint Publication, Committee on Ways and Means of the U.S. House of Representatives and Committee on Finance of the U.S. Senate, February 6, 1969 (GPO, 1969)
[10] "Taxes: How to Ease the Squeeze," *Newsweek*, February 24, 1969
[11] Census Historical Income Tables H-1 and F-1
[12] "Taxes: How to Ease the Squeeze," *Newsweek*, February 24, 1969
[13] "The 1969 Economic Report of the President," Hearings Before the Joint Economic Committee, Part 1, January 17, 1976 (GPO 1969); Joseph Barr, "Tax Reform: The Time Is Now," *Saturday Review*, March 22, 1969
[14] "The Budget for 1970," Hearings Before the Committee on Appropriations, House of Representatives, January 16, 1969 (GPO 1969)

taxes."[15] But, in fact, low-income Americans were perhaps the most likely to be in revolt over taxes.

Far from being motivated by the frustrations of lower- or even middle-income taxpayers, Barr's testimony began with the complaints of those comfortably ensconced in the upper-reaches of the American income distribution. "I have met a lot of people in the $50,000-to-$100,000 brackets in the past few years...lawyers, bankers, corporate executives, etc.... I am continually amazed at the fact that so many of these people complain that they are living from hand to mouth…," Barr wrote in the *Saturday Review*. "It seems that many of these people, while they have very high incomes, do not have the capital to take advantage of [loopholes]…. [I]t is not hard to understand why they are complaining – especially when they see all around them people with much larger incomes paying far less in taxes than they." Barr noted that his "personal experience" made him sympathetic to this group's complaints, and he suggested lowering the top income tax rate from 70 percent – not including the surtax – to "40 percent or 45 percent" in compensation for plugging loopholes, which was a far different proposal than the assistance to low- and middle-income taxpayers suggested by left-leaning reformers.[16] In part, Barr's mistaken analysis resulted from his total lack of attention to the role that state and local taxes played in the frustrations of low- and moderate-income taxpayers. Few of the "lot of bankers" with whom Barr discussed taxes would have even considered mentioning the usually regressive state and local tax load. In his *Saturday Review* article, Barr did acknowledge that state and local taxes frustrated "people in the $7,000-to-$20,000 group." For that group, Barr speculated, the overall tax load was of primary importance, even if they were "probably" also upset about upper-income people's "loopholes." In contrast, those who were really upset about loopholes and

[15] "The 1969 Economic Report of the President," Hearings Before the Joint Economic Committee, Part 1, January 17, 1976 (GPO 1969)
[16] Joseph Barr, "Tax Reform: The Time Is Now," *Saturday Review*, March 22, 1969

horizontal inequities – two individuals with the same income paying different rates – were "the taxpayers in the income brackets between $50,000 and $100,000."[17]

Despite his later, seemingly contradictory, clarifications, the media took Barr's testimony to mean that moderate-income Americans – not "lawyers, bankers, corporate executives, etc." – were about to explode with tax anger. In some ways, the attention to Barr's testimony was surprising. As discussed in Chapter 1, tax experts and labor unions, among other activists, had pushed for tax reform for nearly a decade, but both JFK and LBJ and dodged calls for tax reform as they passed tax cuts and tax surcharges. With Vietnam, the Great Society, and the myriad foreign and domestic dramas of the 1960s, tax reform always seemed to get lost in the legislative shuffle. Barr's testimony was, in fact, less a sign of the inevitability of tax reform than a product of its political unlikelihood. The revelations of tax-free millionaires offered by Barr came about as a result of Johnson's agreement to submit tax reform proposals to Congress within a year of his surtax's approval. Congress required the Treasury study in exchange for passing the surtax. But Johnson had buried his Treasury's tax reform study, preferring not to begin the messy process of reform with only a few months left in office.[18] Barr's testimony could have marked the end of that saga – a last plea for reform before passing the torch to a new administration and a new Congress that might have delayed reform just as Kennedy and Johnson had. There was no reason to expect that this call for tax reform would be any different. In fact, the IRS had released similar revelations of tax-free millionaires in previous years. And influential Wisconsin Democrat Henry Reuss and author Philip Stern, among other public figures, had publicized the offending loopholes throughout the 1960s. But they had little success in generating much interest

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[17] Joseph Barr, "Tax Reform: The Time Is Now," *Saturday Review*, March 22, 1969
[18] "Johnson Says Tax Reform Should be Nixon Decision," *Tuscaloosa News*, January 1, 1969

in the media or among lawmakers.[19]

What made Barr's testimony different? The word "revolt," in particular, seemed to capture the attention of journalists. An NBC *Nightly News* report on Barr's testimony noted the "harsh terms" in outgoing Treasury secretary's warning.[20] Newspapers across the country foregrounded the rhetoric of "revolt" in headlines and lead paragraphs. The United Press International report on Barr's testimony placed the warning of a revolt in the first sentence and the newspapers that picked up the wire story put the term in their headlines.[21] The *St. Petersburg Times* titled an in-depth analysis of Barr's testimony and the factors that motivated his warning "Tax Reform – Or a Taxpayers' Revolt."[22] Such was the press's fascination with the idea of a revolt that, at times, the revelation of tax-free millionaires got buried in the accounts of Barr's testimony. Indeed, it seemed that the combination of Barr's "revolt" rhetoric and the prominent setting for his remarks combined to bring attention to the public's tax discontent. However, media coverage alone was little guarantee of action for a Congress that had neglected reform for years. More than anything, the public's response to Barr's testimony would force tax reform to the front of the domestic agenda.

Within days of Barr's testimony, thousands of angry letters calling for loophole-closing tax reform began pouring into the nation's capital, and the torrent showed no signs of stopping in the weeks and months that followed.[23] "There's a big black box ticking away in Congress," the *Washington Post* reported in April. "It's made from cardboard and loaded only with letters. Yet

[19] "Tax Loopholes Boon to Millionaires in U.S.," *Los Angeles Times*, April 5, 1968; Richard Spong, "Tax Reform: Much Debate, Little Doing," *St. Petersburg Times*, February 9, 1968; Marquis Childs, "Calls to End Tax Loopholes May Not Stir LBJ Action," *Morning Record*, August 17, 1967; Arlen J. Large, "Louisiana's Long," *Wall Street Journal*, January 6, 1966

[20] "Nixon Appointees/Committee Hearings," *NBC Nightly News*, January 17, 1969

[21] "Treasury Boss Warns of Tax Revolt," *Pittsburgh Press*, January 19, 1969; "Possibiliyt of a Taxpayers Revotl Seen by Barr," *Bonham Daily Favorite*, January 19, 1969

[22] "Tax Reform or a Taxpayers' Revolt?" *St. Petersburg Times*, March 29, 1969

[23] For one example received just days after Barr's testimony referencing "150 wealthy citizens" who paid "no tax at all," see Burgess to Harris, February 10, 1969, Harris Collection, B172, F12, CAC

it packs the wallop of dynamite. The box symbolizes a 'tax revolt' brewing in America." Placed in front of the entrance to the Ways and Means Committee's room, postal workers dumped hundreds of letters into the box several times a day for months after Barr's comments. They all had the same message: "[D]o something about the tax system to make it fairer." Members of Congress were overwhelmed by the public outcry. "I've never had more mail on a subject than I've had on tax reform," Henry Reuss said.[24] Congress was not the only government agency that heard from the public either. The Treasury Department, by one estimate, received 1,930 tax reform letters in February 1969, 20 times more than in February 1968 and more than it had received in *all* of 1968.[25] The president was not spared from what columnists Rowland Evans and Robert Novak called "torrents of spontaneous mail demanding tax reform."[26] One White House staffer called the amount of tax reform mail "almost incredible."[27] "I hope that one of your first important requests for legislation to the congress will deal with taxes…," one taxpayer wrote to Nixon. "I am referring to a statement that was made on January 17, 1969, by Mr. Joseph Barr, Treasury Secretary, quoting some startling figures about the 155 people in this country whose tax returns for 1967 was above $200,000.00 adjusted gross, on which they paid no federal income tax, and twenty-one of those whose income exceeded one million dollars. It is hard to believe these things exist. Wouldn't it appear that…'loop holes' that allow this type of action to prevail could be eliminated[?]"[28] Another frustrated taxpayer wrote to Fred Harris, an Oklahoma Democratic Senator and the Democratic National Committee's chair, "I as a taxpayer am <u>sick</u>

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[24] Michael L. Posner, "Congress Flooded by Tax Protests," *Washington Post*, April 14, 1969
[25] Eileen Shanahan, "Full Nixon Tax Reform Bill Seems Unlikely in '69," *New York* Times, March 20, 1969; Philip M. Stern, "How 381 Super-Rich Americans Managed Not to Pay a Cent in Taxes Last Year," *New York Times*, April 13, 1969; Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 215
[26] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 215
[27] Andrew Tully, "Washington Feels Pressure of Tax Revolt," *Reading Eagle*, July 8, 1969
[28] Greenway to Nixon, January 21, 1969, B172, F14, Harris Collection, CAC

and tired of all these loop holes in taxes that have been appearing in the newspaper…. Myself as a small income taxpayer knows that the big money earners don't pay the tax they should and would like this stopped."[29] The phenomenon amazed even veteran political reporters. "After years of confining their complaints to gin mills and Saturday afternoon barbecues, the forgotten middle American taxpayers have directed them, in letters and telegrams, to their representatives on the Hill," syndicated political columnist Andrew Tully commented. "It finally got through to Congress that this year the working stiff will not be satisfied with more promises."[30]

Indeed, many letter-writers cast themselves as members of the beleaguered "forgotten Americans" whose votes Nixon and the Democrats were vying for. They also made clear the blurry lines separating the local and the federal when it came to taxes. "It is a real injustice when there were people who made a million dollars, but paid no income tax," one Baltimore taxpayer wrote. "I make approx[imately] $7,000 and paid about $2,000 of that in taxes. I have a wife, two small boys, and a little bungalow with a big mortgage…. [I]n Maryland…in addition to federal taxes we must pay Maryland income tax, county income tax, almost $4.00 per $100 property tax, 3% sales tax (will go to 4% shortly)…." The letter-writer said he had no problem paying taxes, but found it "depressing" that the government asked for more from middle-income taxpayers at the same time that "those who could pay more escape through various loop holes." Middle-income taxpayers were "being pushed to the wall," he argued. Referencing the male-breadwinner, middle-class ideal, the letter-writer noted that, because of the pocketbook squeeze, either wives had to go to work or husbands had to take a second job. Both options cut into "the necessary time it takes to raise a family." The problems of the middle-class were "only getting worse." Taxes on the rich should be raised if the government by closing loopholes that benefitted

[29] Johnson to Harris, Undated [1969], B172, F14, Harrison Collection, CAC
[30] Andrew Tully, "Washington Feels Pressure of Tax Revolt," *Reading Eagle*, July 8, 1969

the wealthy, he concluded. "[S]omething has to be done to lighten the burden of the middle income taxpayers," such as increasing the $600 personal exemption.[31] In part, taxpayers' angry reactions to revelations of the extent of tax-free rich reflected a growing public cynicism towards authority and established institutions that extended well-beyond anti-war and civil rights protests and into the heart of the "Silent Majority." So deep was the discontent, that the *Congressional Quarterly Weekly Report* noted that the public response to Barr's revelations "rivaled the student protests against the Vietnam War."[32] It was only a slight exaggeration. "[T]he only time the politician seems to be concerned about the little people is at election time," a Washington letter writer despaired. "I am not surprised at this this [loss of faith in political leaders] by a good number of the people when they see the legal loop holes the wealthy use to avoid paying their just share of taxes. I realize the middle class citizen contributes very little (except his vote) to help the politician get elected, while the wealthy contribute generously to the campaign funds…[which] I surmise has a great deal to do with the legal loop holes written into the tax laws."[33] Combined with frustrations over their own tax bills, this cynical view of the lawmaking process proved to be a potent recipe for tax discontent.

The public's support for tax reform was more than merely anecdotal or an artifact of unrepresentative letter-writers. A Harris Poll confirmed that "a big tax revolt is taking place." The Harris survey was itself a sign of the times, since few pollsters had asked the public distribution-related tax questions since the 1930s.[34] According to the Harris study, 72 percent of Americans felt that their total tax burden – local, state, and federal – was too high. "The heart of

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[31] Linhart to Harris, February 1, 1969, B172, F14, CAC
[32] "Tax Relief Bill With Some Reform Provisions Reported," *Congressional Quarterly Weekly Report*, November 7, 1969
[33] Cleveland to Harris, April 27, 1969, B172, F13, CAC
[34] Authors' searches of the Roper iPoll and Odum Dataverse databases and Karlyn Bowman, "Public Opinion on Taxes: 1937 to Today" (American Enterprise Institute, April 2012)

the revolt is among lower and middle-income people who most feel the pinch of inflation but who are unwilling to see the spiraling cost of living halted by taxation," Harris reported. The anger was palpable. "Taxes are killing us," a 38-year-old steelworker in Hammond, Indiana, said. "We can't meet our payments on the house and the car and pay our taxes." Sixty-three percent of respondents also favored ending the anti-inflation surtax enacted by Johnson. They objected to it, in part, because they felt that "there are too many loopholes for the rich and big companies which ought to be tightened." Only the affluent, Harris found, believed that their tax load was reasonable.[35]

After reading the public's anger in letters and seeing it measured in polls, members of Congress experienced it first-hand during a "pulse-taking Easter recess." Across the country, senators and congressional representatives encountered angry voters "discontented over Vietnam and disgruntled about taxes and inflation," as the *New York Times* put it. The members of Congress surveyed by the *Times* said that taxes were "becoming the No. 1 issue." The resentment cut across governmental levels. "[T]he legislators found resentment over the tax load – federal, state, and local," the *Times* reported.[36] Taxes were "on everybody's mind," as Jamie Whitten a Mississippi Democrat put it. "The middle income man feels he is paying more than his share," Arkansas Democrat David Pryor said. "They say, 'What are you going to do about it, me paying all these taxes and these big millionaires getting off with noting?'" Few lawmakers encountered any evidence that this tax anger was directed at Great Society programs or portended rising anti-government conservatism. In fact, many members of Congress who represented working- and middle-class districts in states like Ohio were also reporting a "surpris[ing]" concern among their constituents about the possibility of anti-poverty programs

[35] Louis Harris, "Tax Revolt Boils as Apr. 15 Nears," *Milwaukee Sentinel*, April 7, 1969
[36] John W. Finney, "Congress Finds Voters are Frustrated," *New York Times*, April 15, 1969

being dismantled. While liberal Democrats were the most likely to see the "tax revolt" as a distributional issue, in the face of overwhelming public outcry, many Republicans understood it that way, too. "Feeling among my constituents is running at an all-time high on the paramount issues of inflation and needed tax reform," Michigan Republican William Broomfield said. "I cannot recall when my people felt as strongly as they do now on these two points." Texas Republican George Bush noted the same. Taxpayers in his district, Bush reported, "feel like they are overburdened and don't like the fact that some don't pay taxes at all."[37]

The public response to Barr's testimony surprised lawmakers, commentators, and Barr himself. "Frankly, I was amazed at the response," Barr wrote in his *Saturday Review* article. "The idea of a middle-class taxpayers' revolt caught the attention of the press, and the story was played up heavily around the country for a few days. Then the letters began to pour into the Treasury and Congress." "I just touched a very sensitive nerve," he concluded in *Newsweek*.[38] Commentators agreed. Editorials in local newspapers across the country called for sweeping tax reform in the wake of Barr's testimony and the public response. "Now a tax revolt by middle-income Americans has been predicted," a Eugene, Oregon, *Register-Guard* editorial noted. "And it may become a reality," the paper suggested presciently, "if sparky leadership emerges to champion this cause in the hard-hitting fashion [of] Ralph Nader…"[39] The Florence, Alabama, *Times Daily* argued that Barr himself was at least partly to blame for the public's simmering tax anger. "The matter of the extremely wealthy escaping their fair share of taxes, if not escaping them altogether, has been going on for years now..," its editorial read. "The time for action has long since past." The paper encouraged its readers to "ask your Congressmen, Senators, and

[37] John W. Finney, "Congress Finds Voters are Frustrated," *New York Times*, April 15, 1969
[38] "Taxes: How to Ease the Squeeze," *Newsweek*, February 24, 1969
[39] "Revolt Brewing Against Tax Inequities," *Eugene Register Guard*, February 2, 1969

President Nixon what they intend to do about these greave economic and social injustices."[40] Even conservative columnists Rowland Evans and Robert Novak came to accept that public resentment with tax unfairness was at the heart of the "tax revolt" and the need for reform. "The much-quoted warning of a tax revolt from Joseph Barr, Mr. Johnson's last Secretary of the Treasury, was merely new gasoline in a fire already roaring," they wrote in a February column, citing as evidence the "protest mail pouring into the Hill."[41] Just at the UAW predicted in 1967, forcing loophole-closing tax reform depended on "mail from back home."[42]

Suddenly politicians in both parties were scrambling to claim that they, too, were fighting for reforms that would benefit the "forgotten Americans." House Ways and Means Committee chairman Wilbur Mills, a moderate-to-conservative Arkansas Democrat, had declared tax reform dead in December.[43] Earlier in 1968, Mills had gone back on a promise to examine closing loopholes instead of instituting the surtax, and – with Johnson's delayed reform recommendations – little hope seemed to exist that the reform process could begin anytime soon.[44] In an editorial slamming President Johnson for failing to offer reform proposals before leaving office, the *New York Times* also blamed Mills for the tax code's poor state. "In the past ten years, Mr. Mills has talked more and done less about tax reform than any man in the history of the Republic," the editorial quipped.[45] Indeed, mainstream Democrats had stalled on reform during the Kennedy-Johnson years, despite pushing for reform under Eisenhower.[46] Significantly for the fate of tax reform, conservative-leaning Democrats controlled the most important tax-

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[40] "Taxation Without Representation?" *Times Daily*, January 21, 1969
[41] Rowland Evans and Robert Novak, "Spontaneous Grass Roots Tax Revolt," *Lodi News-Sentinel*, February 10, 1969
[42] "Tax Loophole Struggle Depends on Mail From Back Home," *UAW Washington Report* 7:43, October 23, 1967
[43] Rowland Evans and Robert Novak, "Enemies Share Secrets," *The Day*, December 30, 1968
[44] Drew Pearson, "Congress Raised Taxes But Left Big Loopholes," *Palm Beach Post*, October 13, 1968
[45] "Evading Tax Reform," *New York Times*, January 10, 1969
[46] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 214-215

related committees in both chambers, with Mills heading the House Ways and Means Committee and Russell Long heading the Senate Finance Committee.[47] As discussed in the previous chapter, a wide variety of groups and individuals on the left encouraged Johnson to close loopholes, rather than institute the surtax.[48] Wisconsin Democrat Henry Reuss had even attempted to force a tax reform bill before Johnson's surtax bill, to no avail.[49] And after Johnson requested the surtax, the Democratic Study Group had explored the possibility of closing a wide variety of loopholes and raising the personal exemption to as high as $1,000.[50] But moderates like Mills consistently shot down these proposals. However, just a few weeks after Barr's testimony and the publicity it generated, even centrist members of the Ways and Means Committee began talking reform. Republican John Byrnes used Barr's pronouncement to demand reform in a January 30th speech before the tax section of the American Bar Association.[51] Byrnes, the ranking Republican on the Ways and Means Committee, declared that "a review and reform of the [tax] code is essential."[52] And, "responding to a mounting clamor for reform," as the Associated Press put it, Mills announced reform hearings would begin in February.[53] But he also cautioned that any substantial reforms would likely have to wait until 1970, at the earliest.[54] Washington's newfound interest in tackling loophole-closing reform, Evans and Novak reported

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[47] James Reichley, *Conservatives in an Age of Change: The Nixon and Ford Administrations* (Brookings 1991), 83-85

[48] See, for example: "Remarks by Mr. Reuss," August 16, 1967, September 18, 1967, HSRP, B45, F27, WHS; CWA, "Taxes – A Fair Share for All Americans," Undated [1967], HSRP, B45, F27, WHS; "Billion-Dollar Loopholes for Rich Need Plugging Before Workers Are Asked to Pay More," *UAW Washington Report* 7:29, July 17, 1969

[49] "Needed: An Administration Tax Reform Bill Before the Surtax Bill Is Voted For," Undated [1967], HSRP, B45, F27, WHS

[50] "DSG Staff Memorandum," September 18, 1967, HSRP, B45, F27, WHS

[51] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 214-215

[52] Rowland Evans and Robert Novak, "Sentiment in Nation and Congress Far Ahead of Nixon on Tax Reform," *Washington Post*, April 25, 1969

[53] "Schedule Wide-Ranging Tax Study," *Fort Scott Tribune*, January 31, 1969

[54] "Overhaul of Income Tax Laws Is Slated," *Bryan Times*, January 30, 1969; "Wilbur Mills on Taxes and Spending," *Time*, February 21, 1969

in another column, "reflect[s] how much public opinion has stampeded tax reform," with middle-class taxpayers busy comparing "their fate[s] with that of millionaires excused from most or all taxation."[55] But, despite Byrnes comments and Mills's change of heart, not all moderates and conservatives embraced reform.

From the beginning, Nixon and his team were behind the curve when it came to understanding the public's growing tax anger. On the campaign trail in 1968, Nixon spoke only vaguely about taxes without offering any specific proposals.[56] Nixon's 1968 campaign was dominated by "partisan generalities" punctuated by somewhat more substantive – and more liberal – speeches designed to position Nixon as a moderate.[57] In stump speeches, Nixon blamed Democrats free-spending ways for inflation and high taxes. "If Mr. Humphrey is elected the American people will be forced to pay that $50 billion [in Humphrey's proposed programs] tab in higher taxes and higher price," Nixon told audiences. "In my view, the tax rate is too high; the spending rate at the federal level is too high – both should come down."[58] The idea that some taxpayers were struggling more than others or that the distribution of the tax burden needed to be addressed was not an argument made by Nixon. In fact, Nixon never mentioned tax reform in the 1968 campaign. His only distribution-related tax statements were in favor of additional special incentives – "loopholes" – for various projects and industries. Asked just before his inauguration about tax reform, the president elect quipped, "On any realistic list of our priorities, I would think tax reform would be pretty close to dead last." [59]

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[55] Rowland Evans and Robert Novak, "Tax Reform Stampede," April 26, 1969

[56] "Nixon Hits Hard at Wallace, LeMay" *Spokesman-Review*, October 4, 1968; "Nixon Answers," *News and Courier*, October 27, 1968

[57] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 11

[58] "Nixon Steering Campaign Toward Wallace Deserters," *Palm Beach Post*, October 9, 1968

[59] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 211-212

Indeed, as Nixon approached the issue of tax reform in the wake of the post-Barr testimony public outcry, some observers suspected that Nixon was primarily intent on avoiding blame, and therefore was more than happy to let Democrats take the lead when it came to the tax reform bill.[60] Someone needed to get hurt by reform, Nixon reasoned, and that meant that tax reform was just one more opportunity to create political opposition – especially among conservatives who were less-than-enthusiastic about a Democratic Congress with the charge to close "loopholes." Hoping to capture some of the political benefits of tax reform while avoiding blame for any unpopular measures among conservatives, Nixon met privately in February with Mills and Byrnes to let them know that the White House would cooperate with their tax reform efforts. Nixon was optimistic about the legislative prospects for reform, telling Mills and Byrnes, "We think alike on these matters."[61] Eventually, Nixon would come to regret this hands-off posture to tax reform. In the short term, though, Nixon was more concerned with another issue that was irking the public – inflation.

Curing the "Cruel Tax" of Inflation…with Taxes

In January 1966, the Consumer Price Index sat below two percent. But by the time Nixon was inaugurated, inflation was 4.7 percent – and rising.[62] Nixon and his economic team set out on a policy of "gradualism" to deal with inflation, which, they hoped, would slow the economy enough to combat rising prices, but not so much as to cause high unemployment or a recession. The two aims of "gradualism" were a balanced budget and stable monetary growth. The latter goal was influenced by University of Chicago economist Milton Friedman, whose argument for the primacy of monetary policy – rather than fiscal policy – in macroeconomic management was

[60] Joseph Kraft, "The Nixon Supremacy," *Harper's*, March 1, 1970, 48
[61] Harlow to Staff Secretary, February 24, 1969, PNWH-2
[62] FRED, Federal Reserve Bank of St. Louis (http://research.stlouisfed.org/fred2)

dubbed "monetarism." In Friedman's view, the private marketplace was inherently stable. Unlike the Keynesian practitioners of the "New Economics" in the Kennedy and Johnson administrations, who argued that the government should intervene to counteract booms and busts by altering the level and mix of taxes and spending, Friedman argued that fiscal policy was ineffective and that interventions of any kind only served to exacerbate things. He believed that government policies introduced instability into the system, which – if left alone – would always correct itself.[63] The crux of Friedman's argument when it came to inflation was that the "Phillips Curve" – which posited a tradeoff between inflation and unemployment (as one went up the other would go down, and vice versa) – was wrong, at least in the long run. The only way to stop inflation, Friedman argued, was to manage the money supply.[64] The goal for monetary policy, according to Friedman, was smooth, consistent growth, not expansion and contractions done in an attempt to counteract shifts in the private economy.[65] As he put it famously in 1962, the Federal Reserve should ensure that the money supply "rises month by month, and indeed, so far as possible, day by day, at an annual rate of X percent, where X is some number between 3 and 5."[66]

Several of Nixon's key economic advisers – especially CEA Chairman Paul McCracken and Labor Secretary George Schultz – as well as the president himself were close with Friedman

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[63] Allen J. Matusow, *The Unraveling of America: A History of Liberalism in the 1960s* (Harper, 1984), 53-58, 153-179; Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton, 2012), 180-214; Harry G. Johnson, "The Keynesian Revolution and the Monetarist Counter-Revolution," *American Economic Review* 61:2 (May 1971), 1-14; Edward Nelson, "Milton Friedman and U.S. Monetary History: 1961-2006," *The Federal Reserve Bank of St. Louis Review* (May/June 2007), 153-182; Todd Buchholz, *New Ideas from Dead Economists (*Plume 1989), 229-252

[64] Milton Friedman and Anna Schwartz, *A Monetary History of the United States* (Princeton 1963); Bennett T. McCallum, "Monetarism," *The Concise Encyclopedia of Economics* (http://www.econlib.org/library/Enc/Monetarism.html); Milton Friedman, "Taxes, Money, and Stabilization," *Newsweek*, November 5, 1967; Milton Friedman, "Money and Inflation," *Newsweek*, May 26, 1969; Milton Friedman, "Defining Monetarism," *Newsweek*, July 12, 1982; Milton Friedman, "Monetary Policy: Theory and Practice," *Journal of Money, Credit and Banking* 14:1 (February 1982), 98-118

[65] Allen J. Matusow, *Nixon's Economy: Booms, Busts, Dollars, and Votes* (University of Kansas, 1998), 13-15, 30

[66] Milton Friedman, *Capitalism and Freedom* (University of Chicago, 1962), 54

and believed, to varying degrees, in the core tenants of monetarism. "There was general agreement that the thrust of economic policy should be in the direction of cooling down the overheated domestic economy," McCracken noted, summarizing the first meeting of the "Quadriad" (McCracken, Treasury Secretary David Kennedy, Budget Director Robert Mayo, and Federal Reserve Chairman William McChesney Martin), "though it was recognized that this would have to be done carefully and gradually to minimize the adverse effect of these actions on unemployment."[67] In practice, this meant restraint in monetary policy and – because Nixon's advisers were not completely sold on Friedman's "monetarism" – fiscal policy, too, until inflation was brought under control.[68] By mixing monetarism with their residual faith in Keynesianism and dubbing it "gradualism," Nixon and his economic team temporarily created the impression – for themselves, most of all – that they were trying something new and novel in the fight against inflation. In reality, "gradualism" resembled nothing so much as the old-fashioned sound-money Republican economics Nixon blamed for his loss to John F. Kennedy in the 1960 presidential race. And it did not take long for the president to come to this conclusion himself.

Nixon was a reluctant inflation fighter. As a candidate, Nixon recognized that inflation had the potential to become a political issue – which is why it was the main economic matter on which Nixon criticized his Democratic opponent Hubert Humphrey in the 1968 campaign. Most Republicans expected that Nixon would carry his anti-inflation fiscalism into the White House. For party traditionalists like Dwight Eisenhower, the idea that a conservative would do anything other than place fighting inflation first was unthinkable. "I think Dick's going to be elected President," Eisenhower told a Nixon adviser during the 1968 campaign. "But I think he's going

[67] McCracken to Bull, February 6, 1969, SMOF McCracken, B 1, F Presidential Meetings Quadriad Jan-July [1969], RNPL
[68] Allen J. Matusow, *Nixon's Economy: Booms, Busts, Dollars, and Votes* (University of Kansas, 1998), 15-18

to be a one-term president. I think he's really going to fight inflation, and that will kill him politically." But, even upon taking office after excoriating Democrats for inflation during the campaign, Nixon was ambivalent about his role as a potential inflation fighter.[69]

The new president was leery of any attempts to fight inflation that might cause unemployment to rise. Rather than carry on Eisenhower's anti-inflation fiscalism, Nixon hinted early in his presidency that he might prefer to pursue the type of growth fiscalism pushed his Democratic predecessors. Nixon had long believed that Eisenhower and the Federal Reserve's excessive concern over inflation had created the sluggish economy in 1960, which Nixon blamed for his narrow loss to Kennedy.[70] Unemployment, Nixon concluded, was far more politically damaging than inflation. "Let's never get into the position where we accept unemployment as a certainty," Nixon explained to the newly created Cabinet Committee on Economic Policy in February. "I don't go along with the ideas that will see us as heroes on inflation and villains on unemployment. That will take us to the point where no conservative will ever be elected again. The public has had eight years without a recession and now we have a new Administration and it has promised better management. We can't allow – wham! – a recession. We will never get in [elected] again."[71] Though Nixon did not mention his own presidential fortunes in 1960, he used an example from the Eisenhower years to make clear to the committee that there were political costs for Republicans to be seen as the low-inflation, slow-growth party. "I remember '58," Nixon said. "We cooled off the economy and cooled off 15 Senators and 60 Congressmen at the same time. I recognize the danger of inflation – but there is no way to get a deficit faster than to

[69] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 178-182
[70] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House, 1971), 13
[71] Cabinet Committee on Economic Policy Minutes, February 13, 1969, Safire Papers, B2, F9, LOC

bust the boom."[72] Indeed, this was an anecdote Nixon would use on multiple occasions to illustrate the perils of slow-growth policies.[73] "Gradualism," at least initially, held out the hope for Nixon that he could claim credit for solving inflation without paying the political price of obviously slower growth or higher unemployment. But abstract economic arguments would not win over Nixon for very long. "You can make every argument in the world economically, but you have to consider political timing," Nixon told the committee in April. "Whenever political considerations are not present, we can afford to look at things purely from an economic standpoint. But that will not be often."[74] Indeed, those moments were exceedingly rare throughout Nixon's presidency.

The biggest obstacle facing Nixon and his economic team upon taking office was the Federal Reserve and its chairman, William McChesney Martin, whom Nixon inherited from Lyndon Johnson. Ostensibly, the Federal Reserve is wholly independent of the White House and Congress. But presidential appointment of Fed chairs often ensured close relationships – especially ideological similarities and policy cooperation – between chairs and presidential administrations. Most importantly, presidents felt dependent on the Fed to pursue policies that would dovetail with their domestic objectives and help – or at least not hurt – their political fortunes by ensuring a healthy economy. In practice, this meant informal coordination of an administrations' fiscal policies and the Fed's monetary policies. But this relationship still operated with the clear understanding that the Fed was an independent body. If the White House or Congress disagreed with the Fed's actions, it had no legal recourse to shift it. And the expectation existed that the White House would not attempt to do so – or even publicly express its disapproval with the Fed's choices. Perhaps more than any other administration before or

[72] Cabinet Committee on Economic Policy Minutes, April 10, 1969, Safire Papers, B2, F9, LOC
[73] Buchanan to Nixon, March 17, 1970, PNWH-2
[74] Cabinet Committee on Economic Policy Minutes, April 10, 1969, Safire Papers, B2, F9, LOC

after it, though, the Nixon team did not believe in the Fed's independence. In February 1969, Nixon explained to his economic team that they needed to "influence the Fed." Arthur Burns – Nixon's closest confident on economic policies dating to their time in the Eisenhower administration – agreed with the president. Burns recalled how the anti-inflation Eisenhower had always talked about the independence of the Fed. There was a problem with that, though, according to Burns. "They begin to believe it," he quipped. "Let's not make that mistake and talk about the independence of the Fed again."[75]

Nixon would not repeat that mistake. But Federal Reserve Chairman Martin did not seem willing to relinquish his independence. Martin believed that a determined effort of tight money was the only way to restrain upward pressure on prices and break the country's "inflationary psychology" – the expectations of businesses, consumers, and workers that inflation would continue. When Nixon took office, Martin and the Fed were raising interest rate – making it more expensive to borrow money. The Federal Funds Rate – the interest rate most directly controlled by the Fed – had been climbing steadily throughout 1968, but it shot up quickly after Nixon took office, from just over six percent in January to nearly nine percent in June. The money supply was flattening out, too, and the annual rate of growth in the money stock was falling.[76]

Martin's commitment to fight inflation at all costs frustrated Nixon. Tight money meant high interest rates, which impacted the housing market and consumer borrowing – a significant political concern. The "Federal Reserve squeeze" of a rising Federal Funds Rate was gradually working its way into the economy. By mid-January, banks had raised their prime rate – the minimum rates charged to loans on businesses – three times in five weeks, driving it to 7 percent,

[75] Cabinet Committee on Economic Policy Minutes, April 10, 1969, Safire Papers, B2, F9, LOC
[76] FRED; McCracken to Nixon, March 2, 1970, WHCF EX-FI, Finance [1 of 14, January 1969 – May 1970]

the highest level in its 40-year history.[77] Banks continued raising their rates. By March the prime rate hit 7.5 percent.[78] "Bankers expect higher charges to spread to all types of consumer and mortgage loans," *U.S. News and World Report* noted, suggesting that "the squeeze on borrowers seems likely to get even tighter."[79] That was exactly what worried the Nixon team. In late-January, HUD Secretary George Romney announced an "emergency" increase in the interest rate ceiling on government-backed mortgages, from 6.75 percent to 7.5 percent in order to increase the flow of mortgages into the housing market.[80] But some states had usury laws with limits lower than the new 7 percent federal ceiling, meaning that HUD's change had little effect on increasing the flow of money into housing markets in states like Michigan, Illinois, and New York.[81] Even in states that could accommodate the new FHA ceiling, the situation was far from ideal, especially for working- and middle-class Americans, who were seeing the dream of home ownership climb further out of reach with each upward tick in the interest rates. "High interest rates have eliminated the lower class from the housing market and are quickly eliminating the middle class from the market too," a Fairfield, Connecticut, homebuilder explained at the 1969 meeting of the National Association of Homebuilders. Hikes in interest rate ceilings made buying a home "easier but more costly," as the Associated Press put it.[82] "People will now have to earn about $1,000 more a year to qualify for FHA loans," a D.C. homebuilder told the *U.S. News and World Report*. "And those previously on the border line will be cut off from buying

[77] "Crackdown on Inflation Begins," *U.S. News and World Report*, January 20, 1968; "Higher Loan Costs for Consumers?" *U.S. News and World Report*, January 20, 1968
[78] "Interest Rate Hike Likely to Seep to Consumer Levels," *Daytona beach Morning Journal*, March 18, 1969
[79] "Crackdown on Inflation Begins," *U.S. News and World Report*, January 20, 1968; "Higher Loan Costs for Consumers?" *U.S. News and World Report*, January 20, 1968
[80] "U.S. Eases Ceiling on Mortgage Aid," *Milwaukee Journal*, January 25, 1969; "Nixon Administration Raises Mortgage Ceiling," *The Sun*, January 25, 1969
[81] "Interest Rate Breaks Some Usury Laws," *Milwaukee Journal*, January 30, 1969
[82] "Buying House May Be Easier But More Costly," *Daytona Beach Morning Journal*, January 19, 1969

homes they need."[83] The situation was hardly promising for a presidential administration hoping to woo the "forgotten Americans," many of whom lived near that "border line."

The White House hoped that if it demonstrated an unswerving commitment to fiscal responsibility that Martin would loosen his grip on the monetary reigns. "The administration is determined to contain the inflation that pushed interest rates to the highest level in history," Romney said when he announced the hike in the interest rate ceiling. "As the anti-inflationary budget and monetary policies take effect and the excessive steam is removed from the economy, all interest rates – not just mortgage rates – can be expected to return to more normal levels."[84] Unfortunately for Nixon, securing the budget half of that "anti-inflationary" plan meant securing an extension of Johnson's inflation-fighting 10-percent income "surtax." Nixon had run against the unpopular tax during the 1968 campaign. But, even before taking office, the new president had reluctantly agreed to support its extension, at least in part due to personal appeals from Johnson and Wilbur Mills. True to his word, immediately upon taking office Nixon began working behind the scenes to secure congressional support for an extension of the surtax through June 1970.[85]

But it quickly became clear to Nixon that ushering the surtax through Congress would not be easy. Nixon's surtax extension was even less appealing than Johnson's original, since it was, in effect, more than three percent higher than LBJ's. Johnson's 10 percent surtax only applied to nine months of 1969, while Nixon's would apply to all 12 months of 1970.[86] Burned once by a president who had promised reforms in exchange for a surtax and buoyed by the public outcry

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[83] "Where High Interest Rates Hurt: A Look at the Money Squeeze," *U.S. News and World Report*, February 17, 1969
[84] "U.S. Eases Ceiling on Mortgage Aid," *Milwaukee Journal*, January 25, 1969
[85] Rowland Evans and Robert Novak, "Nixon's Surtax," *The Day*, January 16, 1969; "Mills Says Surtax Won't Be Extended," *Spokesman-Review*, December 3, 1969; "Nixon Visits House, Asks Surtax Extension," *Daytona Beach Morning Journal*, January 28, 1969
[86] Democratic Study Group, "DSG Fact Sheet No 91-6," June 23, 1969, Harris Collection B281, F5, CAC

for reform, some congressional Democrats were now hinting that they would not accept a delay in tax reform any longer – especially after Barr's embarrassing testimony – no matter how badly Nixon wanted the surtax extended.[87] In a speech to the Detroit Economic Club in April, Ted Kennedy, one of Nixon's biggest political enemies, grabbed headlines by pledging to make extension of the surtax conditional on tax reform.[88] Kennedy was only one of many Democrats linking the two issues. Rumors had swirled for weeks that Henry Reuss would attempt to delay the surtax until reform had passed the House. And it seemed clear that Kennedy and Reuss were not the only Democrats with the idea.[89] Nixon's only path to the surtax, it seemed, was through reform.

The Left, the Center, and the Case for Bold Reform

Labor unions, left-leaning activists, and populist Democrats – all of whom had been pushing progressive reform for years – enthusiastically welcomed the sudden attention to the unfairness of the U.S. tax system. Barr's testimony and the public backlash that followed provided the type of opening for which left-distributionist reformers had been longing since the failed reform efforts surrounding the Kennedy tax cuts and the Johnson surtax. Now, the reformers hoped, the tax discussion could be moved away from fiscalism, of either the Eisenhower or Kennedy variety, and towards a more distribution-conscious framing.

Sensing opportunity, left-distributionist reformers moved to amplify the public's discontent and propose alternatives to fiscalism. The liberal Democratic Study Group publicized the revelation that 24,084 Americans with incomes over $10,000 paid no income taxes, including

[87] Drew Pearson, "LBJ Leaves Hot Potato for Nixon," *Toledo Blade*, January 31, 1969
[88] Eileen Shanahan, "Kennedy Couples Surtax to Reform," *New York Times*, April 9, 1969
[89] Richard Bradee, "Apr. 15 Unveiling on Tax Reforms," *Milwaukee Sentinel*, April 2, 1969

21 millionaires, by dubbing the latter the "Twenty-One Club."[90] As tax reform hearings began in Mills's House Ways and Means Committee and the media, the labor-liberal coalition made its case for sweeping loophole-closing reforms and relief for low- and middle-income taxpayers. Labor unions, in particular, pushed hard for radical reforms in 1969, especially the UAW. "Americans have tax reform running out of their ears these days…," the *UAW Washington Report* declared in February, before hearings began. "It's a whole new legislative ball game. Tax reform is in the air…. And thus everybody from Nixon to Wilbur Mills, from John Byrnes to Sen. Ted Kennedy is coming on strong with tax reform." Finally, after pushing for years, it seemed reform was certain. The big questions, the UAW told its members, were "how much and how far." The UAW warned that "special interest lobbyists will troop to Capitol Hill in droves with hard luck stories about how tax concessions are in the national interest," meaning that "the voice of the average American taxpayer may get lost in the shuffle during the hearings."[91]

UAW president Walter Reuther advanced a distributionist understanding of the tax revolt and called for sweeping reforms in his long, detailed Ways and Means testimony. In discussing taxpayers' discontent, Reuther painted a portrait of justifiable outrage, rather than nascent conservatism. With the surtax and other recent tax increases, "the ordinary taxpayers' burden is becoming increasingly difficult for him to bear," Reuther said. The issue was not simply the level of taxes, but the distribution of the tax burden across all levels of government. State and local taxes, were "especially onerous," Reuther said, because they were "regressive in nature." When combined with the level of taxes and the tax mix, the loopholes in the tax code proved to be too much for average taxpayers to tolerate. Yet, Americans were not inherently anti-tax or anti-government, Reuther argued. "American taxpayers…[who] find them [taxes] going up at the

[90] Democratic Study Group, "DSG Fact Sheet No 91-6," June 23, 1969, Harris Collection B281, F5, CAC
[91] "Tax Reform Takes Congressional Front Seat These Days," *UAW Washington Report* 9:6 (February 10, 1969)

state and local level, at the federal level…would carry that heavy burden if they believed…everyone else was carrying his proportionate share," Reuther said. "But when you have a system that taxes the poor deeper into poverty, that places a disproportionately heavy portion of the tax burden upon low-income families, moderate-income families and middle-income families, while permitting many wealthy families and wealthy individuals to escape their tax obligations and providing wealthy corporations with large tax loopholes…then you have what we believe to be an intolerable and indefensible tax structure." For decades, taxpayers had been told that rising taxes were essential to pay for the war in Vietnam or vital services, Reuther continued, but now "they look about them and they see people with very large incomes…who do not pay their taxes." That, Reuther testified, was "the essential source of the growing taxpayers' revolt."

To illustrate his point, Reuther presented a graph of effective federal income tax rates culled from the Johnson administration's Treasury studies that showed how the difference between the effective rate and the statutory rate grew as income rose. Low- and middle-income taxpayers paid what the law called for, Reuther said, while the rich used loopholes to pay far less. Reuther also cited the December 1968 *U.S. News & World Report* estimation of the total tax burden that showed that low- and middle-income taxpayers paid higher average tax burdens than the rich when taxes from all levels of government were considered. For a time, the public just suspected that this was the case. Now, testimony like Barr's and reports in the media were confirming Americans' suspicions that something was fundamentally rotten in the U.S. tax system. "[T]he American people at one time believed that we had essentially a tax system that was progressive…and now they find out differently – and this is every day in the press," Reuther said. "Someone testifies before your committee…or before some other public forum. And more and more the American people understand that while they are paying their taxes, that there are more than 12,000 taxpayers based upon the 1966 figures who had an income averaging over $35,000 a year and paid no taxes whatsoever." Americans understood "for the first time," Reuther said, that the tax system was "in theory progressive," but "in practice regressive," and they were not happy about it. "The people see these tax inequities and they are justifiable angry. They are going to get angrier unless Congress acts…," Reuther warned. "The deep rumblings of a taxpayers' revolt are becoming more audible as the small- and middle-income homeowner is forced to carry a disproportionate share of the tax burden while the rich, by taking advantage of the many tax loopholes available to them, escape paying their fair share."

Like his diagnosis, Reuther's solutions were decidedly left-distributionist. The UAW head proposed providing tax relief in the form of tax credits targeted to low- and middle-income taxpayers, instead of deductions that benefitted the rich, too. He also proposed an increase in the personal exemption – from $600 to $1,800, plus $900 for each dependent. To finance these relief measures, Reuther called for closing numerous loopholes, including ending the preferential rate for capital gains and deductions for "fictitious farm losses." Conservatives, however, objected to the idea that inequities were really what was upsetting most Americans. Ranking Republican John Byrnes argued to Reuther that the "tax revolt" had more to do with the level of taxation than with its distribution. "I don't find many people paying taxes that aren't saying that the burden is heavy," Byrnes quipped.[92] But neither Reuther nor other labor leaders argued that the level of taxes had nothing to do with the public's resentment. Rather, they were making a more nuanced argument about the combination of rising – often regressive – taxes with the drumbeat of revelations illustrating the unfairness of taxes at all levels of government.

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[92] "Tax Reform, 1969," Part 13, Hearings Before the Committee on Ways and Means, House of Representatives, April 3 and 14, 1969 (GPO 1969)

Other unions echoed Reuther's diagnosis of the "tax revolt" and his calls for reform. Joseph Beirne, the president of the Communications Workers of America, wrote to Nixon in March to advocate for tax changes titled toward low- and middle-income taxpayers. Merely tinkering with the current flawed system, Beirne argued, would do little to tame the nascent tax revolt. "Our reading of the sentiment of CWA members indicates that a tax rebellion may soon be the product of gathering discontent over the lack of equity in the tax laws…," Bierne explained. "Working people…must endure an unfair tax burden, and they resent it. The American people need a fair tax system – not some day, but now…. During the year of the surtax, the rich have continued to enjoy tax favors – while the pressure of inflated prices and even heavier taxes has rested on the shoulders of wage earners…. This lack of balance erodes the morale of working people, it breeds suspicion and distrust." The CWA called for an increase in the standard deduction and the personal exemption and an end to the preferential rate for capital gains, among other reforms. [93]

Jacob Clayman, the director of the AFL-CIO's industrial union department, also argued in his testimony before the Ways and Means Committee that concerns about rising tax burdens and the system's unfairness were intertwined causes of the "tax revolt." "To be completely candid, the tax burdens, federal, state, and local, imposed upon our members are already so great we can, indeed, anticipate a widespread revolt unless reforms are achieved and public confidence is restored," he testified. "I get around the country speaking to our members, and I think that I can report a noticeable, perceptible restiveness, and frankly a growing sense of indignation. Now, it is not altogether against taxation per se, although that is probably part of it, but against what they believe to be the uneven and unfair weight of taxation." Clayman called for an

[93] Bierne to Nixon, March 27, 1969, WHCF Gen FI 11-4, Taxation/Income [2 of 24 April 1969]

increase in the personal exemption, which had been eroded by inflation, to move it closer to its original purpose when enacted – allowing for "essential needs." He also suggested the reinstitution of the earned income credit, which had existed prior to World War II. While average Americans had seen their wages eroded by inflation and higher taxes, Clayman argued, the wealthy and corporations had "been the beneficiaries of a series of 'Christmas tree' tax bills."[94]

While most unions supported the same loophole-closing reforms, they differed on the balance of tax cuts and spending increases that should follow. Compared to the UAW, the AFL-CIO supported using the money raised from loophole closing less for tax relief than for federal spending. While somewhat vague, overall the UAW's relief proposals exceeded even the most generous relief proposals offered by left-leaning Democrats. In contrast, the AFL-CIO's proposals offered less generous tax relief than the UAW's plan – though more generous than most Republicans and conservative Democrats supported – and earmarked more of the money saved from loophole-closing for federal spending. Andrew Biemiller, the AFL-CIO's legislative director, and Nathaniel Goldfinger, the union's research director, presented testimony on behalf of George Meany. "The 13.5 million members of the unions of the AFL-CIO are, almost without exception, taxpayers…loyal Americans," Meany's prepared testimony began, in almost Nixonian language. "They appreciate the value of government, the services of government, the need for paying for government. They are willing to pay their share. But they are tired…of having to pay the share of…those Americans whose income are greater and whose taxes are lower – the loophole set in today's society." The AFL-CIO was, Biemiler and Goldfinger testified, "the largest organized group of taxpayers in America." The AFL-CIO's loophole-closing proposals were similar to the UAW's, including ending the capital gains preference and the oil depletion

[94] "Tax Reform, 1969," Part 12, Hearings Before the Committee on Ways and Means, House of Representatives, March 28, April 1 and 2, 1969 (GPO 1969)

allowance. The union projected that its proposals would raise between \$15 and \$17 billion, \$6.7 billion of which it suggested be used for tax relief and the rest for spending.

Like Reuther, the AFL-CIO pointed to rising state and local taxes as a reason for enacting relief targeted at low- and middle-income Americans. "Federal income taxes are not the only taxes American must pay," Meany's statement noted. "In fact, though federal income tax revenues have grown and still loom largest among the taxes paid by most individual, state and local taxes have grown at a faster pace." These state and local taxes, especially "levies on property and sales," hit "those whole ability to pay is the least." An AFL-CIO study presented to the Ways and Means Committee found that between 1963 and 1968 only those making more than \$35,000 saw a real increase in income after federal, state, and local taxes were taken into account, and the lower one's income, the more one fell behind, with the poorest seeing a 14 percent fall in income and a worker making \$10,000 seeing a 3 percent fall in income. What was needed, Biemiller said, was "tax justice."[95] A month after the AFL-CIO's testimony, the union reprinted its tax proposals in its *American Federationist* newsletter and published it as a standalone pamphlet titled "The Case for Tax Justice."[96] It also released a fact sheet, "The Urgent Need for Tax Justice" outlining the loopholes the union wanted closed and the relief measures it wanted enacted. Like the union's congressional testimony, the fact sheet made the link between loopholes and high taxes on low- and middle-income taxpayers clear. "The biggest legislative issue before the 91st Congress affecting the average worker's pocketbook is the federal income tax; particularly, its shortcomings…," the AFL-CIO "Fact Sheet" declared. "A multitude of tax loopholes, exceptions, and special provisions enable high income Americans to escape their fair share of taxes – totally escape in some cases – and thereby cause a heavier tax

[95] "Tax Reform, 1969," Part 12, Hearings Before the Committee on Ways and Means, House of Representatives, March 28, April 1 and 2, 1969 (GPO 1969)
[96] AFL-CIO, "The Case for Tax Justice," April/May 1969, Cohelan Collection, B40, F53, CAC

burden to be borne by the wage and salary American. The need for tax justice…is long overdue and critically urgent."[97]

As their leaders were testifying before Congress, union locals were taking matters into their own hands to press for reform. Reuther pointed to a tax reform petition addressed to Wilbur Mills circulated by a Ford UAW local in Detroit. In two short paragraphs, it called for closing loopholes like the depletion allowance, the investment tax credit, hobby farm deductions, and unlimited charitable deductions in order to aid "low and middle income workers," including increasing the personal exemption from $600 to $1,200. Reuther noted that the petition was a "spontaneous local union effort" – some of its suggestions differed from the national UAW's – which proved that the public was genuinely angry. "Members of Local 600 began showing the petition to their neighbors and they wanted to sign it, too," Reuther said. The local received over 100,000 signatures in just a few weeks from "Ford workers, other workers, housewives, retirees – men and women who are angry at the injustice and inequity they see in our present tax system, and who are petitioning you, as members of Congress, to do something about it." Reuther argued that the "taxpayers' revolt" in the U.S. had loose parallels with the "revolution of rising expectations" among "have-nots" in countries around the world, including "the emerging nations of Africa and Asia." Both were rooted in the realization that the economic injustices that existed were "not something ordained by almighty god," and could be addressed by action. American taxpayers had been "kept in the dark" when it came to the "glaring fact that they were are paying their taxes and part of somebody else's taxes," but now that they knew, it was causing the tax revolt.

And the Detroit Ford UAW local Reuther cited was not the only local union organizing

[97] AFL-CIO, "The Urgent Need for Tax Justice," 1969 Fact Sheet No. 1, April/May 1969, Cohelan Collection, B40, F53, CAC

around taxes. Many unions were actively encouraging the "tax revolt" and calling for their members to get involved in advocating for bold reform. The 169,000-member New York City council of the Teamsters Union was typical. On tax day, the union published a pamphlet on tax reform titled "Collective Bargaining Is Not Enough," which quoted sources like Philip Stern's 1964 muckraking book *The Great Treasury Raid* on the inequities in the tax code. Inflation was eating away at workers wages while simultaneously making them pay higher taxes, the union charged. "The tax collector does not pay dues to the union, walk the picket line or risk anything, but nevertheless extracts his greedy share from every collective bargaining gain made by the workers, even when the inflationary spiral alone devours most or all of that gain," Nicholas Kisburg, the union's research and legislative director, explained. The union calculated that between 1956 and 1968, its members received a nominal $30 increase in weekly wages, but taxes took $16 of the increase and inflation took an addition $13, leaving a real gain of only slightly more than a dollar per week. "Plainly, collective bargaining by itself no longer enables the workers to even hold his own, let alone forge ahead and bring about a more equitable distribution of the national income and wealth," Kisburg declared. The "grossly inequitable tax structure" was to blame. "It is sheer fantasy to believe that the truly rich are being taxed to provide welfare state financing to the very poor," Kisburg wrote. "On the contrary, it is the employed poor, those workers just above the poverty level and the few who have reached a moderate level of living, who are footing the bills for the very poor, leaving the rich and the very rich relatively untouched." The rich were "avoiding their fair share," the pamphlet explained, by using the capital gains preference, hobby farming, and oil depletion, among other loopholes. "The loopholes and, even more, the tractor-trailer breaches in the tax structure can be plugged up if only the labor movement will devote to this task the same energy and zeal it can muster when the challenge is bringing more dues payers into the fold," Kisburg concluded.[98] Smaller locals across the country got into the act, too, including an Oklahoma local of the Communication Workers of America, which sent copies of petitions asking for the elimination of the surtax and for "Congress [to] take steps to change the federal tax structure to close loop hopes, legal and illegal, by which certain people use to avoid their fair share of income taxes" to their state representatives, as well as Wilbur Mills, among other lawmakers.[99] Labor unions' bold reform proposals, it seemed, had the weight of the rank-and-file behind them.

A more modest, yet clearly left-distributionist, reform proposal came from Henry Reuss, who distilled many progressive Democrats' views on tax reform in his Ways and Means testimony. Reuss argued that – instead of extending the surtax – Congress should raise the same amount of money by closing loopholes, including cutting the oil depletion allowance and limiting farm losses, among other reforms. Reuss said the "taxpayers revolt" required a new approach to tax policy. Tax reform could be used to fight inflation, Reuss argued. Accelerated depreciation, the hobby farm loophole, and the investment tax credit, among other special preferences, artificially boosted the demand for – and prices of – certain capital goods, like farmland and real estate. The investment tax credit also contributed to high interest rates and tight money, he testified, by lowering real borrowing costs for businesses and boosting the demand for loans. "It is not fair to ask the less fortunate in society to bear the burdens of stopping an inflation in the form of mounting unemployment," he said. Raising revenue through closing loopholes was a fairer way of fighting inflation that cutting the budget and slowing growth.[100]

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[98] "Collective Bargaining Is Not Enough," WHCF EX FI-11 Taxation [2 of 20 April 1969], RNPL
[99] King to Harris, Harris Collection, B172, F14, CAC
[100] "Tax Reform, 1969," Part 13, Hearings Before the Committee on Ways and Means, House of Representatives, April 3 and 14, 1969 (GPO 1969

As the Ways and Means Hearings progressed, a flurry of exposes in newspapers and magazines reiterated – and, often, amplified – the arguments made by left-leaning reformers. Most of the these reports also – often overtly – indicated their sympathy for the nascent tax revolt. *Time* ran a lengthy piece on taxes in April, making it clear that the newsweekly approved of the revolt. "In a spontaneous outpouring of popular indignation, citizens by the thousands have deluged Washington with complaints about rising taxes," the magazine noted. "With much justice, they insist that the whole U.S. tax structure is inequitable, capricious and economically damaging." Cast against the revelation that millionaires were escaping taxation, the surtax extension seemed cruel to many Americans, according to *Time*, especially when considered against the rising tide of state and local taxes. "Last fall, voters showed their ire by turning down 55% of local bond issues, double the rate at which such borrowing has been rejected in recent years," *Time* noted. "Youngstown, Ohio, for example, was forced to close its public schools for a month because voters defeated tax increases six times." While rising taxes at all levels of government were part of the problem, hikes alone could not explain the tax revolt. According to *Time*, "What upsets Americans most is the feeling that they are being cheated." The government could no longer afford to put off reforms. By the end of the piece, the centrist newsweekly sounded like it was writing copy for one of the angry union locals' tax petitions. "Inaction will…have a corrosive effect on morals as well as public attitudes…," it argued, "[because] tax inequities can only increase today's growing disrespect for institutions and laws of all kinds.[101] And the *Time* article was only one of many reports on the "tax revolt" that hit newsstands in early-1969.

Like the UAW or the AFL-CIO, *Newsweek* saw the revolt as the result of both rising tax

[101] "Why Tax Reform Is So Urgent and So Unlikely," *Time*, April 4, 1969

burdens on average Americans and the inequity of the tax code. With a cover announcing "TAXES: How to Ease the Squeeze" – accompanied by an illustration of a distressed man been crushed by a nutcracker held by Uncle Sam – *Newsweek* ran a series of articles in February recounting the rising tax burden on moderate-income taxpayers and the "loopholes" that allowed the more well-off to escape taxation. *Newsweek*'s account was a rejoinder to skeptical commentators and members of Congress who dismissed the "tax revolt." Rising tax burdens, the newsweekly noted, were a result of rising living standards and expanded services that the public liked. But it was "difficult to sell" rising tax burdens to average Americans because of "the often absurd inequality of the present tax structure." The "middleclass taxpayer…is gouged on one side by the federal surcharge, nicked on another by a city income tax and squeeze on a third by a new tax levied by the hard-pressed government of his state." This mass of angry middle-income Americans were, as one taxpayer quoted by the magazine complained, "too rich for welfare, too honest or too afraid to cheat, too poor to afford slick tax lawyers." The poor were "soak[ed]," too, *Newsweek* noted, especially by state and local taxes. Corporations and the wealthy, in contrast, used their money to "exploit" the U.S. tax law's "for private profit." The "biggest" problem with the tax code, the magazine explained, was "the perfectly legal way the rich and superrich shortchange the IRS with financial razzle-dazzle," including straightforward methods, like taking advantage the "preferential treatment" for capital gains, municipal bonds, or the charitable deduction. Average Americans, therefore, had "righteous reasons to complain," *Newsweek* concluded.[102]

An accompanying article, titled "How to Make Millions and Pay Not a Cent" provided a biting analysis of the "loopholes" that riddled the tax code, buttressed by anonymous case studies

[102] "Taxes: How to Ease the Squeeze," *Newsweek*, February 24, 1969

in the style of the Johnson Treasury's report to Congress. "A loophole, in military parlance, is a small opening in the walls of a fortress that permits a defender to fire upon besiegers without unduly exposing himself," the article began. "To the rich man, the tax loophole is a means of defending his fortune and income from the depredations of raiding tax collectors. To the collectors and many ordinary citizens who have no loopholes of their own, it is an abomination." In an even clearer explication than Barr's testimony, *Newsweek* explained that IRS data showed that in 1967, "there were scores of people with incomes in six figures who paid no income tax at all because of legal loopholes and some were millionaires." The magazine provided its readers with a helpful contrast, noting that "the tax on an unmarried person with a bare-subsistence income of $1,700 was 117.40, almost 7 percent of his income." The story then outlined in plain, clear language a variety of the most important "loopholes" – including the effective 25 percent maximum rate on capital gains, the depletion allowance, and tax-loss farming – that allowed some of the rich to pay such low rates. Then it turned to a series of case studies. "Taxpayer 'C' had a total income of $2.3 million. Part was capital gains, the deductible portion of which reduced taxable income to about $1.9 million," one outlined. "Against this, taxpayer 'C' had a 27 ½ percent oil and gas depletion allowance of $900,000 which brought taxable income down to $1 million. Taxpayer 'C' also had a farm 'loss' – most of it resulting from a heavy investment in new breeding cattle – of more than $800,000. This 'loss,' together with nearly $200,00 in normal personal deduction, reduced taxpayer 'C's' taxable income to zero."[103]

In April, the *New York Times* printed a long expose of tax loopholes written by Philip Stern – the author of *The Great Treasury Raid* – provocatively titled "How 381 Super-Rich Americans Managed Not to Pay a Cent in Taxes Last Year." Spread over eight pages, Stern's

[103] "How to Make Millions and Pay Not a Cent," *Newsweek*, February 24, 1969

muckraking report was accompanied by cartoons depicting the cigar-smoking, mink-wearing wealthy sheltering themselves from the downpour of the tax code with umbrellas made of oil depreciation allowances and farm losses. The "tax avoidance exploits" that allowed the "super-rich" to escape taxes were "dramatically on the rise," Stern reported. "In just 12 years' time, taxlessness among those with incomes of more than $1-million has increased five-fold," the report noted, "for those with incomes greater than $200,000, there has been a seven-fold increase – far outstripping the number of people in each category." Barr's "now-famous" testimony revealed nothing new, Stern wrote. In fact, it understated the problem. Like the *Newsweek* report, Stern's *Times* article went through a series of case studies – some named, some left anonymous – outlining the various strategies used by upper-income individuals to avoid most or all of their income-tax obligations. By generating paper losses through various deductions and depreciation write-offs, Stern wrote, "multi-millionaire tycoons…suggest they are atrocious businessmen" to the IRS. Firms facilitating the legal avoidance of taxes had become so brazen that they openly advertised that average taxpayers were subsidizing the wealthy. Stern delivered a stinging indictment of the political system that allowed these inequities to persist. "Loophole-closing has never been a favored political pastime in America," Stern noted. "Congress has behaved as though it had a phobia against it…" Except for a few "modest efforts" by FDR, presidents had failed to deliver reform, too. Even LBJ, "with nothing political but his name in history to worry about," declined to submit his Treasury Department's reform suggestions, even though they were so modest that they "sidestepped virtually every tax favor of any consequence."

Ultimately, Stern presented the inequities of the tax code as a political problem, above all. The rich who benefitted from loopholes were "cohesive, well organized, superbly financed and endowed with all the energy and zeal that the threat of losing tens, if not hundreds, of millions of dollars can provide." Average citizens, in contrast, were disorganized. The groups that had generally favored "loophole-closing efforts," like unions, had not pushed hard enough for reform. Meanwhile, even the most reform-minded Democrats, like Reuss, only tinkered around the edges by suggesting limits to the depletion allowance or capital gains preferences, rather than challenging the faulty "principle[s]" behind the loopholes. The question that needed to be asked, Stern argued, was, "Why should the work of money be so vastly favored over the work of men?... Why is a dollar of capital-gains income different from the dollar of earned income when it comes to buying food or shoes – or yachts – or, for that matter, paying taxes?" While moderate reformers – such as centrist Democrats like Wilbur Mills – said that "frontal assaults" on "sacred cows" were "politically unrealistic," Stern suggested that the opposite was true. "[T]he dismal fate of most reform efforts suggests that…it is the indirect and cautious approach that is politically impractical," he argued, "by its failure to pose questions and issues simple enough to spark widespread public protest against loopholes." Perhaps the only way that reform could come to pass, Stern concluded, was "a broad public protest against the tax favors enjoyed by the wealthy and large corporations."[104] And, in early-1969, as angry letters continued to pour into Washington, it seemed that might just be what was transpiring.

But perhaps no article seemed better designed to continue stoking the fires of the public's tax anger than *New York* magazine's provocative expose of "tax shelters." Its cover photograph showed a businessman siting casually in a white modernist tulip chair. A large cow stands behind him on a delicate-looking rug. "It's murder on the rug," the cover quote announces, "but it saves me $6,000 a year in taxes." The accompanying article provided a detailed – and entertaining – account of tax-dodge schemes, including tax-loss farming. Titled "This Way to the Tax Shelter,"

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[104] Philip Stern, "How 381 Super-Rich Americans Managed Not to Pay a Cent in Taxes Last Year," *New York Times*, April 13, 1969

it began with a recounting of a chance discussion the author, Jeanne Webber, had with a "very glum-looking man" in an elevator. He was worried that a storm was going to kill his cows. "I hope they're all right," Webber replied. "I love animals myself." But the glum man went on to explain that it was "not love," but a "tax shelter" that caused him to purchase the cows. The cows needed to live, he explained, so that he could depreciate them. "[T]hey've got to eat all the feed I paid for to get my 1968 expense deduction!" he exclaimed. Based on her conversation with the glum businessman, Webber went to her accountant claiming that she expected a huge windfall of money the next tax year. She inquired about "tax shelters" she might take advantage of and asked about cattle specifically. "There are lots of tax shelters besides cows," the accountant explained. "Airplane leasing, railroad cares, citrus groves, oil, gas, commodity straddles. It's a funny thing, the appeal cows have. Must be the city dweller's escape to playing cowboy. Wall Street brokers, bankers, big names in radio and TV like Jack Benny, Hugh Downs, Woody Allen, Chet Huntley, they're all in the cattle business. By the way, don't call these arrangement tax dodges. Or tax gimmicks. They're tax preferences." They all had the same goal, he explained. "If you can find a way to lose money and deduct it from your high income this year, and then get your money back in the future in some way that's taxed at a lower rate, or exempt, you do it," he explained. "[It's] a very natural reaction." The rest of the article was a tour through the various tax-avoidance opportunities available to the wealthy. Representatives of each avoidance strategy attempted to convince Webber that their opportunity was best. The cattle representative, for example, promised her $2 in tax savings for every $1 she invested. And all of Webber's conversations with various loophole industries explained the process of tax avoidance in excruciating detail.[105]

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[105] Jeanne Webber, "This Way to the Tax Shelter," *New York*, February 17, 1969

Even humorists found fodder in the inequities of the tax code, the tax revolt, and politicians' struggles to respond to it. Editorial cartoonist Herblock portrayed the tax revolt as a 1960s-style protest movement of the middle class. In a March *Washington Post* cartoon reprinted across the country, Block showed a frazzled middle-class homeowner hurriedly striding out his front door over a paper with the headline "10% Surtax Expected to Stay." In one hand, he clutches a 1040 form, in the other he holds a protest placard that reads "TAX REFORM NOW! 15th of APRIL MOVEMENT." A scruffy, sunglass-clad protestor stands nearby. As the middle-class man pushes past the peace-sign-wearing youth, he says, "One side, Sonny – make way for a real revolutionary." It was one of several Herblock cartoons attacking tax inequities and calling for reform in 1969. Another showed a scuffed and beaten low-income taxpayer crushed below a giant bag of money with relaxed, cigar-smoking "Non-Taxpaying High Income" man perched on top. Nixon observes the scene, holding "tax reform studies," as the low-income taxpayer holds a sign to Nixon reading "BRING US CLOSER TOGTHER," a play on the famous "Bring Us Together" sign Nixon referenced in campaign speeches.[106] Cartoonists in local papers offered similarly biting takes on the tax code. In a cartoon picked up by numerous publications, a *Buffalo Evening News* cartoonist depicted the tax code as a piece of large Swiss cheese with holes large enough to allow cigar-chomping Monopoly man with bags of money to jump through unscathed.[107]

Like editorial cartoonists, satirist Art Buchwald returned again and again to the issue of tax reform throughout 1969. In a March column, Buchwald recounted his visit to a "tax shelter" in Texas. Buchwald tricked "Ralston Loophole" to let him look at his shelter by telling the

[106] "One Side, Sonny," *Washington Post*, March 6, 1969; "One Side, Sonny," *St. Petersburg Times*, March 13, 1969; "One Side, Sonny," *UAW Washington Report* 9:11 (March 17, 1969); "Bring Us Closer Together," *UAW Washington Report* 9:11 (March 17, 1969)
[107] "Tax Loopholes," *U.S. News and World Report*, February 3, 1969

wealthy rancher than he was "doing a piece on the most beautiful tax shelters in America for *Better Homes & Gardens*." Loophole let Buchwald peek at his "oil depletion tax shelter" – a room with "solid gold tables, crystal chandeliers…and a marble floor with a design in the center depicting a large loophole" – but it was only one of the ranchers' many shelters, which included a cattle shelter, and a "real estate tax shelter," among others. Loophole told Buchwald that "true American[s]" knew that these shelters were necessary; otherwise the country would be "hurting the oil" or making the cattle "miserable." He had made $100 million last year, Loophole told Buchwald, and paid $800 in taxes. "I can't figure out how it [the $800 tax bill] happened," Loophole complained. "I thought I had all the loopholes covered."[108] In another column, a fictitious yacht-owning millionaire "Roger Carat," explained to the Buchwald that he was not opposed to all taxes on the rich. "[T]here's nothing wrong in paying sales tax on a Bentley or something like that," Carat explained. "But when you start taxing rich people on their incomes, you're getting too damn close to home."[109] For the left-distributionist reformers, loopholes were no laughing matter and, increasingly, it seemed that others were beginning to take progressive reform seriously, too.

Nixon Begins to Turn

With a finger to the political winds, it quickly became clear to Nixon and his advisers that the administration had no choice but to try to take the lead on tax reform. The White House's sudden embrace of tax reform came about almost solely because of the public outcry following Barr's comments.[110] The Nixon administration feared that, if it continued letting Congress take

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[108] Art Buchwald, "Tax Shelters," *Washington Post*, March 2, 1969
[109] Art Buchwald, "Upper-Class Blues," *Washington Post*, August 3, 1969
[110] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 216

the lead on reforms, the result would be a bill that was both more generous than it wanted and one for which it would get no political credit. "Unless the Administration moves swiftly and forcefully with affirmative recommendations covering both 'loophole closing' and broad-based relief for low and middle income taxpayers," Undersecretary of the Treasury Charls E. Walker warned the administration in early April, "the political initiative and leadership on this issue will be irrevocably lost to the Congress."[111] Without guidance from the White House, Democrats might deliver a reform too bold for Nixon's tastes, all while garnering the political credit that Nixon wanted for himself. Maybe even more importantly to Nixon, Martin and the Fed had shown no signs of loosening monetary policy. "I had the impression that our strong action on the budget side would make it less necessary for them [the Fed] to go ahead [with tight money]," Nixon complained in April.[112] The only way to convince Martin that the Fed did not have to carry the entire burden of fighting inflation would be to get the surtax passed, and it seemed that for an increasing number of Democrats the two issues were linked. Nixon needed a message that would return focus to the surtax and fiscal responsibility, but that would also satisfy the public – and Democrats' – demand for reform.

Delivered in late-April, Nixon's tax reform message to Congress began with a bold declaration. "Reform of our Federal income tax system is long overdue," the president said. "Special preferences in the law permit far too many Americans to pay less than their fair share of taxes. Too many other Americans bear too much of the tax burden." But, despite the populist opening, the rest of Nixon's address actually betrayed a strong skepticism towards the very types of left-distributionist reform that both the left and the public desired. "Much concern has been expressed because some citizens with incomes of more than $200,000 pay no federal income

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[111] Walker to Burns et al, April 9, 1969, SMOF McCracken, B 118, F Tax Reform, RNPL
[112] Cabinet Committee on Economic Policy Minutes, April 10, 1969, Safire Papers, B2, F9, LOC

taxes," Nixon noted in his statement. "These people are neither tax dodgers nor tax cheats. Many of them pay no taxes because they make large donations to worthy causes, donations which every taxpayer is authorized by existing law to deduct from his income in figuring his tax bill." There was no such thing as a "loophole," Nixon argued, and tax reform was no place for redistribution. "In the debate to come on reform, and in the even greater debate on redirection, the nation would best be served by an avoidance of stereotyped reactions," he continued. "One man's 'loophole' is another man's 'incentive.' Tax policy should not seek to 'soak' any group or give a 'break' to any other – it should aim to serve the nation as a whole."[113] Substantively, Nixon's reform proposals were equivocal, at best. Rather than a full slate of reforms, Nixon suggested taking only "important first steps" in 1969, including enacting a minimum tax to ensure no one fully escaped paying federal income taxes, a low-income allowance that would remove two million poor taxpayers from the federal income tax rolls, and repealing the seven percent investment tax credit.

Nixon's "slapdash" proposals were the end result of a fraught process that began when Nixon tasked the Treasury with quickly drawing up a slate of fiscally responsible reforms.[114] But even the Treasury's modest suggestions went too far for conservatives in the administration, who fought – usually successfully – to strip most of the more progressive loophole-closing measures from the Treasury plan. Arthur Burns, for example, strongly opposed the inclusion of capital gains income in the new minimum tax, and the provision was removed from the proposal. Both Burns and longtime Nixon economic adviser Pierre Rinfret opposed the administration's proposed repeal of the investment tax credit, arguing that it actually fought inflation, since the

[113] Richard Nixon, "Special Message to Congress on Reform of the Federal Tax System," *Public Papers of the Presidents*, April 21, 1969; Lyndon Johnson, "Special Message to the Congress on Fiscal Policy," *Public Papers of the Presidents*, September 8, 1966

[114] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 194

credit encouraged capital investment. "You lick inflation by increasing capacity," Rinfret said, voicing a proto-supply side view, "and not by holding it back."[115] For right-distributionists like Burns and Rinfret, however, any measures likely to increase taxes on upper-income Americans and businesses were undesirable.

Indeed, retaining the investment tax credit had been the standard line for the Nixon team for months. But the combination of inflation and the need to placate liberal reformers combined to sink the investment tax credit.[116] In January, Henry Reuss had called for the repeal of the investment tax credit as part of his own tax reform package. The Wisconsin Democrat argued that the investment tax credit was unfair and counterproductive. "The purpose of the tight money policy," Reuss argued, "is to slow inflation, mainly in the capital goods sector….but [investment] is bountifully subsidized by the government through the investment tax credit, and is thus largely insulated from the effects of interest rate increases." At the same time, Reuss argued, the housing industry, small businesses, and state and local governments bore the brunt of the suffering causes by tight money and the resulting high interest rates. Fighting inflation fairly necessitated scrapping the investment tax credit.[117] More importantly – in terms of the Nixon team's ultimate direction – anti-inflation fiscalist conservatives saw the repeal of the investment credit a way to fight inflation by raising revenue. Even though their recommendation for the repreal of the surtax was the same as Reuss's, the ideological distinction was important. And it was fiscalist conservatives balanced budget-conscious anti-investment tax credit argument that carried the day in the Nixon White House – not Reuss's – meaning that even the most progressive piece of loophole closing in the Nixon reform bill had conservative roots.

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[115] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 195

[116] "Nixon View Does Flip-Flop on Investment Tax Credits," *Lawrence Journal-World*, April 22, 1969

[117] *Congressional Record*, January 29, 1969, 2123; Reuss, "One of the Best Ways to Fight Inflation," HSRP, B57, F2, WHS; "Congress Gets Plan of Tax Reform," *Toledo Blade*, January 29, 1969

Ultimately, then, the combination of assaults from right-fiscalists and right-distributionists ensured that the final reform slate offered by White House was an even weaker version of the already weak set of reforms presented initially by the Nixon Treasury.[118] More sweeping tax reform, Nixon said, would have to wait until at least 1970. Any tax reform measure passed by Congress this year had to be "essentially neutral in its revenue impact," according to the president. The latter, decidedly right-fiscalist, requirement was strongly linked to the real purpose of presenting tax reform proposals – securing an extension of the surtax. Indeed, Nixon did not hide this right-fiscalist goal in his statement. "Inflation is itself a tax – a cruel and unjust tax that hits hardest those who can least afford it," Nixon said, perhaps unintentionally echoing Johnson's own characterization of inflation as "cruel and unjust." "In order to 'repeal' the tax of inflation," Nixon continued, "we are cutting budget spending and have requested an extension of the income tax surcharge." Inflation and surcharge – not tax reform – Nixon made clear, were the most pressing issues facing Congress.[119]

Many in the press panned Nixon's proposed reforms. Syndicated columnist Andrew Tully wrote that the Nixon proposal offered "virtually nothing for the country's middle-income group." The administration was "smug" in its insistence that its proposals were real reform, Tully argued, when its proposals, in fact, fell far short of substantive changes in the tax code. More loopholes needed closing, and average taxpayers needed a big hike in the personal exemption, from $600 to $1,000 or $1,2000. Moreover, the two issues – loophole-closing reform and relief for the middle-class – were related. "The only way the middle-income group can ever shed some of its outrageous tax burden is for the government to impose a fair tax on the fat cats," Tully

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[118] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 218

[119] Richard Nixon, "Special Message to Congress on Reform of the Federal Tax System," *Public Papers of the Presidents*, April 21, 1969

wrote. But Nixon's proposal did nothing to move the tax system in that direction.[120]

Despite the timid nature of Nixon's reform proposals, the president hoped they would satisfy the members of the tax revolt and mollify the Democrats' who wanted reform before the surtax, all without alienating conservatives or sacrificing too much revenue. It was a tall order. But if Nixon succeeded, he would get political credit for championing reform and secure passage of the surtax, which would allow the Martin and the Fed to lower interest rates. Almost immediately, however, it became clear to the Nixon team that its proposal satisfied no one – even members of his own party.

Right-Distributionist Conservatives Fight Back

Despite the success of Burns and others in watering down the Nixon proposals, many Republicans, business groups, and small-government activists believed Nixon's exceedingly modest reform suggestions went too far. Their critiques, both strategic and ideological, were grounded in questions of distribution. The most practical dissent came in the form of a private objection penned by the Republican National Committee's chairman, Maryland Congressman Rogers Morton. Morton slammed the tax relief for low-income taxpayers, in particular. It made no sense, he argued, for a Republican to propose tax relief for low-income voters – who usually supported Democrats – while proposing reforms that would hurt the rich. The Nixon administration, Morton warned, should not congratulate itself for trying to outflank Democrats on tax reform. "Don't feel you've hit a great blow for liberty and the Republican Party with this legislation…," Morton told Nixon and Under Secretary of the Treasury Charls Walker. "[T]he bulk of the Republican support ha[s] come from individuals in the $6,000-$12,00 income tax

[120] Andrew Tully, "Nixon Forsakes Middle-Income Taxpayers," *Reading Eagle*, April 28, 1969

bracket, and this group of taxpayers ha[s] no enthusiasm for those who would benefit most from this legislation, mainly those ling below or just below the poverty line."[121] Indeed, Republicans' most important constituency – business – wanted more preferences, not fewer, for corporations and upper-income individuals.

During "tax reform" debates throughout 1969, business groups pushed for increases in many of the loopholes those on the left wanted closed, as well as lower rates for upper-income individuals and businesses. In their testimony, Robert W. Haack, the president of the New York Stock Exchange, and William Freund, the vice president of the NYSE, argued that more preferences for capital gains – not fewer – were what the country needed. "The major economic issue confronting the American economy in the late 1960s has, of course, been excessive demand and an insufficient supply of savings, rater than the reverse," Freund testified. "The result has been an intensification of inflationary forces." Whereas some economists argued that the country suffered from insufficient consumer demand, the NYSE argued that it suffered from insufficient investment. The problems facing the U.S. in the 1970s were on the supply-side, not the demand-side, Freund argued. Citing economists Simon Kuznets, Freund noted that lower levels of economic inequality led to higher consumer demand and, therefore, lower levels of spending. What the country needed, Freund implied, was more inequality. The U.S. was "an emulative, consumption-oriented society" that was, in effect, being harmed by the economic power of the growing working- and middle-classes. High wages and high consumer demand were the problem. Encouraging capital investment would tip the scales away from labor and back to capital. "Larger savings can also reduce some of the pressures emanating from the wage-push side," Freund noted. "Investments in productive plant and equipment increase productivity and

[121] Buchanan to Nixon, April 22, 1969, PNWH-2

technological advances. By narrowing the gap between wage settlements and productivity gains, savings help to limit the inflationary push coming from the wages side… [A]ny congressional policy which discourages savings compounds the problem of achieving noninflationary economic growth." Lower capital gains rates and shorter holding periods, the NYSE argued, would spur "capital formation," leading to lower inflation and higher growth.[122]

The U.S. Chamber of Commerce also argued that the tax code should be tilted away from progressivity. In the January issue of the Chamber's publication, *Nation's Business*, Princeton finance professor Harley Lutz slammed the progressive income tax, arguing that it created a slippery slope to socialism. "[F]ederal progressive taxation…tempts the budgeter and central planner into daring excursions to regulate the economy and redistribute wealth," Lutz wrote. "With the prospect of a great debate over…so-called tax loopholes…it is time to take a cold look at the whole concept of progressive taxes…" The "only justification" for progressive taxation was "some political, moral, sociological, or socialist ground." Those who believed otherwise had been "brainwashed." Therefore, the only way to reasonable "tax reform would involve complete elimination of tax rate progression and substitution of a flat rate of tax across the board."[123] The Chamber's vice president and taxation chairman Walter Winter delivered the same anti-progressivity message to Congress in his testimony. Winter expressed the Chamber's "opposition to the highly progressive income tax rates," which he said "discourage[d] individual initiative" and "impede[d] economic progress." Instead of the progressive income tax, the Chamber suggested the U.S. enact a national Value Added Tax – a form of sales tax widely regarded as regressive – and use the revenue to lower income tax rates. Besides supporting an increase in the standard deduction, the Chamber opposed even the most modest reforms being discussed,

[122] "Tax Reform, 1969," Part 8, Hearings Before the Committee on Ways and Means, House of Representatives, March 17 and 18, 1969 (GPO 1969)
[123] Harley Lutz, "If We Want Real Tax Reform," *Nation's Business*, January 1969

including a "minimum tax" to prevent the wealthy from escaping taxation entirely, lowering the oil depletion allowance, tightening regulations on farm losses, and raising capital gains rates.[124] Despite the mail pouring in from average Americans calling for tax reform, most Republicans – and some Democrats – seemed sympathetic to the right-distributionist arguments presented by the NYSE and the Chamber. Others simply disagreed with the idea that the public was in revolt over unfair taxes.

These right-leaning critics rejected the fundamental premises of tax reform. Instead of being angry with the tax-escaping rich, they argued, the public disliked big government and high taxes, in general. In the *New York Times*' survey of legislators returning from Easter break, Florida Republican Louis Frey sounded a contrarian note. The public, he argued, was upset not about unfair taxes, but because they "feel they're over-legislated and they want a break."[125] Even some moderate Republicans agreed that inequities had relatively little to do with the public's tax frustrations. Americans might not want to see millionaires escaping taxes, George Bush argued, but they did not want the sweeping reforms pushed by Democrats. "[W]hat the people want more than reform is tax relief," he said.[126] This view had support among mainstream commentators, too. In an April editorial, NBC *Evening News* anchor David Brinkley compared Walter Reuther and other unionists angry about taxes to "fat cats in $300 suits lounging about corporate boardrooms telling each other how the taxes were ruining business incentive." The spectacle of "factory workers, truck drivers, and others complaining bitterly about their taxes" was "a new American phenomenon." With no mention of regressive state and local taxes or Reuther and other union leaders' arguments about tax loopholes, Brinkley pointed to blue-collar workers'

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[124] "Tax Reform, 1969," Part 12, Hearings Before the Committee on Ways and Means, House of Representatives, March 28, April 1 and 2, 1969 (GPO 1969)
[125] John W. Finney, "Congress Finds Voters are Frustrated," *New York Times*, April 15, 1969
[126] *Congressional Record*, June 30, 1969, 17800

prosperity as the cause of their tax discontent. Thanks to rising wages "more and more union members have discovered the joys of higher tax brackets." Tax resentment, once confined to the "rich" had now spread down the latter. Brinkley argued that this working-class tax discontent could spark a political "revolution," and the implication was that the revolution would be only about lower taxes, not fairer taxes.[127]

The notion that big government was fueling the tax revolt found support elsewhere in the media, too. A *Seattle Post-Intelligencer* column attributed the "taxpayers revolt" to resentment of the bloated federal bureaucracy. Rather than close loopholes, "the first thing the Nixon Administration should do is fire about four out of five of these flacks," the column proclaimed.[128] *U.S. News and World Report* – the most conservative of the three major weekly newsmagazines – provided perhaps the most ammunition for the conservative interpretation of the tax revolt. Throughout the year, the magazine interspersed articles about the tax revolt with stories about the rising costs of government, from welfare to public employees. "RUNAWAY RELIEF COSTS," one of its headline's blared in January, "More Millions on Relief…More Billions in Costs." Aid to Families with Dependent Children and Medicaid were expanding, the magazine argued – drawing on Daniel Patrick Moynihan's research – because of irresponsible poor fathers and the broken families that they created. While most families on AFDC used to be white, it added, "by 1967 almost half of all families and more than half of all children on ADC rolls were Negro."[129]

The right-distributionist interpretation of the tax revolt often depended on a skewed view of the tax data. In its early February issue, when most newsmagazines were dedicating long features to the loopholes in the tax code that allowed for tax-free millionaires, *U.S. News and*

[127] "Union Complaints/Taxes," NBC *Evening News*, Apr 15, 1969
[128] Henry Taylor, "Taxpayers' Revolt Cannot be Ignored," *Seattle Post-Intelligencer*, April 21, 1969
[129] "Runaway Relief Costs," *U.S. News and World Report*, January 13, 1969

World Report buried its short story on Barr's revelations near the end of the magazine. But an eye-catching table of tax rates by income class accompanied the article. Contrary to Barr's warning and numerous other reports, the *U.S. News* table depicted extremely high rates for upper-income taxpayers. But those who made it to the last three paragraphs of the article would discover that the magazine not only used adjusted gross income – which, as the article acknowledged, was actually a small percent of one's total income – but had also removed those with high incomes who paid no tax, because, according to the magazine, "inclusion of those who escaped [taxes] entirely would reduce the average."[130] If the message was not clear enough, earlier in the same issue, the magazine offered yet another graphics-heavy, in-depth reports on the "RUNAWAY WELFARE BOOM." It warned against the New Deal and Great Society promise of "cradle-to-grave security." "Adequate medicate care" and "a decent standard of living," the magazine despaired, was "now being portrayed by federal officials as a 'right' of every man, woman and child."[131] The magazine continued beating the same drum throughout the year. Subsequent issues included an account of the tax revolt at the local level, which it attributed the phenomenon to taxpayers' resentment of wasteful government spending.[132] To help make sure that was the conclusion that Americans' reached, another issue featured an account of the "skyrocketing pay" for government employees, like police officers and teachers, titled "ONE REASON YOUR TAX BILL IS GOING HIGHER AND HIGER." "More money for policemen, fireman, teachers, [and] other public employees," it explained, "is the trend all across the country – often adding measurably to your total tax bill."[133] After all, according to the conservative view, what else could explain the "tax revolt"?

[130] "Why Some Rich Pay Little or No Tax," *U.S. News and World Report*, February 3, 1969
[131] "Runaway Boom in Welfare," *U.S. News and World Report*, February 3, 1969
[132] "Tax Revolt Brewing in U.S.," *U.S. News and World Report*, February 10, 1969
[133] "One Reason Your Tax Bill Is Going Higher and Higher," *U.S. News and World Report,* March 3, 1969

In its purist form, this interpretation of the "tax revolt" as a reaction against high taxes and big government shaded into the libertarian-conservative view of government that the Republican Party had been attempting to distance itself from since Barry Goldwater's overwhelming defeat in the 1964 presidential election. Libertarian-leaning conservatives saw the public's newly publicized tax frustrations as a vindication of their long-held prediction that Americans would reject big-government liberalism. This reading of the "tax revolt" was tendentious, but it was consistent. Far from disappearing in the wake of Goldwater's defeat, by the late-1960s, it seemed to be gaining adherents. In 1964, small-government Republicans rejoiced at Goldwater's promise to cut both personal and corporate income taxes by a whopping 25 percent over five years as "one of my first actions actions in the White House," as Goldwater put it.[134] Announced to a "cheering" crowd of 53,120 at Dodger Stadium, Goldwater contrasted his "fiscally responsib[le]" plan to Johnson's 1964 tax cut, which the Arizona Republican had denounced as inflationary and voted against – even though it was smaller than Goldwater's plan.[135] The difference, Goldwater noted, was that his plan would also freeze government spending at 1964 levels. By combining sweeping tax cuts and stringent expenditure limitation, Goldwater said, he would "curb the growth of central government" and "prevent the spread of federal bureaucracy to the point where it cannibalizes us all." Under his plan, Goldwater predicted, the resulting fantastic economic growth would finance across-the-board tax cuts and, eventually, balance the budget.[136] In contrast, Johnson would use growth to finance new

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[134] Don Irwin, "51,320 Hear Goldwater," *Los Angeles Times*, September 9, 1964; "Goldwater Offers Tax Cut Plan, Criticizes 'Political' Cuts," *Lewiston Morning Tribune*, September 9, 1964

[135] Charles Mohr, "Goldwater Gives a Tax Cut Pledge," *New York Times*, September 6, 1964; Don Irwin, "51,320 Hear Goldwater," *Los Angeles Times*, September 9, 1964; "Goldwater Offers Tax Cut Plan, Criticizes 'Political' Cuts," *Lewiston Morning Tribune*, September 9, 1964; Hedley Donovan, "The Difficulty of 'Being Fair' to Goldwater," *Life*, September 18, 1964; On the size and distribution of the Kennedy-Johnson cuts, see: "The Revenue Act of 1964," U.S. Department of Commerce, *Survey of Current Business* 44:3 (March 1964); Joseph A. Pechman, "Individual Income Tax Provisions of the Revenue Act of 1964," *Journal of Finance* 20:2 (May 1965), 247-272.

[136] Charles Mohr, "Goldwater Tax Plan Asks a 25% Cut Over 5 Years," *New York Times*, September 8, 1964

spending.[137] The 25-percent cut was billed as a first-step toward a complete overhaul of the tax structure. Goldwater had long used right-distributionist language when discussing taxes, calling the graduated income tax "a confiscatory tax" and pledging to "abolish" it "the sooner…the better."[138] While Goldwater attempted to finesse his position a little during the 1964 campaign, he never backed away from the idea that the progressive tax was, in effect, socialistic, and his promised eventual overhaul of the tax structure was understood as the elimination of the progressive income tax.[139]

By placing tax cuts before spending cuts, Goldwater's proposal marked a sea change in his understanding of the relationship between taxes and spending. Most importantly, Goldwater's shift hinted at the right-distributionism that would overtake the Republican Part in the coming decades. For both Goldwater and other right-distributionists, this shift involved a renunciation of right-fiscalism. In *Conscience of a Conservative*, Goldwater had insisted that "principled" conservatism dictated that "spending cuts must come before tax cuts."[140] This was the position that had been held by Republicans for decades, from Congressional Republicans' discomfort over FDR's deficits to the Eisenhower administration's insistence on balanced – or nearly balanced – budgets to fight inflation throughout the 1950s. It was a view that was being continued in Nixon's attempt to extend the surtax. In contrast to this anti-inflation fiscalism, Goldwater's 1964 tax plan made Johnson "look like the very model of a fiscal conservative," as the *New York Times* put it. It represented a dramatic shift away from viewing taxes as a way to manage the macroeconomy to viewing them as a method to limit government, regardless of the

[137] Don Irwin, "51,320 Hear Goldwater," *Los Angeles Times*, September 9, 1964; "Goldwater Offers Tax Cut Plan, Criticizes 'Political' Cuts," *Lewiston Morning Tribune*, September 9, 1964
[138] Barry Goldwater, *The Conscience of a Conservative* 44
[139] Don Ross, "Goldwater's Skill as Great Promoter Points to Dashing Bid for Lauels," *Youngstown Vindicator*, January 5, 1964; Walter Lippmann, "Goldwater Forced into Moderation," *The Sun*, September 21, 1963
[140] Barry Goldwater, *The Conscience of a Conservative* (Victor, 1960) 44-45

underlying economics. “It is the first time a candidate for the presidency has proposed fixed, automatic tax cuts, rain or shine...,” observed the *Christian Science Monitor*. “It is noteworthy that the senator is not promising a balanced budget every year.”[141] This new tax-cuts-first approach was credited to Milton Friedman.[142]

In its most idealized terms, Goldwater and Friedman’s intellectual project was smaller, less active government. For the GOP’s fiscalists, it was a radical view. The notion that the government could accommodate five years of “automatic” across-the-board five-percent tax cuts, all while tying the hands of the Federal Reserve to steady monetary growth between three and five percent, seemed absurd even to many Republican economists, since it essentially decimated the ability of policymakers to counteract ups and downs in the economy. But that was exactly what Friedman, Goldwater, and the growing legions of libertarian-inclined conservatives wanted.[143] When Goldwater presented his plan to the adoring Dodger Stadium crowd, he proclaimed, “This proposal offers you a clear choice when you go to the polls this year – a way to control government’s spending, a way to keep control of your own purse strings…. [G]overnment’s hands do not belong in your pockets.”[144] Small-government conservatives and libertarians were disappointed when the pubic chose Johnson’ Great Society over Goldwater’s starved state. But they kept the faith as Johnson’s Great Society seemed to unravel in the years

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[141] M.J. Rossant, “Goldwater and Taxes,” *New York Times*, September 21, 1964; Chesly Manly, “U.C. economic Experts Advise Goldwater,” *Chicago Tribune*, April 12, 1964; M.J. Rossant, “A Talk With A Goldwater Man,” *New York Times*, October 8, 1964; Paul Samuelson, “The Case Against Goldwater’s Economics,” *New York Times*, October 25, 1964; Milton Friedman, “The Goldwater View of Economics,” *New York Times*, October 11, 1964; Philip W. McKinsey, “Goldwater Tax-Cut Plan Challenges Fiscal Policy,” *New York Times*, September 10, 1964

[142] M.J. Rossant, “Goldwater and Taxes,” *New York Times*, September 21, 1964; Chesly Manly, “U.C. economic Experts Advise Goldwater,” *Chicago Tribune*, April 12, 1964; M.J. Rossant, “A Talk With A Goldwater Man,” *New York Times*, October 8, 1964; Paul Samuelson, “The Case Against Goldwater’s Economics,” *New York Times*, October 25, 1964; Milton Friedman, “The Goldwater View of Economics,” *New York Times*, October 11, 1964; Philip W. McKinsey, “Goldwater Tax-Cut Plan Challenges Fiscal Policy,” *New York Times*, September 10, 1964

[143] M.J. Rossant, “Goldwater and Taxes,” *New York Times*, September 21, 1964; M.J. Rossant, “Repblican Economists Split on Goldwater,” *New York Times*, July 31, 1964

[144] Don Irwin, “51,320 Hear Goldwater,” *Los Angeles Times*, September 9, 1964; “Goldwater Offers Tax Cut Plan, Criticizes ‘Political’ Cuts,” *Lewiston Morning Tribune*, September 9, 1964

that followed. From his pulpit in the pages of *Newsweek*, Friedman continued sounding the call for lower taxes, no matter the costs. When other economists said that Johnson's surtax was necessary to reduce the deficit, slow government borrowing, and lower inflation, the title of Friedman's column made his views clear, "Higher Taxes? No." While Friedman's "fellow economists" told him that he was mistaken, Friedman disagreed. "I oppose a tax increase because I believe that the Federal government is already absorbing too much of the community's resources," he wrote. "We need lower taxes, not higher taxes."[145]

The distribution of taxes, not simply the level of taxes, also concerned Friedman and Goldwater, too. The notion that Friedman and Goldwater simply wanted "lower taxes" was a perhaps purposeful oversimplification of their ideology. Implicit – and, often, explicit – in the right-libertarian view of small government and low taxes was the notion that tax cuts should be directed primarily at upper-income taxpayers and businesses. Tax progressivity, they argued, was inherently socialistic. Indeed, the Goldwater-Friedman tax plan reflected a clear right-distributionist view. Compared to other tax-cut plans, the *Christian Science Monitor* noted, "Senator Goldwater's proposal would have the effect of giving high-income persons and corporations a relatively bigger tax break than middle-bracket taxpayers."[146] Ultimately, for Goldwater and Friedman, who got the tax cuts was as important as the cuts themselves.

Right-libertarians' views on taxation were related to a larger critique leveled by "public choice" theorists of government itself. Rather than motivated by altruism or a desire to provide essential services, conservative-libertarian inclined "public choice" adherents argued,

[145] Milton Friedman, "Higher Taxes? No," *Newsweek*, January 23, 1967
[146] M.J. Rossant, "Goldwater and Taxes," *New York Times*, September 21, 1964; Chesly Manly, "U.C. economic Experts Advise Goldwater," *Chicago Tribune*, April 12, 1964; M.J. Rossant, "A Talk With A Goldwater Man," *New York Times*, October 8, 1964; Paul Samuelson, "The Case Against Goldwater's Economics," *New York Times*, October 25, 1964; Milton Friedman, "The Goldwater View of Economics," *New York Times*, October 11, 1964; Philip W. McKinsey, "Goldwater Tax-Cut Plan Challenges Fiscal Policy," *New York Times*, September 10, 1964

government bureaucrats self-interestedly pursued more money and more power.[147] Far from being limited to academic theorists, this "public choice" perspective was embedded in the conservative worldview offered by publications like *U.S. News and World Report.* The headline for a March 1969 article screamed, "BIG GOVERNMENT – Is It Out of Hand?" and the resounding answer was "yes," for precisely the reasons offered by "public choice" theory. Whatever his good intentions, Nixon would not be able to limit the size of government, or even make it more efficient, the magazine argued. The government was "impenetrable," "vast," and "swollen," all because government employees sought to "expand the importance – and resulting pay – of their jobs."[148] Quoting New York University management theorists Peter Drucker, the magazine said that government expansion was driven by bureaucrats' "desire for power [and] their own narrow vision."[149]

This view was echoed in other right-libertarian publications. In the Foundation for Economic Education's *The Freeman*, journalist and *Wall Street Journal* contributor William Henry Chamberlin argued in a February 1969 article that was picked up by a few local newspapers across the country that "the squeeze on the middle class" was caused by high-taxes that resulted from bloated government. "[T]he middle class finds itself more and more ground between the two millstones of inflation and ever higher taxes at all levels…," Chamberlin wrote, all because "government bureaucrats [believe they] can spend an individual's money better than he would spend or save that money himself it were not siphoned off in taxes." This "backbreaking [tax] burden" was a "ingenious schem[e] for taking what other have earned." That

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[147] William F. Shughart II, "Public Choice," *The Concise Encyclopedia of Economics* (2008) (http://www.econlib.org/library/Enc/PublicChoice.html); Bruce Bartlett, "'Starve the Beast': Origins and Development of a Budgetary Metaphor," *The Independent Review* 12:1 (Summer 2007), 5–26.

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[149] For good reason, Drucker has been called a "de facto public choice theorist." Charles Garofalo, "Can Elephants Fly? Drucker and Governmental Reform," *Journal of Management History* 6:2 (2000), 94-110

money went to fund "people on the welfare rolls," public employees who "hold up an almost empty municipal treasury for raises all out of proposition with the rising cost of living," and "such sociological experiments as busing children for miles from their homes and rebuilding slums he never made." The only solution was "dismantling the bureaucratic monster."[150] It seemed the only way to restrain government, according to small-government conservatives, public choice theorists, and libertarians, was to slash it.[151]

The conceit of Republican fiscal responsibility – exemplified by Eisenhower Republicanism – was built on a fallacy, these libertarian-conservatives argued. "The standard scenario has been that the Democrats – in the name of the New Deal, the Fair Deal, or the Great Society – push through large spending programs… and produce deficits," Friedman wrote in *Newsweek* in 1968. "The Democrats then appeal to the Republicans' sense of fiscal responsibility to refrain from cutting tax rates or, as in this case [the surtax], to raise them. The Republicans cooperate, thereby establishing a new higher revenue base for further spending. The Democrats get the 'credit' for the spending; the Republicans, the 'blame' for the taxes; and you and I pay the bill."[152] Democrats, in other words, were successfully using the government to distribute money to their base, while Republicans were failing to do the same. There was only one way out of this quagmire for the political right, according to right-libertarians. Government needed to be cut at any cost, including deficits or other previously taboo, "irresponsible" outcomes.[153] By shifting responsibility for controlling inflation to monetary policy, Friedman and his monetarist

[150] William Henry Chamberlin, "The Squeeze on the Middle-Class," *The Freeman*, February 1969; William Henry Chamberlin, "The Squeeze on the Middle-Class," *Gazette-Telegraph*, June 17, 1969, Albert Collection, B126, F47, CAC
[151] William F. Shughart II, "Public Choice," The Concise Encyclopedia of Economics (2008) (http://www.econlib.org/library/Enc/PublicChoice.html); Bruce Bartlett, "'Starve the Beast': Origins and Development of a Budgetary Metaphor," *The Independent Review* 12:1 (Summer 2007), 5–26.
[152] Milton Friedman, "Spend, Tax, Elect," *Newsweek*, July 15, 1968
[153] William F. Shughart II, "Public Choice," The Concise Encyclopedia of Economics (2008) (http://www.econlib.org/library/Enc/PublicChoice.html); Bruce Bartlett, "'Starve the Beast': Origins and Development of a Budgetary Metaphor," *The Independent Review* 12:1 (Summer 2007), 5–26.

followers sought to remove inflation – the fear of which scared Republicans into voting for tax hikes like Johnson's surtax – from the realm of fiscal policy, freeing Republicans to slash taxes at will. Needless to say, right-distributionist conservatives would direct these tax decreases to the upper reaches of the income ladder. If right-libertarians like Friedman had their way, distribution-conscious tax cuts would replace the GOP's anti-inflation fiscalism. "True fiscal responsibility," Friedman argued, "requires resisting every tax increase and promoting tax decreases at every opportunity."[154]

For many conservatives, the tax revolt seemed to indicate just such an opportunity. Nearly a year before Barr's denunciation of the unfairness of the federal income tax code, Friedman adopted the critique of the income tax offered by Reuss, the UAW, and others, but refigured it for right-distributionist ends. Like left-leaning critics, Friedman argued that the progressive income tax was "an elaborate façade…riddled with so many loopholes." Despite progressive rates, total income tax burdens were "much smaller for persons in very high income classes…than for persons with incomes of middle size." Echoing the critique of capital gains viewed as beyond-the-pale by even many mainstream Democrats, Friedman noted the inequity in the fact that "two men with the same income may pay vastly different taxes – because one's income is wages and the other's interest on tax-exempt securities or capital gains." Friedman's solution, however, was not closing the loopholes in the progressive tax structure or taxing capital gains and ordinary income at the same rates – it was demolishing the progressive structure itself. Loopholes in the current code, Friedman argued, were necessary because of the "steeply graduated" rates. Actually enforcing those rates without loopholes "would have a disastrous effect on incentives." Instead, Friedman argued, the country needed to substitute a flat income

[154] Milton Friedman, "Spend, Tax, Elect," *Newsweek*, July 15, 1968

tax with a single, low rate for the current progressive code. Loopholes proved that "social policy directed at eliminating the extremes of wealth and poverty" were doomed to fail. By abandoning the notion of government intervention and redistribution, the U.S. could adopt Friedman's low flat-tax, which would be, he argued, "more equitable, vastly simpler, and far more efficient."[155] Public discontent with an unfair tax code, Friedman hinted, could provide conservative- and libertarian-minded activists and politicians with the opportunity to fundamentally transform the tax code in a way that would actually benefit the well-off.

To these small-government true-believers, evidence of the public's demand for lower taxes and smaller government could be found in the nascent revolt announced by Barr and experienced by local officials across the country, at least if one looked hard enough. On the same day that unions invoked the "revolt" to push loophole-closing progressive reforms – April 15, 1969 – the growing anti-tax adherents on the right attempted to claim the revolt for themselves. The *Libertarian* newsletter, edited by Murray Rothbard, dedicated its tax day issue to the "growing legion of Americans who are engaging in various forms of that one weapon, that one act of the public which our rulers fear the most: tax rebellion." Like those on the left, the *Libertarian*'s staff saw taxes as a potent political issue that had the power to cut across existing political coalitions. "Here is a burning issue which could appeal to everyone, young and old, poor and wealthy, 'working class' and middle class, regardless of race, color, or creed," the magazine declared. For the *Libertarian*, taxation was "simply robbery" and the tax revolt represented Americans' desire to "cu[t] off the funds by which the host public is sapped to maintain the parasitic ruling class," which was, of course, populated by government bureaucrats

[155] Milton Friedman, "Regressive Income Tax," *Newsweek*, April 22, 1968

– "a gang of thieves."[156]

Given the right spin, the top-heavy, right-distributionist tax cuts favored by Goldwater, Friedman, Rothbard, and others on the right could be portrayed as a populist revolution. Writing in the *Freeman*, Lemuel Boulware – Ronald Reagan's mentor at General Electric – argued that taxes on business and inflation both fell on consumers. "The further down the income, savings, and even the relief scale a citizen is – that is, the poorer he is," Boulware wrote, "the greater is the relative impact on him of the taxes levied on business and of the tax of inflation levied on him through government cheapening his money."[157] Cutting taxes on business and fighting inflation by slashing government, therefore, really benefitted the poor, not the rich. And the "tax revolt" predicted by Barr seemed, to many likeminded observers, to be the proof that average Americans were beginning to understand this fact.

Karl Hess – the Goldwater speechwriter credited with the (in)famous line, "Extremism in the defense of liberty is no vice; moderation in the pursuit of justice is no virtue" – contributed a rumination on the tax revolt to the *Libertarian*'s theme issue. "A substantial tax rebellion is underway," Hess wrote. "Far and away the largest share of mail to Capitol Hill as well as to the White House concerns taxes – not comments on them, but angry statements of refusals to pay either some or all of the state's lootish tribute." The idiosyncratic libertarian connected this newly discovered federal revolt to the tax crises taking place at in cities across the country. "The same thing is happening at local levels in the 50 states where, as a matter of fact, taxation has been growing overall at a more rapid pace than even at the Federal level," Hess continued. "Farmers in Pennsylvania, householders in Brooklyn, housewives in the southwest, all have mounted direct assaults against organized theft by the state. At the local level the success of tax

[156] "Tax Day," *The Libertarian* 1:2 (April 15, 1969)
[157] Lemuel Boulware, "Who Pays Taxes and How?" *The Freeman*, December 1969

rebellions is astonishing." In a dig at Nixon's "Silent Majority" rhetoric, Hess predicted that Nixon would "extol for the 'quiet majority' the patriotic, humble, and holy virtues of submitting to taxation without so much as a whimper and certainly not a groan." But Nixon would fail, Hess predicted. The current revolt was only the first step in an "evolutionary" process, whereby the current anti-tax "rebellion" would eventually become a "revolution." Now it was only a matter of time before the public demanded an end to the terror of taxation. "[T]here seems to be little that the state could do about it…," Hess concluded. "[I]t is the nightmare of the state today."[158] But libertarians and small-government conservatives were misreading the public, sometimes almost willfully.

The Wisconsin Revolt

In its special tax day issue, the *Libertarian* covered the "Tax Revolt in Wisconsin," its name for the April 1st victory of Democrat David Obey in a special election to fill Defense Secretary Melvin Laird's old congressional seat in Wisconsin's 7th district. To the *Libertarian*, the cause of Obey's victory was simple. "Everyone is agreed on the major reason for the upset," the *Libertarian* declared, "the great issue which Obey hammered at again and again – high and crushing taxation." Obey was victorious, the newsletter explained, because Republican Governor Warren Knowles raised taxes. Obey attacked "high taxes" and, therefore, won. Candidates who hoped to win, too, needed to follow suit and "articulate the people's deepest wishes" for lower taxes.[159] The *Libertarian* was undeniably correct that taxes were the central issue in Obey's victory. But the *Libertarian*'s reading of how the issue of taxes operated in what it called "the most significant American election since last November" was strained and error-ridden. It

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[158] Karl Hess, "Tax Revolt," *The Libertarian* 1:2 (April 15, 1969)
[159] "Tax Revolt in Wisconsin," *The Libertarian* 1:2 (April 15, 1969)

drastically oversimplified the political dynamics of that particular election, as well as the larger politics of taxes in the late 1960s. However, degree of the libertarian right's misinterpretation of Wisconsin special election illustrates just how powerful the small-government ideology was, and why – in the face of conflicting evidence – it would persist as a popular interpretation of the tax revolt among conservatives and a growing number of mainstream Republicans.

While Obey's victory was attributable to tax politics, it was his call for fairer taxes and better services – not lower taxes and fewer services – that allowed him to become the first Democrat to win Wisconsin's 7th district.[160] Obey faced an "uphill battle" against Walter Chilsen, a Republican "well-known" district, at least in part to his time as a television newscaster, which made him "the Walter Cronkite of central Wisconsin," as a special assistant to Senator Gaylord Nelson put it.[161] Moreover, few voters in the historically Republican district could have mistaken Obey for a small-government conservative. During his time in the state assembly, Obey was known as a "liberal legislator working for welfare programs for the poor, medical assistance, vocational education, and more aid to local schools," as the *Milwaukee Sentinel* summarized during the campaign. Nor did Obey attempt to distance himself from Democrats or traditional liberal interest groups. Obey convinced new DNC chair Fred Harris, other major Democrats, and liberal interest groups that his long-shot candidacy was worth investing in.[162] In addition to appearances by Wisconsin Democratic senators Gaylord Nelson and William Proxmire, Massachusetts Senator Ted Kennedy and former Vice President Hubert Humphrey campaigned for Obey as part of what the Obey campaign said was an attempt to court the "labor and farm vote." Obey openly acknowledged his ties to labor and support from the

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[160] "A Full-Time Politician," *New York Times*, April 3, 1969

[161] Neil H. Shively, "Obey Stresses Leadership in Strong Bid for Congress," *Milwaukee Sentinel*, March 25, 1969; David Obey, *Raising Hell for Justice: The Washington Battles of Heartland Progressive* (University of Wisconsin 2007), 105

[162] "How Obey Pulled Off His Victory," *Capital Times*, April 7, 1969

AFL-CIO's COPE. "I couldn't ask any more of them," Obey said of organized labor.[163] Far from running away from Great Society liberalism, Obey embraced it, criticizing Chilsen for opposing programs for the urban poor suggested by Wisconsin's "Little Kerner Commission" because they were too expensive and, according to Chilsen, might result in higher taxes. "I'm for open housing," Obey declared. "I'm for the kinds of programs that will enable Negro kids to get the kind of education white kids get."[164]

Chilsen, for his part, ran a law-and-order campaign and explicitly tied himself to Nixon Republicanism, with some help from the Nixon administration itself. The Republican's "favorite issue," as the *New York Times* put it, was campus disorder. Chilsen slammed Obey as an "overpermissive" coddler who consistently displayed a "softness toward campus rioters," like the those at the University of Wisconsin. In their only debate, Chilsen declard that Obey "sided with the revolutionaries, the disrupters" on campuses.[165] Throughout the campaign, he called out Obey for his criticism of Chicago Mayor Daily's handling of the antiwar protestors at the 1968 Democratic National Convention. Chilsen also grabbed attention with discordant, law-and-order themed television ads linking Obey to the "revolutionaries" on campus.[166] Many Republicans viewed the special election as a key barometer of Nixon's strength going into the 1970 midterms. Chilsen called the special election "a referendum on the Nixon administration." [167] And Oshkosk-area Republican Representative William Steiger agreed. "Let's not kid ourselves about

[163] Neil H. Shively, "Obey Stresses Leadership in Strong Bid for Congress," *Milwaukee Sentinel*, March 25, 1969; "A Full-Time Politician," *New York Times*, April 3, 1969; Donald Janson, "Wisconsin House Race Is Close," *New York Times*, April 2, 1969
[164] "Obey Raps Opponent on Fiscal Issue," *Stevens Point Daily Journal*, March 21, 1969
[165] "Election Campaign Is Climaxed by Debate," *Stevens Point Daily Journal*, March 29, 1969
[166] Donald Jansons, "Taxes Are Major Issue as Wisconsin Democrats Hope to Score Upset Victory in Laird's District," *New York Times*, April 1, 1969; Donald Janson, "Wisconsin House Race Is Close," *New York Times*, April 2, 1969; John Patrick Hunter, "Will Obey Pull and Upset?" *Capital Times*, March 13, 1969; David Obey, *Raising Hell for Justice: The Washington Battles of Heartland Progressive* (University of Wisconsin 2007), 108-109
[167] Donald Jansons, "Taxes Are Major Issue as Wisconsin Democrats Hope to Score Upset Victory in Laird's District," *New York Times*, April 1, 1969

this election," Steiger declared while campaigning for Chilsen. "This is really the first test of the Nixon administration."[168] The White House concurred. Laird filmed ads endorsing Chilsen, while Nixon filmed footage with Chilsen in Washington, which was used for a Chilsen campaign commercial.[169] Running strong on Nixonian law-and-order, the trickiest remaining issue facing Chilsen was Republican Governor Warren Knowles's tax plan, which Chilsen had ambiguously praised, at least initially.

Knowles had begun his 1968 gubernatorial reelection campaign by touting his ability to balance the state budget without raising state taxes. But his Democratic opponent, Bronson La Follette, and Democrats in the state legislature – including Obey – blamed Knowles for local property tax increases. In order to balance the budget, Knowles had used "a number of one-time gimmicks that could not be repeated," as Obey put it, "including shifting costs to local governments."[170] At the same time, Knowles cut the amount of state tax dollars returned to localities. As a result, Obey, La Follette, and other Democrats argued, localities had to increase property taxes by more than $100 million statewide. Instead of forcing localities to increase regressive property levies, they said, Knowles could have raised more progressive state taxes.[171] Finessing the tax issue, Knowles sounded notes of both progressive reform and conservative small-government. Knowles backed greater aid to localities, dubbed local property taxes unfair, acknowledged "inequities" in the state's revenue system, and called for tax reform.[172] Knowles ran misleading ads titled "Sharing," which proclaimed that "under Governor Knowles more state

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[168] John Patrick Hunter, "Will Obey Pull and Upset?" *Capital Times*, March 13, 1969
[169] Donald Jansons, "Taxes Are Major Issue as Wisconsin Democrats Hope to Score Upset Victory in Laird's District," *New York Times*, April 1, 1969
[170] David Obey, *Raising Hell for Justice: The Washington Battles of Heartland Progressive* (University of Wisconsin 2007), 101
[171] "Rising Local Property Taxes Not My Fault, Knowles Says," *Milwaukee Sentinel*, October 30, 1968; Neil Shively, "Governor's Race Focuses on Local Issues," *Milwaukee Sentinel*, October 28, 1968
[172] "La Follette Proposes Change in Tax Law," *Milwaukee Journal*, October 16, 1969

funds have gone to local government than ever before in history."[173] But he Knowles also blamed higher property taxes on profligate local governments.[174] Knowles was able to defeat La Follette, at least in part because he successfully played both sides of the tax debate. But La Follette also suffered from minimal support from state and national Democrats, since many knew that former Lieutenant Governor Patrick Lucey planned to run in 1970 – a plan that a La Follette victory in 1968 would foil – and, as a result, Knowles's spending on campaign staples like advertising swamped La Follette's.[175]

Democrats like Obey and La Follette predicted that Knowles would have to raise taxes in 1969.[176] They were correct. In the budget released after his reelection, Knowles proposed a regressive set of tax increases. Knowles's proposal did not include any increases in corporate taxes and its personal income tax increases were concentrated on the first $14,000 of income, with no increases above that level. Obey slammed Knowles tax plan as unfair to low- and middle-income Wisconsinites.[177] "I think it's a rich man's tax plan," Obey told reporters. "It flies in the teeth of the La Follette tradition that those with the most ability to pay should bear the greatest sacrifice."[178] After making a vaguely supportive comment about Knowles's plan being "realistic," Chilsen backtracked, going out of his way to distance himself from Knowles and his tax plan. The governor "did not make a single campaign appearance or television tape for

[173] "Sharing," *Milwaukee Sentinel*, November 1, 1968
[174] "Rising Local Property Taxes Not My Fault, Knowles Says," *Milwaukee Sentinel*, October 30, 1968
[175] "Tax Issue Raised," *Milwaukee Sentinel*, November 6, 1968; Gordon Randolph, "Praise of La Follette Brings Up Questions," *Milwaukee Journal*, November 3, 1967
[176] David Obey, *Raising Hell for Justice: The Washington Battles of Heartland Progressive* (University of Wisconsin 2007), 101; "Rising Local Property Taxes Not My Fault, Knowles Says," *Milwaukee Sentinel*, October 30, 1968
[177] Donald Jansons, "Taxes Are Major Issue as Wisconsin Democrats Hope to Score Upset Victory in Laird's District," *New York Times*, April 1, 1969
[178] David Obey, *Raising Hell for Justice: The Washington Battles of Heartland Progressive* (University of Wisconsin 2007), 102

Chilsen," as the Madison *Capital Times* noted.[179] "The governor's tax plan is not mine," Chilsen said.[180] Though Chilsen focused on law-and-order, it was not because he saw himself operating from a disadvantage when it came to taxes. In fact, the Republican believed that the tax issue would benefit him, not Obey, on election day. Chilsen even told the *New York Times* that he expected to win, in part, for a simple reason – the same reason, in fact, that the *Libertarian* would later say he lost. "[W]e are in the midst of a taxpayers' revolt," Chilsen explained.[181] Sounding a small-government theme, Chilsen blamed the country's woes on LBJ's welfare programs during his debate with Obey.[182]

The Democrat, in contrast, believed that the "tax revolt" would help him, not Chilsen. Obey recognized that "the only issue that has as much emotional content as campus violence was taxes," and he thought that "the lion's share" of voters agreed with his progressive position on taxes, not Chilsen's conservative stance.[183] Obey's campaign manager agreed, telling reporters that "the tax issue" was "overwhelmingly on our side."[184] Voters did not simply want lower taxes, according to Obey. They waned tax reform geared toward lower- and middle-income taxpayers. "The main battle that defined the election was the difference between Chilsen and me on taxes," as Obey recalled, and Obey's "main focus was tax equity."[185] Obey slammed Wisconsin Republicans for putting forward a tax plan that would fall most heavily on low- and middle-income Wisconsinites and touted his support for property tax relief. Obey predicted that "virtually every school bond issue in the state [will be] defeated in the next four or five years"

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179 "How Obey Pulled Off His Victory," *Capital Times*, April 7, 1969
180 Neil Shively, "Obey Uses 'Deception' - Chilsen," *Milwaukee Sentinel*, March 24, 1969
181 Donald Jansons, "Taxes Are Major Issue as Wisconsin Democrats Hope to Score Upset Victory in Laird's District," *New York Times*, April 1, 1969
182 "Election Campaign Is Climaxed by Debate," *Stevens Point Daily Journal*, March 29, 1969
183 David Obey, *Raising Hell for Justice: The Washington Battles of Heartland Progressive* (University of Wisconsin 2007), 109
184 Cliff Miller, "Obey Seeks to Identify With Voter," *Appleton Post Crescent*, March 30, 1969
185 David Obey, *Raising Hell for Justice: The Washington Battles of Heartland Progressive* (University of Wisconsin 2007), 106-107

unless policymakers did something to provide more aid to local governments.[186] In the closing weeks of the campaign, Obey's campaign ran a "simple black-and-white [television] spot describing the unfairness of the governor's tax plan that Chilsen had endorsed." Connecting the issues of local taxation to the national tax revolt, the commercial closed with the line, "A fighter for fair taxes in Madison will be a fighter for fair taxes in Washington." It was a paraphrase of a line Obey had used throughout the campaign: "How much confidence can you have in a man to fight for tax reforms to help low income groups when he does the opposite at the state level?"[187] The tax ad was, Obey noted, "virtually the only spot we ran in the last ten days."[188]

Despite being outspent by Chilsen by a nearly 50 percent margin, Obey won the special election, becoming the first Democrat to ever represent Wisconsin's 7th district. DNC Chair Fred Harris and other national Democrats hailed Obey's victory as a major event, and the election's outcome national television and print media coverage. Given that Republicans had framed the election as a referendum on the Nixon administration, it is not surprising that many media outlets portrayed the loss the same way. Representing the view of many media outlets, the *Capital Times* noted, "Voters rejected the law and order appeal."[189] But it was not clear that the press or even many Democrats – besides those who were already striking a populist stance on taxes – connected Obey's progressive tax rhetoric to his victory. And the Republicans who connected the tax revolt to Chilsen's defeat concluded that the party needed to move even further to the right on taxes. Providing the logical corollary to the *Libertarian*'s interpretation of the election, Wisconsin Republicans blamed Knowles's tax plan for Chilsen's defeat. But rather than blame the regressive distribution of Knowles's tax plan, Republicans argued that it was the tax plans'

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[186] "Obey Raps Opponent on Fiscal Issue," *Stevens Point Daily Journal*, March 21, 1969
[187] "Chilsen, Obey Get Voters Nod to Run for Laird's Seat," *Capital Times*, March 5, 1969
[188] David Obey, *Raising Hell for Justice: The Washington Battles of Heartland Progressive* (University of Wisconsin 2007), 109
[189] "How Obey Pulled Off His Victory," *Capital Times*, April 7, 1969

very existence that sunk Chilsen. “I don’t think Governor Knowles could muster 29 votes in his own party for a tax increase in the assembly,” a “highly-placed” Republican quipped after Chilsen’s loss.[190] Wisconsin Republicans were not alone. At all levels of government, conservative Republicans were coming to conclusion that supporting any tax increase, of any type, for any reason, was political suicide. At the national level, Nixon was confronting a newly strengthened resistance to taxes among congressional Republicans as he attempted to pass his surtax extension.

Tax Reform vs. Surtax

With a newly empowered populist left and an emergent small-government right, the debate over Nixon’s surtax extension increasingly became a debate over the direction of tax reform, more broadly. Nixon’s first obstacle was the coalition of populist Democrats and left-leaning interests groups, especially labor unions, who wanted bolder reforms in exchange for the surtax. Even if his proposals were not as bold as the unions hoped for, Nixon believed he could win labor leaders over to his side, particularly when it came to fighting inflation. McCracken met in an off-the-record meeting with AFL-CIO chief George Meany, United Steelworkers president I.W. Abel, and more than 20 other union presidents in April, reminding them that it was “the first time in five years” that a CEA chairman had met with union leaders. But the results were not what Nixon wanted. “Generally, they felt, and I think with some justification, that the cost of aggregate measures (general fiscal and monetary policies) to ease inflationary pressures bears more heavily on working people,” McCracken reported to Nixon. The union leaders blamed high profits, not excess demand, for inflation. To curb “profit inflation,” they recommended a repeal

[190] “How Obey Pulled Off His Victory,” *Capital Times*, April 7, 1969

of the investment tax credit. Despite Nixon's appeals, the unions opposed extending the surcharge and recommended "a major overhaul of the tax structure."[191]

Just days after the meeting, Nixon delivered his tax reform proposals and the reaction from the unions was swift. Meany released a statement the same day declaring Nixon's proposals "hesitant" and "nowhere near enough to achieve tax justice."[192] Within weeks, the ALF-CIO passed an official resolution stating its position and circulated it to members of Congress. "The president's proposals fail to directly attack the major loopholes which unconscionably reduce the tax burdens on the wealthy, such as capital gains, depletion allowances, and state and local bond interest," the AFL-CIO resolution read. "And, equally important, though the president's proposals would effectively remove from the tax rolls those whose incomes are below government poverty standards, no relief is recommended for those of moderate and middle-incomes, who bear the brunt of the tax burden." The union declared its opposition to the surtax unless it was combined with "substantial" reforms, such as those suggested by the union its Ways and Means testimony.[193] In yet another statement, Meany argued that simultaneous passage of the surtax and tax reform was "the only way to achieve tax justice – and that's what America's taxpayers want and need." The union leader also directly attacked the administration's political posturing, which cast bold reform as the enemy of the inflation-fighting surtax. "The administration's campaign – predicting massive inflation unless this unfair surtax extension is passed at once – is pure political propaganda…," Meany's statement read. "[T]hose who fight to pass the surtax extension…without reforms are the foes of tax justice."[194]

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[191] McCracken to Nixon, April 17, 1969, WHCF Ex BE 5 National Economy [1 of 23] January-June 25, 1969, RNPL

[192] AFL-CIO Release, April 21, 1969, Harris Collection, B172, F12, CAC

[193] "Statement by the AFL-CIO Executive Council on the Surtax," May 14, 1969, Harris Collection, B172, F12, CAC

[194] AFL-CIO Press Release, July 17, 1969, Harris Collection, B172, F12, CAC

Behind the scenes, unions also lobbied for tying the surtax to tax reform. Many that had supported the enactment of the surtax under Johnson now felt burned after having been promised reform in exchange for their support. "Two years ago, this union gave conditional support to the surtax," Communication Workers of America president Joseph Beirne wrote to Democratic House Majority Leader Carl Albert. "However…I believe the rebellion against the current [tax] system is so strong, a real change must be made before June 30th or the surtax should die."[195] I.W. Abel, the president of the AFL-CIO's Industrial Union Department, wrote to congressional representatives urging the defeat of the surtax. The time for reform was now, Abel argued, and Nixon's reforms "d[id] not go nearly far enough toward genuine reform."[196] The Machinists union also wrote to representatives to make their opposition to the surtax without reform. "We consider the vote to extend the surtax without closing the absurd loopholes in the present tax low as a vote against the working people of the United States and in favor of tax evasion and inequality," the union declared in the opening of its letter.[197] Labor also enlisted the rank-and-file in its anti-surtax push. The AFL-CIO marshaled 200,000 members across the country as lobbyists, equipping them with "13-point tax kits" to help them make phone calls and send letters and telegrams to "virtually all" representatives.[198]

Labor's stance frustrated Nixon and his allies. Given the strength of the union's influence, Nixon worried the tax reform bill would become too bold. "The problem with reform," Nixon said, "is that everybody wants to reform the other fellow's taxes to make his own lower and the rest higher."[199] John Byrnes suggested that Nixon continue to press Meany for an endorsement of the surtax extension. If Meany resisted, Byrnes suggested, Nixon could threaten

195 Bierne to Albert, April 10, 1969, Albert Collection B126, F 47, CAC
196 Abel to "Congressman," June 23, 1969, Albert Collection B126, F47, CAC
197 Machinists Letter, July 14, 1969, Albert Collection, B126, F47, CAC
198 Victor Riesel, "Labor Musters Army in Drive for Tax Cut," *Philadelphia Inquirer*, July 8, 1969
199 Cabinet Meeting Minutes, July 10, 1969, PNWH-2

the union leader by telling Meany that any cuts resulting from the surtax's repeal would come out of "areas of interest to organized labor" and that the administration would purposely undermine comprehensive tax reform in 1970 in retaliation for labor's intransigence on the surtax. Even though Nixon wanted the surtax, he was unwilling to torpedo his relationship with labor so early in his administration, and Byrnes's suggestion was rejected. [200] Besides, it was increasingly clear to the Nixon team that its problems with the left extended well beyond labor.

Most left-leaning Democrats agreed with labor on both the reforms and the surtax. In early May, group of 54 House Democrats from the liberal Democratic Study Group sent a petition to House Ways and Means Committee chairman Wilbur Mills asking him to pass a tax reform package before granting a permanent extension of the surtax. The DSG recommended closing "loopholes" like the oil depletion allowance and the preferential rate for capital gains. In the past, the beleaguered liberals of the DSG had "rarely been ben able to prevail in the House on major issues," the *New York Times* noted, at least in part because Mills controlled the purse strings. But with a torrent of pro-reform letters pouring into Congress, it seemed possible that this time the liberals might get their way.[201] Byrnes warned Nixon that "Democratic support [for the surtax] was disintegrating all down the line." Even worse, Senator Jon Williams, a Delaware Republican on the Senate Finance Committee, told Nixon that he thought the Democrats strategy was to "let the surtax lapse, then pass it, thus making it the President's surtax."[202] The promise of a small package of tax reforms now and a complete overhaul later seemed insufficient to satisfy many Democrats' demands for more sweeping reforms immediately.

But conservative Democrats rushed to Nixon's defense. Like Wilbur Mills and others,

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[200] Harlow to Cole, May 26, 1969, PNWH-2
[201] "54 in House Urge Tax Reform Drive," *New York Times*, May 15, 1969; "Extension of the Income Tax Surcharge: Strategy and Tactic," May 1969, WHCF EX FI-11 Taxation [1 of 18 January-June 1969]
[202] Buchanan to Nixon, June 17, 1969, PNWH-2

Hale Boggs, a conservative Louisiana Democrat who served as House majority whip, sided with the president, not the liberals in his party. Boggs told reporters in June, in an interview broadcast on the NBC *Evening News*, that the surtax extension would have been necessary even if Humphrey had been elected and argued that Democrats would be guilty of "fiscal irresponsibility at a time when the engines of inflation are really about to run wild" if it failed to help pass the surtax. Boggs said he intended to make the party stand for fiscal responsibility.[203] Privately, Boggs suggested to Nixon that adding the low-income allowance to the surtax extension bill might convince reluctant Democrats that they could not oppose the measure.[204] Nixon agreed. The low-income allowance and repeal of the investment tax credit were attached to the House surtax bill.[205] But Boggs's strategy suggestion came with a note of caution about what might happen when the real process of tax reform began. "Tax reform to one man is tax justice to another," Boggs quipped to Nixon.[206] Nixon wanted neither, but he would happily promise moderate reform if it meant getting the surtax.

Treasury secretary David Kennedy, CEA chair Paul McCracken, and budget director Robert Mayo appeared before the Ways and Means Committee in late-May to explain that the reform proposals attached to the surtax extension "enjoy[ed] the full support of the president" and were meant to be a "substantial down payment" on "comprehensive tax reform." Kennedy warned against pursuing any other reforms in 1969. "We recognize that additional tax reform proposals are needed…," he said. But sweeping reforms in the midst of rising inflation were not appropriate. Attempts to use the surtax as leverage to get more reforms than the White House wanted were irresponsible. "Linking tax reform with the problem of restoring economic stability

203 "Surtax Extension/IRS," *NBC Evening News*, June 12, 1966
204 Buchanan to Nixon, June 17, 1969, PNWH-2; Buchanan to Nixon, June 12, 1969, PNWH-2
205 "Congress Agrees to Compromise on Surtax Extension," *CQ Almanac 1969*
206 Buchanan to Nixon, June 12, 1969, PNWH-2

through fiscal responsibility and restraint can only jeopardize both," Kennedy concluded.[207]

Luckily for the Nixon team, it had a friend in Wilbur Mills, at least when it came to the focus on inflation above sweeping tax reform and relief. In a long soliloquy during the question-and-answer session following McCracken, Kennedy, and Mayo's testimony, Mills lamented the need for the surcharge, blaming increased federal spending for the country's budgetary problems and inflationary state. The budget needed cut, Mills argued in fiscalist terms. It was better to stop spending in the first place than trying to balance the budget after-the-fact with a surtax. He told the Nixon team to have their "knife out and sharpened" to make cuts. "For the life of me I do not see any greater problem today on the domestic front than stopping this increase in prices. I think that is the greatest problem we have," the Arkansas Democrat said. "It enjoys paramount important to me, therefore, over most any kind of expenditure program on the domestic front."[208] Publicly, the White House tried to portray left-leaning Democrats as obstructionists who would be responsible for any resulting inflation. "The president feels that a delay in the surtax will just continue to fan the flames of inflation and lead to a continuation of the rise in prices and interest rates," press secretary Ronald Ziegler said in July.[209]

But left-leaning Democrats were willing to gamble that the Nixon team was wrong. Instead, they argued that the public cared more about tax reform and relief than about the White House's conception of "fiscal responsibility." As James Burke of Massachusetts put it to the Nixon team during their Ways and Means testimony, Congress had attached a tax reform provision to the first surtax and now representatives were being asked to extend the surtax again even though they had not received the initially promised reform. "During the Easter recess, I had

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[207] "President's Proposals to Repeal Investment Tax Credit and to Extend Tax Surcharge and Certain Excise Tax Rates," Public Hearing, Committee on Ways and Means, House of Representatives, May 20, 1969 (GPO 1969)
[208] "President's Proposals to Repeal Investment Tax Credit and to Extend Tax Surcharge and Certain Excise Tax Rates," Public Hearing, Committee on Ways and Means, House of Representatives, May 20, 1969 (GPO 1969)
[209] "Reformists Stall Surtax Package," *Boston Globe*, July 10, 1969

the experience of going back to my district and taking to about 1,400 people," Burke told the Nixon team. "The great majority of these people were concerned about the tax avoidance abuses of many wealthy people of this nation. They asked me not to vote for a continuation of the 10 percent surtax unless tax reform was put through, unless this government kept is promise to have fairness and equity in our tax system." Kennedy told Burke that he could tell his constituents that Congress would take up take reform as soon as the surtax was passed. Without immediate enactment of the surtax extension, Kennedy argued, there could be "irreparable damage to the economy." "I don't think that will be a very good answer, particularly to the people in my district. In fact, I don't think it will be a good answer to the people in any section of the country…," Burke responded. "Most of the mail that these members are receiving is from the people who don't mind paying their fair share of taxes, but who object strenuously to seeing that…154 persons in this country, each with incomes of over $200,000, did not pay any federal tax in 1966." The public deserved the reform it was promised, Burke agued, not another extension of the surtax."[210] Burke was not the only left-leaning Democrat to challenge the administration – and Mills's – view of reform. In an affront to the authority of the powerful Ways and Means chairman, Ohio Representative Charles Vanik argued to the Nixon economic team, Mills, and the more conservative Ways and Means members that their attempts to stifle more sweeping reforms would be in vain. Vanik predicted that the Senate would take the House's surtax bill, with its timid reforms, and turn it into a complete reform package before sending it back to the House. Mills interjected, telling him to "look at the record" of House reforms. But Vanik did not relent in his insistence that the Senate should make the House bill

[210] "President's Proposals to Repeal Investment Tax Credit and to Extend Tax Surcharge and Certain Excise Tax Rates," Public Hearing, Committee on Ways and Means, House of Representatives, May 20, 1969 (GPO 1969)

bolder. "This is, I think, what is needed," he concluded.[211]

At the time, Vanik's prediction seemed unlikely. With moderate and conservative Democrats like Mills on his side, Nixon turned to wooing the Republicans who were beginning to move away from Eisenhower-style fiscal responsibility to the libertarian-inflected anti-tax sentiment of Friedman and others. As discussed in the previous chapter, overwhelming majorities of Republicans had supported LBJ's surtax bill in 1968.[212] Johnson had successfully played on many Republicans' sense of fiscal responsibility – the same one that Friedman blamed for sinking Republicans politically. But now that Nixon was coming back for a second round of the surtax, many conservatives within the party decided they had enough.[213] Unlike even many moderate Democrats, who wanted reform, at least eventually, now many Republicans decided that they would fight higher taxes of any kind – even a surtax pitched as an inflation-fighting measures. "Don't ask me to vote for a tax," Republican Congressman Frank Bow of Ohio complained to McCracken and Nixon during a White House meeting. "Last year you told me that the surtax for a single year would be enough and now you're asking me to vote for it again."[214] Nixon's overly optimistic budget projections – which projected a surplus – had backfired. The rosy projections provided ammunition to anti-surtax Republicans and made it difficult for more moderate Republicans to convince skeptical constituents that a continuation of the surtax was necessary.[215] Nixon had breakfast with rank-and-file Republican representatives on June 30 – the morning before the House vote on the surtax – to make a last-minute plea for their support for its extension. He explained that he was requesting an extension of the surtax, despite

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[211] "President's Proposals to Repeal Investment Tax Credit and to Extend Tax Surcharge and Certain Excise Tax Rates," Public Hearing, Committee on Ways and Means, House of Representatives, May 20, 1969 (GPO 1969)
[212] "CQ House Votes 109 through 112," *Congressional Quarterly Almanac* (50-H 1968); "CQ Senate Votes 153 through 158," *Congressional Quarterly Almanac* (34-S 1968)
[213] Ehrlichman Notes, August [Undated], 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [1 of 4], RNPL
[214] Buchanan to Nixon, June 12, 1969, PNWH-2
[215] Buchanan to Nixon, May 13, 1969, PNWH-2

opposing it during his campaign, because "the budget cannot be reduced enough and because [of] the inflationary situation." He reassured the gathered Republicans that he would end the surtax "as soon as possible." Even though it meant higher taxes in the short term, Nixon explained that he had reluctantly asked for the surtax extension because he was not willing to risk inflation. But, perhaps most importantly, Nixon also hinted that he was on the side of conservatives when it came to the debate over tax reform versus tax reduction, telling his fellow Republicans that he "considered the present taxes too high."[216] But it remained unclear whether Nixon's appeal would win enough Republican converts to the surtax to pass the measure and save the president the embarrassment of being rebuffed by the rank-and-file of his own party.

In the House the night after Nixon's meeting with rank-and-file Republican representatives, a heated debate on the surtax stretched on for hours. The addition of a few reform measures to the bill did less to convince skeptical Democrats to vote for the surtax than Republicans had hoped. Left-leaning Democrats argued that the surtax was unfair. Given the fact that it was calculated as an additional 10-percent of one's federal income tax burden, it meant that the wealthy escaping taxation through loopholes would also escape the surtax. They also argued that passing the surtax with only a vague promise of reform later was insufficient. Positioning themselves as the champions of the taxpayers' revolt, these Democrats argued that reform needed to happen immediately. "I have received thousands of letters and telegrams from Indiana and other state demanding that fabulous and, in some cases, fraudulent, loopholes depletions, credits, and tax deductions to corporate and millionaire tax dodgers be repealed…," Indiana Democrat Ray Madden said. "Every member of this Congress knows that tax reform legislation on corporations and millionaire tax dodgers has been agitated for several years…and

[216] Harlow to Nixon, August 11, 1969, PNWH-2

the leadership on both sides for some reason or other have ignored the appeal of the American people for federal tax equity and tax justice." Had Congress passed tax reform earlier, Madden argued, the revenue raised by closing loopholes would have made the surtax would have been unnecessary.[217] Missouri Democrat William Clay – a former civil rights activist, who would soon becoming one of the founding members of the Congressional Black Caucus – made one of the most impassioned statements against the surtax. Like Madden and other Democrats, Clay argued that closing loopholes would raise more money than the surtax. "As long as the powers that be are successful at raiding the pockets of…the low- and middle-income taxpayer…," Clay wondered, "what incentive will there be to seek revenue from the fat cats of the country[?]" He argued that the tax revolt was justified. "We have heard a lot of talk about the taxpayer revolt," Clay continued. "When there are 155 people with $200,000 incomes who do not pay taxes – why should the ordinary taxpayer not rebel? When he reads about 21 millionaires who do not pay taxes, I can understand his fury…. I understand and agree with the taxpayer revolt."[218]

Other Democrats cast the issue in left-distributionist terms, too, arguing that the combination of an unfair federal tax structure, rising state and local levies, and inflation pushing taxpayers into higher brackets justified the revolt. New Jersey Democrat Joseph Minish said that the surtax "merely serves to intensify the already inequitable tax burden borne by the average taxpayer." With loopholes allowing millionaires to escape income taxes entirely, it was unfair to ask the "ordinary taxpayer" – who was already struggling – to pay the surtax. "In my own area of New Jersey, inflation, ever-increasing local taxes, and the 10-percent surcharge have put the great majority of taxpayers in a real financial bind," he said. "[O]ur tax laws as presently constituted soak the last penny from the ordinary citizen while allowing privileged groups to

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[217] *Congressional Record*, June 30, 1969, 17778-17779
[218] *Congressional Record*, June 30, 1969, 17782

escape contributing their fair share to our national well-being."[219] Washington Democrat Floyd Hicks explained that he was opposing the surtax and supporting reform because a poll of his district found less than 20 percent in favor of continuing the surtax and more than 50 percent in favor of closing loopholes and making the tax system more equitable. "The recommendation to continue the surtax is a recommendation to postpone reform," Hicks said. "In fact, it is a recommendation to raise taxes for the 35 million American taxpayers in the $7,000-to-$20,00 income group…. [I]nflation and real growth [have] pushed these taxpayers into higher and higher brackets subject o higher and higher rates."[220] Missouri Democrat William Randall opposed the surtax, he said, because "to permit a federal tax structure to continue which lets the rich go free and penalizes go free and penalizes the wage and salary earner in these days of heavy local and state taxes is not only inequitable, it is intolerable." Randall quoted 1968 campaign speeches by Nixon opposing the extension of the surtax and concluded that Congress help Nixon "keep his word" by defeating the surtax.[221] He was not the only Democrat to the surtax debate to score political points on the president. California Democrat John Tunney mocked Nixon's flip-flop on the surtax and his tentative embrace of tax reform. "During the campaign the president, in appealing to the 'silent majority,' said over and over again that the middle class had no effective spokesman…," Tunney said. "Today we see just how inconsequential President Nixon's campaign promises were…. The administration has shown much more interest in the extension of the tax surcharge than they have in tax reform."[222]

Most pro-surtax Republicans and moderate-to-conservative Democrats – including key party leaders, such as Speaker John McCormack, Majority Leader Carl Albert, and Majority

[219] *Congressional Record*, June 30, 1969, 17806
[220] *Congressional Record*, June 30, 1969, 17802
[221] *Congressional Record*, June 30, 1969, 17853
[222] *Congressional Record*, June 30, 1969, 17808

Whip Hale Boggs – made a simple fiscalist case for the extension of the surtax.[223] They argued that its extension was necessary to fight rising inflation. Even if the surtax was less than ideal, it would help stop "the inflationary spiral which has boosted wages and prices out of line and interest rates to one of the highest levels in history," as Kansas Republican Chester Mize put it. Likewise, Virginia Republican James Broyhill argued that "failure to extend the surtax would fuel the fire of inflationary psychology," though he somewhat incongruously argued both that the inflation was cost-push, not demand-pull, and that the surtax – which is designed primarily to skim off excess consumer demand – would be effective at fighting it.[224] Republican minority leader Gerald Ford predicted doom for the nation if the surtax was defeated. "Nations have fallen in the past because they did not handle their finances properly," Ford said. "Nations have deteriorated, become weak and impotent because they were unable to handle money matters successfully." The Michigan Republican said that the inflationary consequence of failing to pass the surtax "terrifies me." "We need this legislation if we are to continue the fight against inflation…the cruelest tax of all," Ford concluded. "If we fail today, we fail the country."[225]

Like Nixon, the Republicans and Democrats who supported the surtax attempted to finesse the fact that they were supporting a tax hike by casting inflation itself as a tax – one that they were fighting to cut. "Inflation is the worst tax of all. It is cruel and it is hidden, and though it hits everybody, it hits the low-income people the hardest," Texas Republican George Bush said. While letting the surtax expire "would give the average taxpayer a momentary sign of relief," Bush argued, the resulting inflation "would more than offset the surtax relief." It was not the right time to cut income taxes, but it was "the time to cut the inflation tax."[226] Conservatives

[223] Democratic Study Group, "DSG Fact Sheet No 91-6," June 23, 1969, Harris Collection B281, F5, CAC
[224] *Congressional Record*, June 30, 1969, 17797
[225] *Congressional Record*, June 30, 1969, 17791-17792
[226] *Congressional Record*, June 30, 1969, 17800

were angry that some Democrats were now insisting on tax reform as the price for the surtax extension. Bush blamed unions. “I am disappointed at the concerted drive by the big union official to gun down the extension of the surtax,” Bush said. “We have heard a lot about lobbyists today. The major lobbying on the Hill is by the unions.”[227] Bush did not mention another group lobbying Congress to oppose the surtax – the National Association of Manufacturers. Unlike unions, however, NAM opposed the surtax extension not because the business group wanted reform, but because it opposed one of the modest reforms attached to the surtax – the repeal of the investment tax credit.[228]

Pro-surtax Republicans and business groups had powerful allies among the Democrats. “Talk about a cruel tax,” Boggs said on the House floor, echoing Bush. “Inflation is the cruelest of all.”[229] In an hour-long speech, Boggs attacked both his fellow Democrats’ opposition to the surtax and their insistence on tax reform. He argued that the left’s portrayal of the tax code as one that punished average Americans and rewarded the rich and powerful was incorrect. Most tax loopholes, Boggs said, existed for good reasons, and most lobbyists were doing the public a service, not swindling the average taxpayer. “I do not know what a fat-cat lobbyist is,” Boggs quipped. Opposing the surtax – given the small reforms – was “like saying to a man who is starving to death, ‘Now, look. We would give you a glass of milk and a hamburger but you need a streak.’ So we let him starve to death because the steak will not be available until later.” Taxes were already lower and fairer than ever, Boggs argued. Congress had also given the public “significant reforms” over the previous 10 years, he said, and had cut taxes numerous times since WWII. He argued that the public’s complaints about taxes were exaggerated.[230]

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[227] *Congressional Record*, June 30, 1969, 17800
[228] *Congressional Record*, June 30, 1969, 17783
[229] *Congressional Record*, June 30, 1969, 17785
[230] *Congressional Record*, June 30, 1969, 17785

Even further to the right, small-government, anti-tax conservatives opposing the surtax bill argued – like NAM – that neither the surtax nor the investment tax credit repeal were necessary. Instead, they said, budget cuts should be used to fight inflation. Iowa Republican William Scherle declared himself "totally and unequivocally opposed" to the surtax. Budget cuts – not tax increases – he said, were the "only way" to stop inflation.[231] Virginia Republican William Scott agreed with Scherle. "If government spending were cut," he said, "we would not have to add to the tax burden of our citizens.[232] Echoing Friedman's admonition that increasing taxes for any reason would only feed further spending – not fiscal responsibility – Ohio Republican Donald Clancy said on the House floor that he opposed the surtax "because without a meaningful and substantial cut in the budget, it will only serve as an encouragement for further spending." Inflation and the "intolerable" tax burden were the result of "excessive spending" on social programs, according to Clancy. "We must correctly place the responsibility for our present problems at its source and reduce Federal spending…," he argued. Unlike the surtax, cutting spending would not "break faith with the millions or people whose income is being dissipated by taxes increases and inflation." Congress needed to cut its spending and place a "moratorium on new, unnecessary spending programs." Placing "a restriction on the Federal Government" would force it to live "within its means," just as was "expected of any individual or enterprise."[233] Kentucky Republican M. Gene Snyder argued that an "objective" examination of the surtax would indicate that it had failed. Higher taxes drive inflation, rather than fight it, he argued, because businesses counted them as a cost and passed them on to consumers in the form of higher prices. If anything, the public – and businesses, in particular – faced "perpetual overtaxation." Congress should cut its "extravagant expenditures, Synder said. "I believe that it

[231] *Congressional Record*, June 30, 1969, 17804
[232] *Congressional Record*, June 30, 1969, 17824
[233] *Congressional Record*, June 30, 1969, 17835

is unjust and consummately unfair to require the American taxpayer to subsidize the furtherance of irresponsible spending, gigantic waste, and indiscriminate social experimentation…" he declared.[234]

After hours of debate, the surtax squeaked through the House 210-205. Only 56 Democrats voted in favor of the bill, while 179 voted against it. Republicans approved it 154-26.[235] Once it became clear the vote would be close, according to *Newsweek*, a group of reluctant Republican representatives drew straws to determine who would cast the decisive votes in support of the unpopular surtax. A relieved Nixon credited "Republican unity" and asked for "tender loving care" for the reluctant representatives who voted yes. "We didn't twist any arms, but we did beat a few heads," Nixon quipped to his cabinet. Like Bush, Nixon blamed George Meany and other unions' opposition to the surtax for the "utter collapse of the Democratic leadership" and its failure to get more Democrats to vote for the surtax extension. The Senate was still delaying the surtax, but Nixon believed it would pass, because reluctant Democrats were getting "absolute assurance [from the White House] that a comprehensive tax reform bill will be next in line."[236] With the fiscal crisis seemingly on its way to resolution, Nixon and his team intensified their push to convince Martin and the Fed to change course.

Trading Higher Taxes for Lower Interest Rates

Throughout the summer and into the fall, Nixon and his team grew more and more fed up with William McChesney Martin's insistence on slowing monetary growth. Martin had brought growth in the money supply to a near-standstill during the summer, and the yearly growth rate

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234 *Congressional Record*, June 30, 1969, 17819
235 "CQ House Votes 43 through 44," *Congressional Quarterly Almanac* (26-H 1969).
236 Cabinet Meeting Minutes, July 10, 1969, PNWH-2

continued to fall.[237] Schultz – who was fast becoming one of Nixon's most trusted economic advisers – warned the president that the Fed's tight money policy might drive the country into a recession that would consume the election year 1970. Inflation was no longer the main concern, according to Shultz, since "the policy of gradually cooling off the economy is beginning to work." The bigger danger now was recession.[238] It was time to turn from restraint to expansion. Nixon was disturbed by Shultz's report, and he wrote to Burns – whom the president had already made clear he intended appoint to chair the Fed when McCracken's term expired – to ask if it would "be too late [to change course] when you take [the Fed chairmanship] over."[239] Nixon and his advisers worried that it would be too late – that any easing of monetary policy undertaken by Burns would not ripple into the economy quickly enough to make an impact on the fall 1970 midterm elections.

In October, Nixon and his advisers met with Martin to make their case for easier money. The Fed chairman reiterated his determination to squeeze inflation out of the economy by breaking the country's "inflationary psychology." Martin told the Nixon team that he knew the money supply had flattened out, but that it was too soon to relax it again. "We shouldn't relax the pressure prematurely. The risk of underkill is worse than overkill. I personally discount the threat of recession," Martin said. "A chronic inflation would be disastrous. In the long run the most important thing is to get rid of the expectation." This was exactly what the White House did not what to hear. "The basic question is when should our policy be eased?...," McCracken asked rhetorically. The Nixon team continued to push for easier money, while Martin demurred. Then, as William Safire recorded in the meeting minutes, "Shultz began to needle Martin on his tight money policy." "We had one policy the first four or five months of this year, and another –

[237] FRED
[238] Shultz to Nixon, October 7, 1969, PHWH-6A
[239] Ehrlichman to Nixon, October 7, 1969, PHWH-6A

tougher – monetary policy for the last two or three months…," Schultz said. "[M]aybe we are doing too much right now. I think the right policy is moderate restraint, the kind we had in the beginning of the year. Maybe we should go back to that." When Martin did not respond, Shultz repeated himself: "Maybe we should go back to policies we had earlier – they worked – maybe the new policies are working too well." After a long discussion of other issues, Shultz went back to "needling" Martin, saying, "I still think the Fed's policy is too tight." Martin finally replied to Shultz directly: "There's a disease called Statisticaliti[s] that could wreck us. This is not a statistical question, it's a judgment question and I have been at this at least as long as you." Shultz conceded that Martin had "been at it a lot longer" and the meeting ended.[240] Two days later Nixon announced that Burns would replace Martin at the Fed when his term expired at the end of January.[241] Nixon would have to wait to get a Fed chair who would provide the easy money needed to complement the administration's fiscal restraint.

But just as the Nixon team was complaining about Martin's failure to have faith its fiscal responsibility, left-leaning Democrats in Senate – with a little help from their defeated colleagues in the House – were making it clear that they would not follow the House in giving Nixon the key piece of that restraint, the surtax, unless they got tax reform first. During the Senate's summer hearings on the surtax, Henry Reuss echoed Charles Vanik's call for the Senate to lead the way for reforms by holding the surtax bill hostage in exchange for more a full slate of tax reforms. In a quote picked up by newspapers across the country, Reuss implored his Senate counterparts to adopt the slogan, "No surtax without tax reform. No taxation without

[240] Cabinet Committee on Economic Policy Minutes, October 15, 1969, Safire Papers, B2, F9, LOC
[241] Cabinet Committee on Economic Policy Minutes, October 15, 1969, Safire Papers, B2, F9, LOC

reformation."[242]The AFL-CIO also appeared before the Finance Committee also urging the rejection of the surtax unless reform came first. Andrew Biemiller told the committee that the AFL-CIO executive council had unanimously approved a resolution declaring, "We in the AFL-CIO will not support any extension of the surtax until it is combined with immediately, substantial, and equitable reform of the federal income tax structure."[243] The surtax, the union argued, only exacerbated inequities, since the federal tax code operated on a "triple standard" – taxing "ordinary income" at the full rates, taxing capital gains at lower rates, and leaving some other types of income untaxed. "A married worker taking the standard deduction whose sold income in 1969 is $8,000 in wages will pay a $100 surcharge," Biemiller noted. "But a married investor whose sole income in the year is an $8,000 profit from selling a stock or property for more than he paid for it will have to pay only a $13 surcharge. And, if the same $8,000 came from interest on municipal bond holdings, the surcharge would be zero."[244] Increasingly, tax reformers would successfully marshal the language of working- and middle-class pocketbook frustrations to argued for left-distributionist tax reform.

Though conservative and moderate Senators still viewed the surtax as an essential tool to fight inflation, left-leaning Democrats were stronger in the Senate than in the House. Senate Democratic leaders like Mike Mansfield and Edward Kennedy insisted that the surtax be blocked until reforms were passed.[245] In contrast, Senate Republican minority leader Everett Dirksen tried to push Nixon's preferred solution of extending the surtax now in exchange for an

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[242] "Tax Reform Senate Asking Price for Early Passage of Surtax Bill," *Montreal Gazette*, July 15, 1969; "Proposed Extension of the Surcharge and Repeal of the Investment Tax Credit," Hearings Before the Committee on Finance, United States Senate, July 8, 9, 11, 14, and 15, 1969 (GPO 1969)
[243] "Proposed Extension of the Surcharge and Repeal of the Investment Tax Credit," Hearings Before the Committee on Finance, United States Senate, July 8, 9, 11, 14, and 15, 1969 (GPO 1969)
[244] "Proposed Extension of the Surcharge and Repeal of the Investment Tax Credit," Hearings Before the Committee on Finance, United States Senate, July 8, 9, 11, 14, and 15, 1969 (GPO 1969)
[245] "Anti-Ballistic Missile/Surtax/Senate Debates," *NBC Evening News*, July 15, 1969; "Surtax/Senate Debate," *NBC Evening News*, July 16, 1969

agreement to address reforms in 1970.[246] As with Mills in the House, a conservative Democrat controlling the purse strings – Senate Finance Chairman Russell Long – stood between them. The Louisiana Democrat's populism was "all-embracing," as the *Wall Street Journal* put it when Long took over the Finance committee chairmanship. "More than once his considerable legislative skills have come to the rescue of some corporation that thinks it's being downtrodden by an unjust paragraph in the tax laws," the paper reported. "The senator's skills with a tax loophole on occasion has infuriated his sometime liberal allies on the Finance Committee." Long was an unsparing defender of preferences for the oil industry, but, when it came to other loopholes, he had idiosyncratic views on reform. On capital gains, for example, he was less sure that they deserved special treatment. "If your paycheck goes up because of inflation, you have to treat the increase as ordinary income," he told the *Journal*. "But if the value of a so-called investment goes up because of inflation, you get to pay a lower tax on it." There were two sides of Russell Long, it seemed. He had, in fact, had sounded the alarm on tax-free millionaires back in 1966.[247]

But in 1969, the conservative side of Russell Long prevailed. Faced with the reform push in the summer of 1969, Long hoped, like Mills, to defuse the situation by adding a few uncontroversial reform measures to the surtax bill in his Finance Committee before sending it to the full Senate, a strategy he believed would mollify the demands of liberal Democrats for more sweeping reforms. But Nixon and Republicans opposed even the addition of Long's minor reforms. Unwilling to go to bat for reformers or attempt to craft a comprise bill with the White House, Long let a totally reform-free version of the surtax come up for a vote in the Finance Committee. It passed with the help of moderate Democrats Clinton Anderson of New Mexico

[246] "Anti-Ballistic Missile/Surtax/Senate Debates," *NBC Evening News*, July 15, 1969; "Surtax/Senate Debate," *NBC Evening News*, July 16, 1969
[247] Arlen Large, "Louisiana's Long," *Wall Street Journal*, January 6, 1966

and Abraham Ribicoff of New York.[248] Though Long himself did not vote for the bill, some Democrats speculated that Long allowed the vote knowing the likely result in order to embarrass majority leader Mike Mansfield and, especially, leader Edward Kennedy, who defeated Long for the assistant majority leader spot.[249]

But conservatives had overplayed their hand. A reform-free surtax extension was dead on arrival in the full Senate. Speaking as both a member of the Senate Finance Committee and the Democratic National Committee's chair, Fred Harris threw his support behind the movement to block the surtax unless tax reform was passed first. "I think we either ought to attach real reform to it [the surtax]," Harris told the *Boston Globe*, "or we ought to refuse to extend it for a full year." With Republicans unable to secure a full-year extension and left-leaning Democrats unable to force a full reform bill before passing any surtax extension, the two sides worked toward a compromise. Neither side achieved a complete victory, but progressive Democrats were able to force their more conservative colleagues in the Senate to accept just a six-month extension of the surtax, with the understanding that a full year extension would not happen until comprehensive tax reform was passed. On August 4, the House abandoned its year-long extension, passed the Senate's six-month compromise, and sent the bill to a very displeased Nixon at the White House. If the president wanted a full year, he would have to give Democrats more than the cursory reforms tacked on to the surtax as passed by the House.[250] Now the anti-inflation surtax and tax reform were one and the same. It was a fitting outcome given that both the media – and many political actors – were beginning to realize that inflation and taxes were

248 Joel Hall, "Maps Plan for Dealing with Surtax," *Nashua Telegraph*, July 17, 1969; "Surtax Extension Goes to Senate Floor," *Daytona Beach Morning Journal*, July 18, 1969
249 "Surtax Under Siege," *Time*, July 25, 1969
250 Allen J. Matusow, *Nixon's Economy: Booms, Busts, Dollars, and Votes* (University of Kansas, 1998), 45-46; "Senate OK's Surtax for 6 Months," *Daytona Beach Morning Journal*, August 1, 1969; "Surtax Bill Sent to White House," *New York Times*, August 5, 1969; "Congress Agrees to Compromise on Surtax Extension," *CQ Almanac 1969*

the two strands of a pocketbook "squeeze" that was increasingly frustrating all Americans, but especially the politically volatile, and electorally valuable, middle-class.

The Tax Revolt, Inflation, and the Pocketbook Squeeze

Throughout the spring and summer of 1969, the lingering hesitancy and dismissiveness that some commentators viewed the "tax revolt" began to wane, and the idea that a pocketbook "squeeze" – not cultural frustration – was to blame for working- and middle-class anger began to take hold. While this new "squeeze" interpretation did not erase the old "Silent Majority" discourse that saw the white middle class – the "nonshouters" who were "cry[ing] out in anguish," as Nixon put it – as the victims of racial and generation changes, it chipped away at this view, creating cultural and political space for a different narrative of working- and middle-class discontent. Crucially, this new narrative was conducive to a left-distributionist view of the tax revolt.

In April, the NBC *Evening News* ran a four-part investigation of the effects of the rising cost-of-living spread over two nights. For the Nixon team, staking out its place as tough inflation fighters, this report could have strengthened their arguments. Instead, taxation and inflation mingled in the report as two sides of the same cost-of-living squeeze facing low- and middle-income Americans. Most significantly, David Brinkley – dismissive of union's tax complaints just weeks before – now struck a sympathetic tone for Americans, including union workers, facing the two hands of the squeeze, inflation and taxes. "The government [inflation] figures don't include tax increases. These have been numerous, and taxes often are the biggest single item in a family's cost of living," the anchor observed in his introduction to the series. "Among the many ill effects are that pay increases painfully won by unions – with an without strikes – are now being wiped out. The effects are even worse for those living on fixed incomes, mainly older people who cannot strike to get their pay raised."[251]

Though speculative, Brinkley's comments came close to the truth, and the Bureau of Labor statistics would soon document the impact of taxes on the cost-of-living for an average family. Though not calculated as a percentage increase by the BLS, individual taxes – state, local, and federal – were the fastest-rising item in a "moderate"-income family's budget (just over $10,000 for a family of four) in 1969. Between the spring of 1969 and the spring of 1970, individual taxes rose nearly 14 percent for that "moderate"-income family, a much higher rate than the next-fastest rising expense, food, which increased seven percent. Individual taxes ranked third, behind housing and food, as the biggest single-category expenses for the "moderate" budget family. But, in fact, the BLS's tax category included only income taxes and a few other individual taxes, such as the poll tax. Property and sales taxes – the two most regressive taxes – were not included in the BLS' individual tax category. Instead, housing costs *included* property taxes, which the BLS estimated in 1966 to compose 20 percent of a family's total housing costs, on average. But property tax rates varied widely – from a low of 5 percent of housing costs to a high of 30 percent – and tended to be lower in rural areas and higher in cities. Likewise, the BLS categories for food, clothing, and other consumer items *included* sales taxes. Taken together, the BLS's individual taxes category and the tax components of housing, food, and other consumer good would have ranked as either the largest or second-largest expense (after food) for the "moderate" budget family, depending on the local property tax rate (Figure 11).[252]

[251] "Cost of Living/Mechanic/Farmer," *NBC Evening News*, April 25, 1969

[252] Many contemporary accounts of the squeeze – such as commentary by NBC anchor David Brinkley – impressionistically suggested that taxes were perhaps the most significant contributor to rising cost-of-living. Letters from angry Americans confirmed that the public saw rising taxes as part of inflation, a view that turned Keynesian economic thought – which suggested raising taxes as a way to combat inflation – on its head. Yet, the interrelatedness of taxes and inflation in the middle-class "squeeze" was not simply a clever rhetorical device.

The NBC series illustrated the intertwined nature of taxes and inflation. One segment profiled a Cleveland, Ohio, 33-year-old machinist, Norman Richards, making $10,000-a-year, thanks to working overtime in his auto plant. He was paying off a two-bedroom row house that he had owned for nine years and had just bought a new car. But thanks to inflation and disappearing opportunities for overtime, Richards was forced to borrow money from his company credit union to make ends meet over the winter, and he had reduced the amount he had been depositing into his retirement fund. Richards's wife had begun making, rather than buying, clothes for their two young daughters, and the family had stopped eating meat. If things kept going the way they were going, she was planning to get a job, but she worried about being away from her small children. "We were thinking about buying a house in the last couple years but due to the rising cost of housing – houses – and the interest rates have gone up, we just can't afford to buy another house right now," he told the NBC cameras over a family spaghetti dinner. "And then you take all the other items that have been being raised: food, gas, clothing. We've got city taxes now that are added on. Payroll tax. We had a half-percent [city tax] to start with, then last

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Instead, for middle-income Americans it was an economic fact, even if little analysis existed in 1969 to demonstrate it. The analysis of the changing costs of the components of the BLS's "intermediate" (middle-income) family budget above demonstrates the role that taxes played in the rising cost-of-living for middle-class families, illustrating the interrelatedness – and, perhaps, inseparability – of taxes and inflation in the pocketbook "squeeze." Personal taxes were the fastest rising component of the middle-income family budget between 1969 and 1970 (within-category increase), jumping from $1,348 in 1969 to $1,533 in 1970. Personal taxes were also the largest factor in the "intermediate" family's total budget increase (category increase as a percentage of total income), representing $185 of the $587 increase, the amount of money needed to live an "intermediate" lifestyle, which rose from $10,077 in 1969 to $10,664 in 1970. Moreover, the BLS's measure of personal taxes did not even include property taxes (which were 20 percent of the housing budget, on average) or sales taxes (which, according to a later analysis by the ACIR represented a little less than 1.5 percent of income for a middle-class family). Author's calculations from Spring 1969 and Spring 1970 family budgets in Table 1 "Spring 1969 Cost Estimates for Urban Family Budgets," *Monthly Labor Review* (April 1970) and Table 1 "Spring 1970 Cost Estimates for Urban Family Budgets," *Monthly Labor Review* (January 1971). Property taxes as a percent of housing budget in Bureau of Labor Statistics, "City Worker's Family Budget for a Moderate Standard of Living," Bulletin Number 1570-1 (Autumn 1966). Descriptions of role of taxes in BLS budget categories in Bureau of Labor Statistics, "Workers' Budget in the United States: City Families and Single Persons, 1946 and 1947," Bulletin Number 927 (1948); Bureau of Labor Statistics, "Retired Couple's Budget for a Moderate Living Standard," Bulletin Number 1570-4 (Autumn 1966). Estimates of sales taxes as a percentage of income for a $10,000 family can be found in Table 38 Advisory Commission on Intergovernmental Relations, "Federal-State-Local Finances: Significant Features of Fiscal Federalism," M-79 (1974) year they increased it to one percent. Ten percent surtax. You keep adding all these taxes onto the man's paycheck and even though he has an increase in wages it's not enough to compensate for the inflationary cost of living." Like many Americans, Richard had written his congressional representative to complain.

The series also examined the "painful" effects of inflation even on "more prosperous" Americans who, as Brinkley put it, were coming to "discover that whatever it was they were working to buy now costs too much – houses, for example." This segment followed "successful" suburban Los Angeles attorney Martin Boren and his family, who were experiencing the increasingly typical "shock" of discovering that the house they hoped to buy would cost much more than expected. After two months of house searching, they discovered they needed to pay $10,000 to $15,000 more than they had budgeted. Fortunately, they could afford to pay more by reducing money from their entertainment budget and buying new cars less frequently. Many other Americans could not. "However much their own income is rising, the price of housing is going up much faster," the NBC correspondent explained. "In southern California labor costs are up 15 percent in two years…, land costs more, interest rates and taxes are at record levels. When it's all added up, many families found their dream home is out of sight."[253]

Poorer Americans fared even worse. The series' segment on the fixed-income elderly struck a melodramatic tone. "Age and the high cost of living has reduced them to loneliness," reporter Liz Trotter said as images of the elderly – reading newspapers at kitchen tables, resting on park benches – flashed across the screen. "They can't afford to pay for entertainment. So they spend much of their time just sitting…. They are on fixed incomes frozen into standards of living

[253] "Inflation/Middle Class," *NBC Evening News*, April 25, 1969

that cannot cope with rising prices."[254] The average monthly Social Security benefit for a retired worker in 1969 was $112 per month and less than $72 for a widower.[255] One retiree who received $150-a-month from Social Security recounted for NBC how he went to his local grocery store on Tuesday mornings to pick up free "damaged" produce and meat before it was thrown away by the market. A widow who also received about $150-a-month talked about her trouble affording meat, which led her to purchase low-grade meat that tasted "just like soap." "I think it's really ugly to…say you've got to live like this," she said. "Why? We worked. We produced. We gave you children for the war. We vote. Why is it that we should be third-rate citizens? Because we are not even second-rate. I'd like to know if they would like to live the way we do."[256] A final segment examined the case of a Missouri dairy farmer who had to sell his herd a take a day job because of rising taxes and prices.[257]

In August, *Life* crystallized the pocketbook frustrations facing Americans and, implicitly, the political and policy conundrum facing the Nixon administration. Against a solid black background, *Life*'s cover showed a dollar bill tied in a knot, with three green drops of liquid falling from it. Titled 'THE DOLLAR SQUEEZE," the cover declared: "High Taxes and High Prices Make Everybody Feel Poor." It was a far cry from the triumphal rhetoric of growth liberalism that had dominated the early years of the 1960s. Once portrayed as the great machine of middle-class progress, now it seemed the American economy – and the government tasked with managing it – was faltering. "For a decade, it's been called 'the affluent society,'" the article began, "but suddenly the U.S. public is beginning to think all those dazzling statistics and ever-rising curves are a giant con game." The *Life* piece was far from an impressionistic account

[254] "Inflation/Elderly," *NBC Evening News*, April 25, 1969
[255] Table 5.A17, "Annual Statistical Supplement to the Social Security Bulletin, 2012," Social Security Administration, Publication Number 13-11700 (February 2013)
[256] "Inflation/Elderly," *NBC Evening News*, April 25, 1969
[257] "Cost of Living/Mechanic/Farmer," *NBC Evening News*, April 25, 1969

of discontent. Instead, the magazine commissioned a Harris poll to measure the public's frustrations, and it found "a deep, bitter national resentment over taxes and government spending" and the feeling among average Americans that the combination of taxes and inflation was eroding their "goals and dreams." It was, *Life* argued, "a middle-class revolution in the making."[258]

Americans' discontent, the magazine demonstrated, was rooted in legitimate pocketbook concerns. Between inflation and higher taxes, a family of four needed to be making nearly 50 percent more in 1969 than it had in 1959 to stay even.[259] To be sure, many families were making this jump – or more. Median family income increased from just under $5,500 in 1959 to just under $9,500 in 1969. But the last years of the 1960s saw a slowing of the trend and, for the first time since 1953-1954, the median inflation adjusted family income actually fell between 1969 and 1970.[260] And, for those living on fixed incomes or those who could not count on wage increases that kept up with or exceeded inflation, the decade was worse. Even those that found themselves a little ahead of inflation were feeling the pinch of higher taxes and prices. A family making $10,000 in 1959 and $15,000 in 1969 saw all but $500 of that increase consumed by over $3,000 in inflation, a near-doubling of state and local taxes (from just under $600 to just under $1,100), and an 68 percent increase in federal taxes (from just over $1,200 to just over $2,000).[261] Reporting the findings of the controversial BLS family budget studies, *Life* noted that the financial concerns of most Americans were mundane. The most desired as-yet-unattained items for survey respondents were more retirement savings and money to send their children to

[258] "The Dollar Squeeze," *Life*, August 15, 1969
[259] "The Dollar Squeeze," *Life*, August 15, 1969
[260] Table 9, "Money Income in 1971 of Families and Persons in the United States," Current Population Reports P-60, Number 85 (November 1972). The same trend holds for household income. See Table A-1, Carmen DeNavas-Walt, Bernadette D. Proctor, Jessica C. Smith, "Income, Poverty, and Health Insurance Coverage in the United States: 2011," Current Population Reports (September 2012)
[261] "The Dollar Squeeze," *Life*, August 15, 1969

college. "The result [of the 'dollar squeeze'] has been to bring most people to a sobering assessment of their 'affluence' and a gloomy assessment of their chances for fulfilling many of their cherished economic goals," *Life* noted. The most common excision from the tightening household budget was recreation and entertainment, but many also cut back on food, clothing, and savings. The deferment – or abandonment – of plans to purchase new homes, cars, and appliances, or take a family vacation, led to feelings of being "let down," according to 65 percent of respondents and "anger," according to 41 percent. But the "real squeeze" was on those making less than $10,000-a-year (more than half of all families), many of whom had no discretionary income at all after taking care of essential expenditures.[262]

The *Life*/Harris poll and the magazine's interviews highlighted the complicated politics of these working and middle-class frustrations. While many of those interviewed fell squarely in "Nixon country," as the magazine put it, their message was not conservatism, but an amorphous populism that, if anything, tiled more to the left than the right. The public reports of the tax-free wealthy had, indeed, affected Americans, *Life* noted, and the magazine's spread featured images of frustrated Americans accompanied by a quotation expressing their feelings on the pocketbook squeeze. "The government is run by the rich…," San Francisco's Robert Forsberg declared. "I'd quit paying taxes tomorrow if there was someone to lead the revolt." Chicago's Levi McKissack echoed that sentiment. "Taxes are too high," he said. "The poor person like me is getting hit the hardest."[263] The survey found that overwhelming majorities of the public were upset with politicians' inaction on the tax issue, and most believed that the tax system favored the well-off: 86 percent agreed that "politicians promise tax relief and then do nothing," 84 percent agreed that "the big tax burden falls on the little man," and 75 percent agreed that "taxes are set up to

[262] "The Dollar Squeeze," *Life*, August 15, 1969
[263] "The Dollar Squeeze," *Life*, August 15, 1969

give the rich tax breaks." On inflation, Vietnam and federal spending received the most blame. Taxes came in third place, indicating the degree to which the public viewed taxes as *part of inflation* rather than as a bulwark against inflation, like policymakers argued. Further down the list, union wage demands (51 percent) and business profits (49 percent) were almost evenly held responsible.[264]

The public's spending priorities and opinion of Nixon did not indicate rising conservatism, either. The top three suggested spending cuts by respondents to the *Life*/Harris poll were foreign aid, Vietnam, and the space program, with more than half of respondents supporting reduced spending on each. The top three programs on which the public wanted spending maintained were education (60 percent), pollution control (38 percent), and poverty programs (34 percent). Baltimore's Dorothy Reynolds echoed many respondents' support for domestic programs and opposition to other spending when she lamented, "I don't like them taking money way from little children who need food and having it shot to the moon." Conservatism it was not. Unsurprisingly, the respondents to the *Life* poll took a gloomy view of the Nixon administration's economic efforts. Whether the issue was inflation, taxes, interest rates, or the economy, in general, less than 30 percent of Americans approved of Nixon, and more than 50 percent disapproved.[265] But Nixon was not the only one being told by the public that he was out-of-step with the public's wishes when it came to pocketbook issues.

Moderate and conservative Democrats were receiving pressure from constituents who compared their tax reform stances unfavorably to their more left-leaning counterparts, while the latter were receiving encouragement from the public to continue their campaign for bold reform. "I wish to commend to you the stand that Senator [and DNC chair] [Fred] Harris is taking

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[264] "The Dollar Squeeze," *Life*, August 15, 1969
[265] "The Dollar Squeeze," *Life*, August 15, 1969

relative to the income tax situation," one Oklahoman wrote to majority leader Carl Albert, a moderate who supported the surtax. "I have never been able to understand how any one can justify the 10 percent surcharge of the extension of it which makes it more and more difficult for wage earners like myself who have no loop holes or means to evade paying income tax while there are many wealthy people among us who pay no tax at all."[266] Another letter-writer framed the tax reform debate as a test of the Democratic Party's commitment to middle America. "[T]he time has come to consider the plight of the harried 'middle income' taxpayer and do something about it," a New Jerseyan wrote to Albert. The personal exemption needed to be raised from $600 to $1,2000, the taxpayer argued, "and the very rich must be made to share in the cost of running the gov[erment]." "The Democratic Party likes to think of itself as the party of the people," he concluded, "but it cannot lay claim to that title if it ignores the plight of the people who supply the funds to do good."[267] One letter to Harris distilled the conclusions of the *Life* poll into one sentence. "I feel there are too many loop holes in our present tax structure," the letter writer argued. "The rich are getting richer, and the poor are getting poorer."[268] The growing frustration – and even radicalization – of the middle-class in response to the squeeze was palpable. "We are being eaten alive by taxes and the higher cost of everything…," one woman wrote to Harris. "I say hurray for the few politicians in Washington who are really concerned about the middle man who is being hurt the most. Maybe everyone who made between $8,000 and $11,000 last year should come to Washington and build us a 'resurrection city' and fight for rights for change."[269]

But in the House, the reform bill was not shaping up the way the public would have liked.

[266] Taylor to Albert, July 17, 1969, Albert Collection, B126, F35, CAC
[267] Hagner to Albert, Undated [January/February 1969], Albert Collection, B126, F35, CAC
[268] Shusker to Harris, Febraury 14, 1969, Harris Collection, B172, F16, CAC
[269] Castler to Harris, July 17, 1969, Harris Collection, B172, F13, CAC

Wilbur Mills's House Ways and Means Committee had continued to work on tax reform throughout the spring and summer, even as the surtax dominated the concerns of the White House and others in Congress. At first, the committee's work seemed destined for legislation in 1970. But now that the Senate had blocked the full-year extension of the surtax, the Ways and Means Committee's worked assumed new importance and urgency. The direction of the committee reform bill, however, made it clear that, in many cases, the public's pleas for reform and the lobbying of unions and other progressive groups were being overwhelmed by the pushback from the influential beneficiaries of existing loopholes and preferences. The oil depletion allowance – a standard 27.5 percent deduction from gross income – had long been considered one of the most egregious examples of a loophole, and liberal reformers in the House saw it as a prime candidate for plugging. Research showed that it was not only a costly loophole, but also one that also served little purpose other than to pad the bottom lines of already-profitable oil companies. However, the oil industry fought hard both to keep the depreciation allowance in place and to keep the public from knowing how little it did to actually encourage oil exploration or decrease prices for consumers.

During the Johnson administration, the Treasury commissioned a $140,000 study by Pittsburgh's CONSAD Research Corporation to investigate the cost and effectiveness of the depletion allowance. The study was completed in late-1968 and concluded that eliminating the depletion allowance would save taxpayers over one billion dollars in lost revenue. It also noted that the depletion allowance did little to actually encourage oil production, meaning that eliminating it would have only a modest impact, at most, on short term oil production. And, in the long term, the study found that eliminating the allowance would actually lead to more efficient production methods. The CONSAD president, Wilbur Steger, briefed Johnson on its conclusions, explaining to the president "that the oil industry was not using its oil depletion allowance to reinvest in Big Oil, but rather to begin Big Oil's venturing into hotels and real estate generally." While the oil-industry friendly Johnson accepted the study's conclusions, he made it clear that he did not plan to act on them. "Fine," Johnson quipped to Steger. "I now know how I'll finance my next election." Even though there would not be another election for Johnson, the administration still chose not to release the study.[270] It remained under wraps when Nixon – himself also favorable to the oil industry – took office.

But word of the study's conclusions leaked in early 1969. Henry Reuss began publicly pushing for the study's release, arguing that it was illegal under the Freedom of Information Act for the Treasury to keep the study secret. "Both people like myself, who oppose the present oil depletion allowance, and the oil industry, which supports it, are entitled to access to the CONSAD Study," Reuss wrote to the head of the House Freedom of Inflation Subcommittee. "It may well be that the CONSAD Study is just what is needed to speed congressional action to plug the oil depletion loophole."[271] Within days, Reuss's demands – and, in the process, the study's conclusions – garnered the attention of the press and of unions like the UAW, who publicized both the findings and the controversy over the study's release.[272] The Nixon Treasury quickly relented, releasing the report to Congress.[273] Reuss's high hopes for the report's effects would not come to pass, though. During the 1968 campaign, Nixon had made it clear to friendly representatives of the oil industry that he opposed any cuts to the depletion allowance. So it was no surprise that his reform proposals left it intact. Many powerful Democrats, including Hale

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270 Wilbus Steger, "What I Learned Briefing Johnson," *Wall Street Journal*, March 17, 2010
271 Reuss to Moss, March 11, 1969, HSRP, B57, F2, WHS
272 "Oil Depletion 'Loophole' Hit," *Brownsville Herald*, March 13, 1969; "Oil Depletion Doesn't Help Oil Development, Secret Study Shows," *UAW Washington Report* 9:11 (March 17, 1969)
273 "Study Oil Depletion Allowance," *Milwaukee Sentinel*, March 14, 1969; "Tax Reform Studies and Proposals U.S. Treasury Department," March 11, 1969;

Boggs and Carl Albert, were also reliable allies of the oil industry. Wilbur Mills was sympathetic to the industry, too. But, realizing that leaving the allowance completely untouched would be politically dangerous, Mills quietly met with oil industry representatives to let them know that he would push for a small, "symbolic" in the allowance.[274] Even then, the cut – from 27.5 to 20 percent – discussed in the Ways and Means committee came under attack from the industry and its supporters. As a result, the committee settled on lowering it to only 22 percent, a number that represented a minor victory, at best, for reformers, especially in light of the CONSAD study's conclusions that the allowance had no positive effects. So severe was the political reaction to even this minor infringement on the oil industry's preferences, that the Treasury official who contracted with CONSAD and authored his own report damning the depletion allowance was demoted by the Nixon administration – an action the *New Republic* attributed to his role in undercutting the depletion allowance.[275]

The final Ways and Means bill disappointed most reformers on the left. The package took Nixon's proposals and added a potpourri of mostly minor loophole-closing reforms along with an increase in the standard deduction from $1,000 to $2,000 and modest rate reductions. Most reformers on the left favored targeted tax relief for working- and middle-class taxpayers, rather than across-the-board rate reductions. And, in fact, the rate reductions in the House did not kick in until the $8,000 to $12,000 bracket for married couples.[276] As a result, a middle-class married couple with two dependents making $10,000 a year received only $95 in the final Ways and Means bill, while a working class couple with two dependents making $7,500 received only $70.

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[274] Drew Pearson and Jack Anderson, "Oil Men Gird for Defense of Oil Depletion Allowance," *Spokane Daily Chronicle*, May 7, 1969

[275] David Sanford, "Uncivil Servants," *New Republic*, May 16, 1970

[276] "Tax Reform Act of 1969," Report of the Committee on Ways and Means, House of Representatives (GPO August 2, 1969); "Congressional Initiated Tax Reform Enacted," *Congressional Quarterly Almanac* 25 (1969), 589-649

For families making between $3,000 and $10,000 per year, the low-income allowance and the increase in the standard deduction provided the "primary" sources of tax relief, as the Ways and Means Committee's own report put it.[277] Wilbur Mills moved to have the tax reform bill considered under closed rule in order to prohibit any amendments to the bill on the House floor, except by a majority vote of the Ways and Means Committee. This move seemingly ended liberal Democrats hopes of making the bill more progressive.

Yet, the left-distributionist Democrats – emboldened by both the public outcry for reform and by Nixon's struggles to pass the surtax – were not ready to give up their hope for a bolder bill, even in the House. Members of the Democratic Study Group regarded the Ways and Means plan as little better than Nixon's initial timid proposals. The DSG wanted more substantial loophole-closing reforms, most of which seemed politically unlikely, given Mills and Long's control of the reform process. The DSG also wanted greater relief for working- and middle-income taxpayers, and that critique seemed to carry more political weight. Pro-reform Democrats saw the public's reaction to Barr's testimony as all the evidence necessary to foreground reform. The members of the DSG believed they had the public on their side, even if they did not have Mills and others. "Public demand for action increased at each new disclosure of tax avoidance by wealth taxpayers," the DSG wrote in a "fact sheet" memo to its members.[278] The notion that the Democrats needed to woo "middle Americans" back from Nixon was gaining steam on the left, and tax reform seemed like the perfect opportunity. In mid-July, the liberal Americans for Democratic Action urged Democrats to focus on "average Americans" in the $6,000 to $10,000 income range, echoing arguments of unions and others on the left.[279] The ALF-CIO also had it

[277] "Tax Reform Act of 1969," Report of the Committee on Ways and Means, House of Representatives (GPO August 2, 1969)
[278] Democratic Study Group, "DSG Fact Sheet No 91-6," June 23, 1969, Harris Collection B281, F5, CAC
[279] Raymond Lahr, "Middle Taxpayers Are Finally Heart," *Jeannette News-Dispatch*, August 26, 1969

eye on that key demographic, and the union's economists were monitoring the progress of the tax reform bill. When Ways and Means reported out its final bill, the union's economists immediately noticed the bill's paltry relief for middle-income taxpayers and fed the information to DSG liberals in the House.[280]

On August 4, the Democrat Study Group released a report attacking the Ways and Means' reform bill. The DSG charged that the bill left middle-income taxpayers stuck in what it called the "no man's land" of relief. Under the Ways and Means bill, the DSG reported, those making more than $15,000, who represented only about eight percent of taxpayers, were slated to receive 88 percent of the $2 billion in rate reductions contained in the bill. These rate reductions more than offset the revenue raised by the bill's modest loophole-closing. As a result, under the Ways and Means bill, upper-income taxpayers actually saw their tax burdens *decline*. Lower-income taxpayers benefitted most from the Ways and Means Bill, thanks to the low-income allowance. Middle-income taxpayers – whom the DSG defined as making between $7,000 and $13,000 a year – meanwhile, received only slightly more relief than the rich, whom the DSG argued should not be receiving relief at all.[281]

Armed with the DSG's findings, Missouri Democrat Richard Boiling, a DSG member, confronted Mills during an August 5th Rules Committee meeting. The DSG's report, Boiling told Mills, proved that his bill offered paltry assistance, at best, to the middle-class. Embarrassed, Mills claimed that the lack of middle-income relief was a mistake that resulted from a "misunderstanding" between the Ways and Means staff and Joint Taxation Committee staff. "That was a very remarkable misunderstanding," Boiling quipped to Mills, who replied, "I'd say

[280] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 196
[281] "No Man's Land for the Tax Cut," August 4, 1969, HSRP, B62, F8, WHS

so myself."[282] The Ways and Means chairman was being disingenuous, however. In fact, the DSG's claims were based on the Ways and Means Committee's own analysis of the bill, and reform hearing witnesses had discussed the lack of middle-income relief earlier.[283] In April, when Edwin S. Cohen, Nixon's Assistant Secretary of the Treasury for Tax Policy, appeared before the House Ways and Means Committee, Georgia Democrat Philip M. Landrum asked whether it was accurate to say that "we are using the middle income taxpayer to maintain a revenue base that will give the Treasury, give the government we hope, a surplus." Cohen did not use the same phrasing, but he agreed. "It is perfectly obvious that the bulk of the revenue from the income tax in the country is coming from the people whose income ranges from $7,000 or $8,000 to $15,000 or $20,000…," Cohen responded. He rejected the idea of increasing the personal exemption – the publicly popular proposal offered by Reuther and other progressives – as too expensive. By definition, Cohen argued, middle-class taxpayers were "above the bare minimum necessities of life," meaning that complaints about the low personal exemption were unfounded. While Cohen assured the committee that he was "vitally concerned about the middle-income group," he conceded that the only provision in Nixon's tax reform proposal that would help middle-income taxpayers would be the eventual phase-out of the tax surcharge and that would only return rates to where they were before the enactment of the temporary measure.[284]

Following his embarrassing interacting with Boiling at the Rules Committee meeting, Mills moved quickly to fix the "mistake" that actually had been an integral feature of the bill from its inception. During the lunch recess after the Rules Committee meeting, Mills called an impromptu session of the Ways and Means Committee, which quickly agreed to an addition $2.4

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[282] "Congressional Initiated Tax Reform Enacted," *Congressional Quarterly Almanac* 25 (1969), 589-649
[283] "Tax Reform Act of 1969," Report of the Committee on Ways and Means, House of Representatives, August 2, 1969 (GPO, 1969)
[284] "Tax Reform, 1969," Part 15, Hearings Before the Committee on Ways and Means, House of Representatives, April 23 and 24, 1969 (GPO 1969)

million in rate cuts for middle-income taxpayers.[285] Left-leaning Democrats credited the Democratic Study Group's "strong disappointment and intense concern" over the "critical omission" of relief for taxpayers in the $7,500 to $13,000 range for spurring the additional tax cuts. But some also expressed disappointment that the middle-income relief came in the form of additional tax cuts, rather than "shifting relief already in the bill from higher income to middle-income taxpayers, leaving the total amount of relief constant," as one Democratic congressional representative put it.[286]Even if it did not come in the form that Ways and Means liberals wanted it, they were hardly in a place to rebuff Mills's quick conversion to middle-class tax relief.[287] Suddenly, Nixon had lost his balanced-budget ally, and the House package was now an additional $2.4 billion out of balance.

After seemingly successfully navigating the treacherous terrain of the surtax and tax reform debates throughout the spring and summer, in the first week of August the combination of the DSG's attacks on the House reform bill and Senate liberals' attacks on the surtax quashed Nixon's hopes of a speedy one-year extension of the surtax and a "fiscal responsible" set of reforms in 1970. All eyes turned to the Senate.

The Populist Push

As the Senate turned to consider tax reform – and, by consequence, the full one-year surtax extension – both left-liberal reformers and conservative defenders of loopholes sensed opportunity. In terms of reform, the House bill was timid, and many businesses and upper-income taxpayers believed they had dodged the reform bullet. But the DSG's ability to force

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[285] "Congressional Initiated Tax Reform Enacted," *Congressional Quarterly Almanac* 25 (1969), 589-649
[286] Jonathan Brewster Bingham, *Congressional Record*, August 7, 1969, 22797
[287] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 196

additional middle-income relief, as well as Senate liberals' ability to block a full-year of the surtax, gave reformers hope that they could find the success in the Senate that they missed in the House, just as Vanik had predicted to Wilbur Mills. But, with Russell Long once again controlling the pace of reform, reformers had their work cut out for them in the Senate, too.

Business groups immediately took aim at the tepid reforms already included in the already-passed House bill. "The limousines have been lining up on Capitol Hill lately as anxious millionaires have sought out their senators," *Washington Post* columnist Jack Anderson reported in October. "Corporate executives, financial tycoons, oil barons, horse breeders, and bluebloods by the dozen have bestirred themselves from their plus parlors and paneled suits to protect their tax privileges. Others have been writing, phoning, and pressuring senators from afar." Now, many elected officials were "caught between his campaign contributors and the voters."[288] Perhaps no one was in a more difficult position than the president himself.

From the beginning, corporations bristled at the administration's proposal to repeal the investment tax credit, as well as every progressive element in the tax reform package. Though sometimes couched in anti-inflation fiscalist terms, businesses consistently called for right-distributionist tax measures. When implored by a letter from Nixon to support the administration's push for a full extension of the surtax, business leaders took the opportunity to let Nixon know just how displeased they were with even modest reform. "Repeal of the investment credit is economic nonsense," Dow Chemical chairman Carl Gerstacker wrote to Nixon. "It will contribute to inflation. We need more investment in plant and equipment to offset higher wages, create more jobs, and provide a surplus of goods so that hungry competitors will keep prices down." This was an argument that businesses would continue to make as the decade

[288] Jack Anderson, "Rich Campaigning to Save Tax Havens," *Washington Post*, October 1, 1969

continued. Echoing Pierre Rinfret's earlier arguments to Nixon, advocates of "capital formation" insisted that business spending lowered inflation by increasing the supply of goods and services. But, they argued, spending by consumers, in contrast, raised inflation by increasing demand. Businesses needed more tax incentives, Gerstacker told Nixon, not fewer. Low-income taxpayers, however, did not need any tax relief. "The removal of some two million taxpayers from income tax liability is a bad step," Gerstacker wrote. Providing tax relief to the poor only encouraged them to parasitically demand more services from the government. "People who have no tax to pay will gladly vote for more and more spending," he argued, "and everyone should feel the discipline of some cost when they vote for more government." Ironically, even though Dow was itself dependent on the government for contracts to make products like Napalm, Gerstacker argued that it needed more tax benefits. Dow's dependence was good, he implied. But poor people's dependence on the government for services like schools meant that they needed to be disciplined by high taxes. Gerstacker called both the House and Senate reform packages "terrible" and told Nixon to veto any bill passed.[289] Coca Cola president J. Paul Austin made the same case to Nixon. Austin opposed the repeal of the investment tax credit as well as "the whole tenor of the present tax reform measures (especially the significant tax benefits proposed for the great bulk of the consumer sector and the penalties proposed for the investment or production sector)." Lowering inflation required raising productivity through capital investment. Businesses needed more tax breaks, not fewer, including the retention of the investment tax credit and new, faster depreciation policies, according to Austin.[290] Most executives that wrote to Nixon agreed.

Nixon was frustrated by the added tax cuts for the middle-class included at the last

[289] Gerstacker to Nixon, October 28, 1969, WHCF Ex BE 5/69 [34 of 42] December 3, 1969, RNPL
[290] Austin to Nixon, October 31, 1969, WHCF Ex BE 5/69 [35 of 42] December 3, 1969, RNPL

minute in the House bill, and now he was facing pressure from the right to roll back even its modest reforms. The Nixon administration was trapped.[291] It had to choose not only between "fiscal responsibility" and tax relief, but also between the tax preferences of the "Silent Majority" and those of Republicans' traditional upper-income supporters. "Basing its judgment on the angry mail from the public, it thought tax reform was a great issue last spring," the *New York Times* reported.[292] Now, the administration was getting an earful from angry upper-income Republicans, business, and Wall Street, who saw the reform proposals as "a terrible way to treat campaign contributors," many of whom vowed "never to give another dime to the G.O.P."[293] Within the White House, Burns and other right-distributionist conservatives began lobbying for the Treasury to propose shifting some of the individual cuts into a one-percent cut in the corporate income tax. And, after only "perfunctory debate," Nixon made Burns's proposal the official administration line. Many politically astute Republicans regarded the idea of shifting relief from middle-income taxpayers to corporation as disastrous.[294] But other Republicans believed it was more important to side with their wealthy donors than go along with the tax reform momentum.[295] RNC chair Peter O'Donnell contacted John Ehrlichman to express his concern that the bill was too anti-business. The modest cuts in oil depletion allowance, in particular, could "be very damaging to George Bush's prospects in the senate race and ultimately to President Nixon in '72," O'Donnell warned.[296] The White House leaned towards this view. Even though the administration worried about the political fallout of siding with business over

[291] Hobart Rowan, "Nixon Faces Dilemma in Tax Reform Bill," New York Times, *Washington Post*, December 14, 1969
[292] Eileen Shanahan, "Taxes: Reduction Has More Fans than Reform," *New York Times*, November 30, 1969
[293] Eileen Shanahan, "Taxes: Reduction Has More Fans than Reform," *New York Times*, November 30, 1969; Eileen Shanahan, "Outlook in Fight Over Tax Cuts," *New York Times*, November 20, 1969; Rowland Evans and Robert Novak, "Administration's About-Face Has Killed Tax Reform Hopes," *Los Angeles Times*, September 12, 1969
[294] Rowland Evans and Robert Novak, "Administration's About-Face Has Killed Tax Reform Hopes," *Los Angeles Times*, September 12, 1969
[295] Jack Anderson, "Rich Campaigning to Save Tax Havens," *Washington Post*, October 1, 1969
[296] O'Donnell to Ehrlichman, November 4, 1969, WHCF Gen FI 11 Taxation [9 of 20, November 1969], RNPL

"middle America," Nixon and his advisers rationalized it away by speculating that he Democrats would be more likely to get political credit for reform, anyhow, given that the administration had been fighting for a modest bill all summer.[297] And so Nixon went forward with the plan to lobby the Senate for less middle-class tax relief and more corporate tax relief, reasoning that a "fiscally responsible" and business-friendly bill was more important than the middle-class politics of tax reform.[298]

Carrying out the president's orders, the White House economic team used the Senate Finance Committee tax reform hearings as an opportunity to reverse the momentum towards progressive reform. In early September, Nixon's Treasury secretary, David Kennedy, and undersecretary Charls Walker testified before the Finance Committee to advocate for overturning some of the more progressive measures of the House tax bill. Kennedy's testimony on behalf of the administration focused mainly on the bill's "bias against investment" and its revenue losses. Kennedy suggested reducing some of the individual income tax changes that primarily benefitted low- and middle-income taxpayers, while at the same time adding cuts to the corporate profits tax and curbing the already modest decreases in the capital gains preferences. These changes, Kennedy argued, would tilt the bill away from consumption and back towards investment.[299] While this may have been what fiscal conservatives and business executives wanted to hear, it was a clear political disaster with the general public.

Populist Democrats on the Finance Committee pounced. They were eager to talk about the distribution of the tax burden, too, albeit in a way that challenged the administration's

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[297] Rowland Evans and Robert Novak, "Administration's About-Face Has Killed Tax Reform Hopes," *Los Angeles Times*, September 12, 1969

[298] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 197-198

[299] "Tax Reform Act of 1969," Part 1, Hearing Before the Committee on Finance, United States Senate, September 4 and 5, 1969 (GPO 1969).

proposals. “Mr. Secretary, if I understand your recommendation, it is to take some of the tax relief provided by the bill for the low-income groups away from them and, instead, give tax reductions to corporations,” Tennessee’s Albert Gore began. “Would you explain to what extent that it true?” Kennedy dodged the question, and Gore pressed on, but Kennedy refused to frame it in the terms used by Gore. The secretary continued discussing the new investment-related cuts without mentioning the proposed reduction in individual cuts. Gore asked again whether the new corporate cuts were being financed by taking away cuts from low-bracket individuals. “We were trying to balance the bill…,” Kennedy relented. “So we went back to a rate structure revision basically and that balanced the bill out generally, and then we recommended the corporate change after that which imbalanced the bill.” “Which means, as I understand it,” Gore continued, “that you take tax relief away from the lower income bracket taxpayers and shift it by your recommendation to the corporations.” “Well, that is not quite the way I say it, but it is maybe your way of saying it,” Kennedy retorted. “I understand. We are sing different language but we are saying the same thing. I believe mine is easier for the people to understand,” Gore continued, provoking laughter. “Well, I think it is the way one looks at it,” Kennedy responded. “We are looking at it the same way,” Gore interrupted. “We are just describing it differently.” “Well, looks and description are somewhat the same,” Kennedy concluded, in a perhaps unintentionally apt summation of the Nixon administration’s increasingly erratic approach to economic policy in 1969 and 1970.[300] The exchange made clear, however, that discussing taxes in right-distributionist terms was not a political winner for the administration.

Later, Gore returned to this left-distributionist rhetoric when making a pitch for an increase in the personal exemption, setting up another rhetorical trap for Kennedy and the Nixon

[300] “Tax Reform Act of 1969,” Part 1, Hearing Before the Committee on Finance, United States Senate, September 4 and 5, 1969 (GPO 1969).

economic representatives. They argued that Gore's idea was too costly and noted that the Nixon plan already removed low-income taxpayers from the rolls thanks to their low-income allowance. "I believe, Mr. Secretary, that the people hardest hit by the unfair distribution of the prevailing tax burden are the lower middle-income groups, say from $7,000 to $15,000," Gore said, "people who are trying to meet the payment on a home and rear a family of children. This bill does nothing for them. The low-income allowance doesn't reach them. An increase in the exemption would reach them." With that, Gore effectively claimed the mantle of champion of the middle-class "Silent Majority" away from the Nixon team, at least in that hearing. He finished his self-described "time to interrogate" the Nixon economic team with a recent history of cuts for the rich. "I will just use the minute [left for Gore's testimony] to state that your recommendation and this bill do violence to the system of progressive taxation," Gore concluded. "We have done violence before…. This is an example of a corporate executive who has a salary of $200,000 and a tax exempt income of $100,000, a total income of $300,000. Before the tax reduction bill of 1964 this taxpayer would have paid $156,820 in taxes, or 53 percent. Under the present law that taxpayer has a liability of $125,940, or 41 percent. Under your recommendation this taxpayer would have a tax liability of $96,030, a rate of only 32 percent."[301]

Indiana's Vance Hartke continued the left-distributionist attack in his question-and-answer period. "[T]he average forgotten American who is looking at this tax bill…thought they were going to finally have some redistribution of the payment of taxation," Hartke argued, citing discussions with constituents in Indiana over the congressional recess. "They thought that the average forgotten American was going to be treated in a fair method and provide for taxation of

[301] "Tax Reform Act of 1969," Part 1, Hearing Before the Committee on Finance, United States Senate, September 4 and 5, 1969 (GPO 1969).

those people who heretofore had been in a position where they could avoid paying their fair share of taxes." The Nixon administration's proposals, Hartke charged, would not give them that. Instead, the administration was taking $1.7 billion in proposed individual cuts and giving $1.6 billion in new corporate cuts. Worse, they were opposing the individual exemption proposed by Gore, which was the best hope for real relief for the "forgotten Americans." When Kennedy and Cohen protested that they were making the bill more balanced between individuals and investment, which they had earlier characterized as "even-handed," Hartke interjected. "What has happened here is you have taken $1.7 billion from the average forgotten Americans and you have given it to the corporations, isn't that right? That's right, isn't it?" The Nixon team protested, but Hartke continued. "In other words, even handedness has been given and he [the forgotten American] got both the front and the back of the hand…," Hartke chided. "[T]he ordinary person felt for a long time that he has been taking it on the chin and he wanted to stop taking it on the chin for the people who had been making the bulk of the wealth." All Cohen could muster in response was a brief – and almost completely unrelated – comment about the inequity of the standard deduction, which was a point, ironically, that Gore had made to support the notion of an increase in the personal exemption.[302] Even when New Mexico Democrat Clinton Anderson served the Nixon representatives a softball opportunity to side with the middle-class, they failed. Anderson asked Kennedy and Walker if they agreed that the *Life* "Dollar Squeeze" article showed how "discouraging" inflation was to "people of the middle-income brackets." Rather than simply agreeing, Walker distanced the administration from the Democrats' middle-class focus by responding that inflation was discouraging to people in "all

[302] "Tax Reform Act of 1969," Part 1, Hearing Before the Committee on Finance, United States Senate, September 4 and 5, 1969 (GPO 1969).

brackets."[303]

During the second day of hearings, the Nixon team continued to defend the administration's pushback against reform. Kennedy reiterated his criticism of the bill's "preference to consumption as against capital formation," and Gore continued to attack the administration's proposals for more favorable treatment of corporations and capital gains. "[O]ne of my secretaries told me this morning that his marginal rate would reach 40 percent," Gore told Kennedy. "Yet by your recommendation and this bill, Roger Blough's salary would be taxed at a marginal rate of 50 percent." Gore called it a "ridiculous extreme" and a "major assault on the principle of progression in the income tax" when a secretary had "only 10 percentage points difference" in marginal rate with a CEO who made more than $500,000 per year. Cohen responded by arguing that marginal rates were not the rate that really mattered. If that was the case, Gore retorted, it did not make sense to have lowered it from 90 percent to 50 percent in the past 15 years. Cohen said that high rates caused upper-income taxpayers to expend effort trying to avail themselves of loopholes to lower their tax burdens. So it was better to just lower the top marginal rates, since "man should be encouraged to spend his time and efforts in the job for which he is best equipped." "That is a very interesting comment," Gore responded. "You are saying that they are wasting some of their effort…to cut their effective tax so you are going to make it easy for them…. You are just automatically going to cut his rate to 50 percent." Cohen said that 50 percent was still a "high rate." "Well, so is 40," Gore replied, and asked if it was not shocking that a secretary and a CEO would have marginal rates so close together. "You are making it easy for people with very large incomes to pay very low effective rates, and this, I say to you, is not right, and I am going to fight you on it…," Gore closed by saying. "Whether I win

[303] "Tax Reform Act of 1969," Part 1, Hearing Before the Committee on Finance, United States Senate, September 4 and 5, 1969 (GPO 1969).

or whether you win…[i]n a period of 15 years we have reversed the system of graduated income tax…and we are bringing about a great reconcentration of the wealth of this country…"[304]

The media was quick to pan the White House's turn to the right. Humorist Art Buchwald went after the Nixon administration in the wake of Kennedy's testimony. Once again using the form of a mock interview – this time with economist Heinrich Applebaum – the "professor" in Buchwald's column explained to readers that the Nixon team's proposals would ensure that "if you're married and have two children and make $3,500 a year – which means you're starving – you don't have to pay any taxes at all." Those who made a little more, $5,000 a year, would be able to see "one extra movie a year." Middle-class taxpayers would see "enormous benefits." They would be able to buy one tire for their car or, if they could not afford a car, they could "purchase 200 bus tokens" with the relief afforded them in the Nixon plan. To be fair, the economist explained, the Nixon team also had to lower taxes on rich, too, since "you can't just give tax relief to the little guy without getting the corporations and the upper brackets mad." The Nixon team showed "courage" by seeking to aid "companies suffering from corporate taxes." The savings afforded a conglomerate in the Nixon plan would allow them to "buy three more companies." "[Y]ou have to help those in the greatest need, and if we can ease the burden on our large companies and upper-income bracket families, the Nixon administration will have gone a long way in bringing much-needed tax relief to this country," the professor concluded. "This is the first instance in a long time that a president has taken into consideration the problems of the rich. He has made a concerted effort to remedy the inequities in our tax system, which was originally written to give people in the lower brackets all the breaks."[305]

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[304] "Tax Reform Act of 1969," Part 1, Hearings Before the Committee on Finance, United States Senate, September 4 and 5, 1969 (GPO 1969).
[305] Art Buchwald, "Tax Reform Proposals Prove Nixon Is Concerned about Problems of Rich," *Toledo Blade*, September 9, 1969

More serious commentators took the Nixon team to task, too. With an incredulous tone, NBC anchor David Brinkley commented on Kennedy's Senate Finance Committee performance. He told evening news viewers that the initial Nixon proposal were "disappointing," especially for middle-income taxpayers. The House reform bill "did nothing" for middle-class taxpayers, according to Brinkley, even with the added 5 percent tax cut added by Mills after the DSG report, since it was a "rather small bone" for those struggling to "keep even with the rising costs of housing, food, medical care, tuition, and everything else." Yet, Brinkley commented sarcastically, the Nixon team was now insisting that the existing middle-class cuts in the bill were "too big."[306] In a straight news segment the next week, NBC reporter John Chancellor offered a grim view of the tax relief in store for the middle-class, at least as the tax reform bill was currently constituted. "There are billions of dollars involved in tax reform, but when it gets down to the average taxpayer it doesn't look like very much," NBC reporter John Chancellor noted. With a table projected behind him, Chancellor explained that families making $7,500 would receive only $50 under the tax bill, while families making $12,5000 would receive just $95 and those making $17,500 would receive $85. "There *is* a taxpayers' revolt going on precisely in these brackets," Chancellor noted, "but tax reductions of 50 to 85 dollars a year are not likely to cool down the revolt."[307] The administration's pushback on tax reform brought such negative press that even Arthur Burns's own son – a lawyer "so conservative that he makes his father look like a raving red," as Burns told Nixon – believed that the administration was tilting too far towards business in the reform debates. Burns blamed the media, but he also faulted the administration's poor public relations on taxes.[308]

As chronicled in the evening television news and daily papers for Americans across the

[306] "Tax Bill/Kennedy/Senate," *NBC Evening News*, September 4, 1969
[307] "Tax Bill/Senate, Hearing," *NBC Evening News*, September 11, 1969
[308] Burns to Nixon, September 18, 1969, WHCF EX FI-11 Taxation [3 of 18 August September 1969], RNPL

country, the Senate Finance tax reform hearings appeared to be battle between those who wanted more loophole-closing and the big business interests, in particular, that wanted to maintain or expand the loopholes for capital gains and oil depletion, among others.[309] The hearings became so contentious that Finance Committee chair Russell Long took to using an egg timer set at 10-minute intervals to keep witnesses moving.[310] Critics on the left testified that the House bill was too timid and failed to provide either real reform or substantial relief to low- and, especially, middle-income taxpayers. New Deal-era liberals like Leon Keyserling joined populist Democrats and labor in dismissing the tax reform bill's provisions. Just as during the Kennedy-Johnson tax cut debates, Keyserling argued that the proper measuring stick for the progressivity of a tax cut was not the percentage change in one's tax burden, but the percentage change in one's after-tax income. Because of the low-income allowance, the tax reform bill seemed fairly progressive, cutting the tax bills of the poorest in half. It also reduced the tax bills of middle- and upper-middle class taxpayers by between six and seven percent. But, Keyserling told the Senate Finance Committee, measured by each income group's gain in after-tax income, the effect was substantially different. The poorest – those making less than $3,000 per year – received a 2.3 percent increase in after-tax income, while those making between $20,000 and $50,000 received a 1.3 percent boost, and middle-income taxpayers would see a less-than-one-percent rise in their after-tax income.[311] Keyserling also sent his analysis of the tax bill to friendly Democrats like Fred Harris, to whom he bluntly argued that the "personal tax reductions are not progressive enough and that they should be concentrated more largely among those with incomes under

[309] "Tax Bill/Senate, Hearing," *NBC Evening News*, September 11, 1969
[310] "Tax Bill/Senate, Hearing," *NBC Evening News*, September 11, 1969
[311] "Tax Reform Act of 1969," Part 5, Hearings Before the Committee on Finance, United States Senate, September 26, 29, 30 and October 1 and 2, 1969 (GPO 1969).

$20,000."[312]

Betty Furness – Johnson's former special assistant for consumer affairs – testified on behalf of the newly-formed National Committee on Tax Justice, which was founded and headed by former Democratic Senator Paul Douglas. Douglas and the NCTJ had already made headlines for its public denunciations of the weak reforms to the oil depletion allowance. Douglas told reporters that the depletion allowance was not necessary to encourage drilling and was instead the product of oil industry lobbying to keep "its profit ratios artificially high" compared to other industries. "The excess oil depletion allowance is the symbol of present tax inequities," Douglas said in August. "The American public is demanding tax justice."[313] With Douglas ailing, Furness appeared in Congress on behalf of the NCTJ in September. Furness presented Douglas's prepared testimony, which outlined the NCTJ's five-point tax reform plan: "1. Eliminate preferential treatment of all capital gains, 2. Eliminate special deductions for depletion of oil and other minerals…, 3. Provide federal assistant to state and local bond issues instead of allowing a tax exemption on their interest, 4. Withhold taxes on interest and dividends at the source…, 5. Provide tax relief for low and middle income families by providing a minimum standard deduction of $1,100 for all families." The NCTJ's "tax relief" was relatively modest – the House bill included the $1,100 standard deduction increase – and, overall, their proposals raised much more money for new spending than it offered in tax cuts. The goal of tax reform, Douglas argued in his statement, was to ensure that the rich did not escape taxation and to make the system more progressive while providing revenue for needed programs. "Those escape routes, those tax favors [for the rich], impose a dual hardship on the less well-to-do in American," Douglas said. "For not only are they called upon to pay more than their fair share of the tax burden; they are asked to sit

[312] Keyserling to Harris, October 19, 1969, Harris Collection, B171, F13, CAC
[313] "Douglas Challenges Oil Lobby Argument," *Reading Eagle*, August 9, 1969

by and do without public programs and services…. [I]f the government were collecting the billions of dollars that are currently being siphoned off through gaping loopholes, there would be funds for the rebuilding of our slums and schools, for the purifying of the environment, and many other programs which are now suffering financial asphyxiation." Americans did not hate taxes, Douglas argued, "they only ask that their share of the tax payment be just; that every individual be taxed according to his ability to bear the burden of taxation."

Furness explained that she was not a tax expert, but an expert on consumers. As such, she cast the reform debate as one that struck at the heart of the American consumer economy. Echoing the *Life* article, Furness argued that inflation and taxes were creating a "squeeze" on Americans with modest incomes, in particular. "[A] loaf of bread and a pound of meat cost the same whether it is bought by a low-income consumer or a high-income consumer," Furness said. But only high-income Americans had a lobby. NCTJ hoped to be a lobby for everyone else to ensure that everyone paid "his fair share of taxes." Two other NCTJ members appeared with Furness: Woodrow Ginsburg, a former research director for the UAW and the AFL-CIO, and Philip Stern, a former aid to Douglas and author of *The Great Treasury Raid*. Stern made an impassioned plea for eliminating the preferential rate on capital gains. "In my opinion, that single action of taxing capital gains as ordinary income would eliminate the greatest single cause of both inequity and complexity in the American tax system," Stern testified. "That may sound like an extravagant statement, but…among those superic people with income of $5 million or more, two-thirds of their income is in so-called capital gains, not taxed at 70 percent or 50 percent, but taxed at no higher than 25 percent, the same top bracket rate that is paid by a married couple with a taxable income of $12,000…[which] throws the principle of ability to pay right out the window…[and] makes a mockery of the graduated income tax rate." Combining economic arguments and moral arguments, Stern noted the “talent and energy” expended by high-income earners in “trying to transform ordinary income into capital gains by financial alchemy.” It was inefficient, Stern argued, and it happened only because of the preferential rate. “Also consider what kind of values that are expressed in what amounts to a penalty on earned income…,” Stern said. “It seems to me that penalizing earned income is hardly consonant with the moral precepts that we teach in our schools and churches and is hardly consonant with what’s made this country what it is.” Stern concluded his statement by echoing his April *New York Times* article, asking Congress, “[W]hy should the work of money be so vastly favored over the work of men?... [W]hy is a dollar of capital gains income different from a dollar of earned income when it comes to buying food or shoes or a yacht or for paying taxes?” When some skeptical senators began questioning Stern’s argument, he interjected. “I would like to point out, sir, that capital gains and ordinary income were taxed on the same basis during the first 8 years of the American tax system. So what I am proposing here is hardly radical…. It is going back to what the founding fathers of the tax system originally enacted.”[314] Furness and Stern’s criticisms of the bill as too timid before the Finance Committee were excerpted in evening news coverage.[315]

When George Meany testified, he reiterated his argument that the “tax revolt” was a call for a progressive redistribution of the tax burden, not a conservative anti-government cry. “The 13.5 million members of the unions of the AFL-CIO are, almost without exception, taxpayers…. [T]hey appreciate the value of government, the services of government, the need for paying for government,” Meany said. “They are willing to pay their fair share. But they are tired of having to pay the share of other Americans…those Americans whose incomes are greater and whose taxes are lower – the ‘loophole set’ in today’s society.” The AFL-CIO was testifying, Meany

[314] “Tax Reform Act of 1969,” Part 2, Hearing Before the Committee on Finance, United States Senate, September 111 and 12, 1969 (GPO 1969).
[315] “Tax Bill/Senate, Hearing,” *NBC Evening News*, September 11, 1969

said, “as advocates of tax justice.” But Meany had little positive to say about the tax reforms being proposed by the House or by Nixon. “We do not have tax justice today, and we will not achieve it under the House bill,” Meany said. “And the administration’s proposals bear no resemblance to tax justice at all.” The AFL-CIO leader charged that the tax system was “rigged” in favor of investors and against average wage earners. “The single most costly loophole and the one that is the prime culprit of unfairness is the capital gains loophole…,” Meany said. “We see no justice to a tax provision which says that a married taxpayer with $8,000 in capital gains income should pay a tax of $354 while a married taxpayer with the same amount of wage income should pay $1,000.” Meany advocated closing that loophole, among others, removing the poor from the tax rolls, and providing “meaningful reduction” for lower- and middle-income taxpayers. Closing major loopholes could yield $15 to $17 billion, which could be used to provide significant progressive tax reductions and still leave $8 to $10 billion for new programs.

Just as Stern and Furness received skeptical questions, so did Meany. While Gore, Fred Harris, and other more populist Democrats were receptive to Meany’s proposals, many others were not. Republican Senator Jack Miller of Iowa questioned eliminating the capital gains preferences. Without a preferential rate for capital gains, Miller argued, no one would invest in businesses and, he added apocalyptically, “our capitalistic system will go by the board.” Unmoved, Meany insisted, “I do not think that if you took away this tax preference you would substantially discourage investment.” Meany faced the same incredulousness from chair Russell Long, who did not believe that individuals would still drill oil wells in the U.S. without the oil depletion allowance and other special preferences. “Mr. Meany, you are the first person I have heard advocating cutting the depletion allowance who did not couple that with the proposition that you ought to bring all your oil in from overseas,” Long told the union leader, “which means you would hire Arabs, you would hire Spicks, you would hire various and sundry people to produce that oil but you would not produce it here." But Meany remained unmoved. "[I]f oil companies could make more money by bringing it from overseas," he responded, "I suppose they would bring it from overseas, without regard to whether depletion allowance is there or not."[316] Given the response of Long and others to the testimony of left-reformers, it is not surprising that many anti-reform forces saw the Finance Committee as an opportunity to stem the reform tide.

Anti-reform interests viewed their partial defeats in the House bill as only temporary setbacks that could be reversed in the Senate. Merrill Lynch president Donald Regan – who President Reagan would make his chief of staff a decade later – appeared before the Finance Committee to defend the preferential rate for capital gains and criticize the existing reform proposals. He quoted Treasury Secretary Kennedy's argument that the bill was "weighted in favor of consumption" and against capital. The government needed to encourage investors with low capital gains rates, Regan argued, because without capital investment, the entire economy would break down. "Capital is an essential ingredient in a flourishing economy," he said. "Before there is a return, before there is income, there must be an expenditures of capital, of labor, of entrepreneurial energies." The country depended on the investment that the preferential rate for capital gains encouraged. "At present $25,000 in capital gains stands behind each job in manufacturing in this country," Regan continued. "This is one of the principal reasons why we have the highest standard of living in the world…capital equals jobs." With this simple formulation, Regan flipped preferential capital gains rates from being the most egregious loophole – as most reformers argued – to being essential to the wellbeing of the average blue-

316 "Tax Reform Act of 1969," Part 4, Hearing Before the Committee on Finance, United States Senate, September 22, 23, 24, and 25, 1969 (GPO 1969). For the AFL-CIO's April House Ways and Means Testimony by Andrew J. Biemiller and Nathaniel Goldfinger, see "Tax Reform, 1969," Part 12, Hearings Before the Committee on Ways and Means, House of Representatives, March 28, April 1 and 2, 1969 (GPO 1969)

collar worker and the country as a whole. NYSE chairman Haack also made his case, again, in defense of low capital gains rates. The reforms in House bill being considered by the Senate, Haack argued, "constitute a sharp increase in the capital gains tax." If the tax bill passed, "risk-taking incentives and the supply of essential venture capital would be seriously curtailed," while "investments in modern plant and equipment and in new technologies would diminish." Like Regan, Haack cited Treasury Secretary's Kennedy's comments about the bill being "weighted in favor of consumption." Attempts to extend the holding period to qualify for the lowest capital gains rate would fail to raise revenue, Haack argued, because "investors will tend to follow their individual self interest" and simply hold on to investments for longer periods. Moreover, Haack argued improbably, the extra burden created by raising capital gains taxes would "fall not on the wealthiest taxpayers – but on those who can least afford to bear it."[317] Unlike the progressive tax reformers who testified, neither Haack nor Regan were subjected to critical – or even substantive – questioning. Despite his musings about the unfairness of the capital gains preference a few years earlier to the *Wall Street Journal*, chairman Russell Long made it clear that he was in wholehearted concurrence with Regan's testimony and took Regan's arguments further, suggesting that investors would send their money to other countries or stop investing it at all if capital gains rates were increased even slightly. Regan agreed.[318]

Perhaps the most significant development in the tax reform debates throughout 1969 was the halting recognition by many officials and commentators that the public's complaints about local, state, and federal taxes were linked. For years many government officials and commentators had viewed revolts in places like Youngstown, Ohio, with confusion. Often, they

[317] "Tax Reform Act of 1969," Part 3, Hearing Before the Committee on Finance, United States Senate, September 15, 16, 17, and 18, 1969 (GPO 1969).
[318] "Tax Reform Act of 1969," Part 3, Hearing Before the Committee on Finance, United States Senate, September 15, 16, 17, and 18, 1969 (GPO 1969).

saw them either as a sign of the public's growing anti-government conservatism or as evidence of voters' irrationality. Now, however, many observers began to see the common causes of the public's tax frustrations, regardless of the level of government doing the taxing. If local, state, and federal frustrations together composed the "tax revolt," they reasoned, then solving the revolt would take solutions that addressed all levels of taxation. As noted above, unions, average Americans, and many in the media argued from the beginning of the reform debates that all three levels of taxation were implicated in the revolt. And this view gained support throughout the year. Reflecting on the 215 letters about taxes that he received in the first 12 days of February, Wisconsin Democratic Senator William Proxmire argued that the tax revolt was not just about federal tax issues. "It's happening now not only because of the Federal income-tax surcharge," he said, "but primarily because of the astronomical increase in the burden of state and local property and sales taxes which fall so heavily and so unfairly on taxpayers of modest incomes."[319] *Newsweek* also connected the letters pouring into Congress both with local levy and bond failure in Youngstown and Richmond, California.[320] *Time* speculated that it was "doubtful" that most taxpayers would actually get to even keep the small cuts in the bill given soaring regressive state and local taxes. "Hard-pressed state and local governments have been searching for new revenue sources," the magazine noted. "If their past performance is any clue, they can be expected to take advantage of any relaxation of the federal tax grip to impose new taxes of their own."[321] Indeed, across the country, the cash-strapped localities like Youngstown continued turning to increasingly reluctant voters to approve new bonds and levies. At the state level, too,

[319] "Taxes: How to Ease the Squeeze," *Newsweek*, February 24, 1969
[320] "Taxes: How to Ease the Squeeze," *Newsweek*, February 24, 1969
[321] "Taxes: The R and R Bill," *Time*, August 15, 1969

governors and legislators were pursuing new taxes and increases in old taxes.[322] In fact, one ACIR official called 1969 "the most eventful year since World War II" when it came to state taxes.[323] No state escaped the need for new tax revenue in 1969. Each state either enacted or raised at least one tax.[324] Timid federal reform, a growing chorus of voices argued, was meaningless in the face of rising state and local burdens.

Making the left's case for taking local and state taxes into account at the federal level, Reprehensive Richard McCarthy linked federal loopholes to the rejections of local levies and bonds in his Ways and Means testimony. The public was, he said, frustrated with the entire tax system. The suburban Buffalo, New York, Democrat testified that tax reform had "aroused more interest and concern than almost any other issue" among his constituents. But federal policymakers were not the only ones hearing the taxpayers' frustrations, McCarthy testified. "A number of observers have commented that public dissatisfaction with taxes may lead to a taxpayer's revolt," McCarthy said. "This view gains validity when we see a number of school districts in the country that have had to shut down classes…caused by an unwillingness by the local taxpayer to increase the school tax…because of a concern about the increase in the property tax that would result." The public was not turning against education or other local programs, McCarthy argued. Nor was the public's resistance to the surtax driven by animus towards the federal government's' fight against inflation. "The strength of the opposition to the surcharge was caused, I believe, by the many increases in state and local taxes that have been imposed on the taxpayer during the last several years." Federal policymakers' failed to consider the rising state and local tax burden – particularly regressive property and sales taxes – facing low- and

[322] "20 States Seek More Revenue Through Sales, Income Taxes," *Sarasota Journal*, March 21, 1969; "More Governors Forced to Seek New or Higher Taxes," *Reading Eagle*, March 5, 1969
[323] Lawrence Van Gelder, "States Search for Funds," *Edmonton Journal*, July 16, 1969
[324] Advisory Commission on Intergovernmental Relations, "State and Local Finances: Significant Features, 1967 to 1970," M-50 (November 1969)

middle-income taxpayers. “The burden of local taxes, particularly property taxes, has been increasing by as much as 15 to 20 percent per year. State income taxes have been increased in many cases. Sales taxes have risen,” he explained. “General sales taxes, for example, were the best revenue raiser for 31 States in 1967, accounting for 28 percent of the 1967 state tax take. And sales taxes, a form of taxation that makes no distinction in the ability of the taxpayer to pay, are increasingly being applied to items such as grocery bills and medicines so that the tax falls most heavily on the poor. The burden of these state and local taxes, when added to the Federal tax, cannot be lightly dismissed, especially in an inflationary period when prices are constantly increasing.” This combination of rising taxes and rising inflation was behind the tax revolt being felt at all levels of government – not resentment of government, in general, or any particular programs. Congress needed to focus on solving revenue problems at all levels of government by using progressive revenue sources rather taxes that “are more of a burden to the poor than the rest of the community.” That meant devising federal programs to help states and localities meet their revenue needs with progressive taxes.[325]

Several witnesses suggested using the federal tax system to provide relief from regressive state and local taxes. Wilbur Cohen, HEW secretary under President Johnson, “strongly” suggested exempting “a reasonable amount of the value of home ownership from state and local property taxes” for the elderly. Cohen made his suggestion not only for the benefit of elderly homeowners, but also for cash-strapped local governments. “Bond issues and millage increases for education have been turned down by voters in an increasing proportion in recent year, primarily, in my opinion, by the votes of older persons on fixed incomes,” Cohen said. “This is

[325] “Tax Reform, 1969,” Part 5, Hearings Before the Committee on Ways and Means, House of Representatives, February 28 and March 3, 1969 (GPO 1969)

unfortunate."[326] In testimony before the Senate Finance Committee, Cohen expanded on his earlier comments, calling for "a major redistribution of the tax burden." Total taxes in the U.S. – state, local, and federal – were much lower than in other countries, Cohen argued, and additional revenues in the U.S. should come from a variety of loophole-closing measures, including "the elimination of accelerated depreciation for high-income and luxury housing, tightening farm losses, capital gains," and others. Though Cohen was overall fairly conservative in his views on welfare and other issues, his tax suggestions were aimed at restoring progressivity to the tax system. Beyond addressing state and local property taxes, Cohen also suggested making "the Social Security tax system much more progressive" by taxing part of high-income recipients' benefits, giving a refund to low-income workers to cover part of the payroll tax, and lifting the contribution cap for employers. His statement also included a suggestion that Congress study ways "to reduce local residential property taxes as a way of financing elementary and secondary schools." Taking Cohen's ideas even further, Beloit College president Miller Upton submitted a truly radical proposal to the Senate Finance Committee. He called for "complete overhaul, not isolated reform." Specifically, Upton argued that the federal government should take over all taxation, rather than leaving intact the current system of fiscal federalism in which states and localities competed with each other. The federal government should collect all revenues for states and local governments via the progressive federal income tax, Upton argued, then distribute money to state and local governments, eliminating the need for property taxes and other state and local taxes. [327]

But this increasing recognition that state and local tax crises and federal reform were

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[326] "Tax Reform, 1969," Part 5, Hearings Before the Committee on Ways and Means, House of Representatives, February 28 and March 3, 1969 (GPO 1969)
[327] "Tax Reform Act of 1969," Part 2, Hearing Before the Committee on Finance, United States Senate, September 111 and 12, 1969 (GPO 1969).

connected had ironic consequences, at least in the short term. Given the proper spin, even ostensibly progressive views of the tax revolt could be fashioned into arguments for conservative policies. Pulling the local tax revolt into the federal reform debate gave those who wanted to protect one of the most infamous loopholes that benefitted upper-income taxpayers – the tax exemption for interest on state and local government bonds – a powerful tool to block reform. In an organized campaign both to save the tax-free status of state and local bonds (and to defeat the inclusion of income from state and local bonds in the calculation of the new minimum tax), both local officials and banks wrote to representatives outlining the woes that would face states and localities if any tax was levied on their bonds – and they higher taxes that, they claimed, would face state and local taxpayers. Using the same language adopted by many bond preference defenders, the mayor of Barsndall, Oklahoma, E.M. Bruce, wrote to Carl Albert in opposition to any changes to the tax treatment of state and local government bongs. "IF ALL HOME OWNERS AND OTHER TYPES OF LOCAL TAXPAYERS ARE TO BE PENALIZED THROUGH HIGHER LOCAL TAXES TO PAY INCREASED INTEREST CHARGES ONLOCAL GOVERNMENT BOND ISSUES IN ORDER TO TRY TO RECTIFY THE INEQUITY THAT RESULTS FROM A FEW TAXPAYERS PAYING LESS THAN THE AMOUNT OF FEDERAL INCOME TAX THA THEY SHOULD, JUSTICE AND EQUITY HAVE INDEED NOT BEEN REALIZED," he claiimed.[328] The chairman of American National Bank of Pryor, Oklahoma, used the same phrasing as Bruce, then added, "To cut off one's arm to get rid of a wart seems hardly sound judgment!"[329] Opponents of changing the tax-exempt status of state and local government bonds circulated an article by the executive director of the Austin, Texas, Municipal Advisory Council. "Our thesis is this: the real beneficiary is not the holder of

[328] Bruce to Albert, July 2, 1969, Albert Collection, B126, F12, CAC
[329] Crain to Albert, July 29, 1969, Albert Collection, B126, F12, CAC

the municipal bond…," the article argued. "[T]he real beneficiary is any one of the 200 million Americans who may at any time during the routine of his day-to-day existence – Draw a glass of water to quench his thirst… Drive his automobile on a paved street… [or] Romp with his children in a public park…" The tax sop to the wealthy was, in other words, really a favor to everyone who used government.[330]

In the Senate Finance Committee Hearings, witness after witness predicted that property taxes would soar if the Congress decided to begin taxing state and local government securities. Governments would need to raise the interest rates on their bonds, they argued, and this higher borrowing cost would be passed on to taxpayers in the form of drastically higher taxes. For the state and local officials that testified, their fears were grounded in the fiscal crisis. Colorado Governor John Love worried about the "undeniably heavier debt service burden" for state and local governments that would result from removing the interest tax exemption, a burden Love said would be borne "predominantly by their property taxpayers." Florida Governor Claude Kirk indicated that studies showed that increased borrowing costs "would fall on the taxpayers of the state and localities, primarily the property taxpayers and the sales taxpayers." Nashville Mayor C. Beverly Briley appeared with the executive director of the National League of Cities, Patrick Healy. Briley predicted that the "poorest" taxpayers would be face higher taxes if the interest exemption was ended, while Healy quoted a statement by an anonymous Midwestern mayor who predicted, "Property taxes will be increased 6 percent across the board; charges to water and sewer users will have to be raised 10 percent." Though the interest exemption was a loophole, Healy's statement argued that "equity isn't everything." Specifically, "structural problems" in the federal system meant that the entire tax structure – state, local, and federal – had to viewed as

[330] "Transfer of Power," Albert Collection, B126, F12, CAC

a whole and had to be reformed without "further depressing financial resources of states and localities." But the system of fiscal federalism was too interconnected to believe that changes in taxes at one level did not affect the others. As Briley had put it earlier, "It is the height of irony that an effort to tax a very few individuals receiving income from municipal bonds will boomerang against hundreds of thousands of local property taxpayers and users of municipal services who will have to bear the burden of increased debt service costs." Nashville's mayor told Congress that it would be responsible for any increased property taxes that resulted from removing the interest exemption. "This action would really cause a taxpayers revolt," he predicted. Baltimore County, Maryland, Executive Dale Anderson warned of property tax increases, too, but also used his testimony to attack the property tax itself. "When we raise the property tax, it doesn't mean the homeowner is earning more income…," Anderson said. "I can cite case after case where a homeowner in Baltimore County has an income today about the same as he had 5 years ago, and his property taxes had gone up almost 40 percent. This increase in property taxes has absolutely no relationship to his ability to pay." The county executive supported more direct federal assistance to state and localities, but he argued that it made no sense to take away the tax exemption for bonds at the same time. "Gentlemen, please remember a taxpayer revolt is not limited to federal income taxes," Maryland State Comptroller Louis Goldstein told the Finance Committee. "It has led to the defeat of many local bond issues in popular referendum." Dozens of other state and local officials who did not testify submitted statements opposing removing the interest exemption.[331] Despite its status as a tax haven for the rich, many progressive Democrats agreed – especially after being lobbied by local governments – that state and local governments needed tax-free interest on their bonds, including ardent tax

[331] "Tax Reform Act of 1969," Part 4, Hearing Before the Committee on Finance, United States Senate, September 22, 23, 24, and 25, 1969 (GPO 1969).

reformer Fred Harris.[332]

Not everyone interested in interest-free state and local bonds had as plausible an interest in local budgets and taxpayers' pocketbooks, though. William E. Simon of the Investment Bankers Association of American – who would be appointed by Nixon as the secretary of the Treasury several years later – appeared on behalf of the interests of wealthy investors. Like mayors and governors, Simon couched his concern about preserving tax-free interest on state and local bonds in terms of the needs of the great mass of middle-income taxpayers. Making changes in the tax laws "aimed at investors in municipal bonds will be passed along to the average taxpayer and especially to homeowners," Simon said. Even the suggestion that Congress might close the interest loophole, Simon warned, had already made investors reluctant to buy government bonds and, as a result, interest rates had already gone up.[333]

Despite the pushback by the Nixon team and by business groups, the pro-reform coalition remained confident that they could squeeze more reform out of the Senate than they received from the House. Unions, populist Democrats, and others believed that the combination of the tax reform mail deluge and liberal Democrats' insistence on stronger reforms would overtake resistance to reform. "[A] year ago the [oil] boys would have laughed at the poor soul who suggested Congress might reduce or repeal the 27.5 percent depletion allowance…[but] [t]oday the industry itself admits the allowance is in danger. There is growing sentiment for taxing capital gains as ordinary income, for boosting the income tax exemption from $600 to $1000…and for repeal of the tax exemption on state and local bond interest," one political columnist marveled. "Yes, Mrs. Balderdash, there really is a tax revolt."[334] Labor was confidant

[332] Bill Kennedy, "Harris Opposes Tax on Municipal Bonds," *Examiner-Enterprise*, October 12, 1969
[333] "Tax Reform Act of 1969," Part 4, Hearing Before the Committee on Finance, United States Senate, September 22, 23, 24, and 25, 1969 (GPO 1969).
[334] Andrew Tully, "Washington Feels Pressure of Tax Revolt," *Reading Eagle*, July 8, 1969

that it could move the needle even further towards reform. “We’ve gotten more reform from Dick Nixon than we’ve gotten from any president in our time, however short the step,” Seafarers union head Paul Hall said. “We got it and that’s more than we got, for example, from our ‘friend’ Lyndon Johnson….”[335] The slim 210 to 205 tally by which the surtax was approved – and the large Democratic opposition to the measure – was viewed as a symbolic victory by organized labor since a large margin of victory in the House would have made it more difficult for Senators to quash it. “We can turn on the heat,” one labor leader told labor columnist Victor Riesel. “Not only do we have the boys back home. But we have some 65 to 70 legislative representatives on the Hill working on this tax-justice fight…. We now want tax justice.” The unions felt they were “playing it from strength” when it came to tax reform.[336] Ultimately, the fact that Nixon even considered reform in 1969 was viewed as “a measure of the success of this taxpayers’ revolt,” as one columnist put it.[337]

Unions had a powerful new strategy for advocating for reforms beyond traditional labor-related issues. In the late-1960s, unions increasingly adopted a social movement model to push for progressive reform, and taxes were no exception. In the summer of 1968, the UAW and the Teamsters – two major unions unaffiliated with the AFL-CIO – formed the Alliance for Labor Action, designed as a part-union organizing, part-community organizing, part-lobbying effort that would exist in cooperation with, but outside of, the AFL-CIO and Teamsters unions.[338] The ALA pledged to fight for “social justice,” and the group’s “first major lobbying effort” was “tax

[335] Victor Riesel, “Labor Musters Army in Drive for Tax Cut,” *Philadelphia Inquirer*, July 8, 1969
[336] Victor Riesel, “Labor Musters Army in Drive for Tax Cut,” *Philadelphia Inquirer*, July 8, 1969
[337] Andrew Tully, “Washington Feels Pressure of Tax Revolt,” *Reading Eagle*, July 8, 1969
[338] Kevin Boyle, *The UAW and the Heyday of American Liberalism, 1945-1968* (Cornell 1998), 246-248; Vanessa Tait, *Poor Worker’s Unions: Rebuilding Labor from Below* (South End Press, 2005), 63-67; Nelson Lichtenstein, *Walter Reuther: The Most Dangerous Man in Detroit* (Basic 1995), 431-433

justice."[339] UAW president Walter Reuther declared the United States' tax system the most inequitable in the world, and pledged an "all-out fight" for tax reform and tax relief for low- and middle-income Americans. Reuther worried that working- and middle-class Americans had been lulled into complacency after the initial outrage that followed Barr's tax-free millionaires revelation. The public could not be confident that Congress was undertaking meaningful tax reform in response to the tax revolt, Reuther argued. Instead, the idea of tax reform was being perverted, particularly given the control conservative Democrats exerted over the Senate Finance Committee and House Ways and Means Committee, under the leadership of Russell Long and Wilbur Mills, respectively. "Swooning to the plaintive appeals of special interests," the ALA argued, the Finance Committee had taken the House bill's minor reforms and "reduced even that modest amount." With its tepid loophole-closing and slight relief for working-class and middle-income taxpayers, the bill emerging from the Senate was making a "mockery" out of the idea of reform. Average taxpayers needed to push back. To that end, the ALA held a "Tax Justice Conference" in November to push for a more left-leaning tax reform bill. With over two million petitions piled in front of the stage at Washington's Sheraton Park Hotel, Reuther and 600 ALA leaders welcomed friendly speakers like consumer advocate Betty Furness and Democratic senators Walter Mondale and Vance Hartke and to the conference. "Unless they change the tax bill," Reuther declared at the conference, "we're going to change the composition of Congress."[340] Signs demanding "CLOSE TAX LOOPHOLES" were plastered around the room, and members of the ALA's unions visited every senator during the conference to press them to

[339] Kevin Boyle, *The UAW and the Heyday of American Liberalism, 1945-1968* (Cornell 1998), 246-248; "Nation's Labor Chiefs Fred Over Social Justice, Inflation," *Desert News*, September 1, 1969; :What New Labor Alliance is Doing," *Toledo Blade*, November 16, 1969; "Labor Group to Wage Reform Fight," *Portsmouth Times*, October 17, 1969;

[340] Andrew Tully, "Senate Committee Guts Tax Reform Bill," *Reading Eagle*, November 25, 1969

take on the capital gains and oil depletion loopholes, in particular.[341] "With each step toward enactment, however, the very phrase 'tax reform' has assumed a more hollow, fraudulent ring," the ALA's resolution, delivered to the senators, declared. "Legislation… continues undeserved favors to the few who have for decades prospered at the expense of the majority." Out of the $50 billion in revenue lost yearly to loopholes, the existing bill only recouped $2 billion, the ALA charged. It also failed to provide much relief to those who needed it. "Americans in deprivation and those on the margin of poverty must be relieved of oppressive tax obligations," the ALA's statement continued. "Those in low and middle-income levels, for so many years victimized by a warped tax structure which has compelled them to carry a disproportionate share of the tax burden, must be given relief." Ultimately, it was up to Congress to prevent an even worse tax revolt, especially if it wanted to maintain public faith in the tax system and government, in general. "If a taxpayers' revolt is to be avoided, if the voluntary nature of our tax system is to survive, and if the concept of participation in, and support for, the government by all Americans is to stand…," the ALA's statement concluded. "We urge the Senate to take a strong and uncompromising and for tax justice…."[342]

Unions hoped that organizing could counter the traditional lobbying power of business when it came to taxes. In addition to the ALA's push, the AFL-CIO's Biemeller sent a letter to the state and local unions urging members to write to their senators to stop the reform bill from "being cut to ribbons" by "business lobbyists." "Like a plague of locusts, this mass lobby has devoured almost every loophole-closing section…," Biemeller wrote. "We must act immediately if we are to stop the Big Tax Steal of 1969. Today labor stands virtually alone in the fight for tax justice for millions of low- and middle-income Americans…. The average taxpayer's voice,

[341] "ALA Drive for Tax Reform Reaches Every U.S. Senator," *UAW Washington Report* 9:45 (November 24, 1969)
[342] "Tax Reform Has 'Hollow, Fraudulent Ring' Unless Senate Improves Bill," *UAW Washington Report* 9:45 (November 24, 1969)

heard so clearly earlier this year…is now being drowned out by the din of the loophole lobby."[343]

Labor groups had to carry a disproportionate weight in the tax reform fight, at least partly because Congress failed to give a seat at the table to other key members of the left-labor coalition. Notably, civil rights groups did not testify in either the House or Senate's reform hearings – except for a few brief statements dealing only with the treatment of tax-exempt organizations, since Congress was considering removing the tax-exempt status of groups that engaged in nonpartisan voter registration, a move leaders from Bayard Rustin to Roy Wilkins called an attack on voting rights.[344] But this absence did not reflect a lack of concern for reform. The black press, in particular, worried that the "taxpayers revolt" would face substantial opposition from the Nixon administration and a "powerful lobby" of those who benefitted from loopholes, as the *Chicago Defender* put it, in addition to its positive coverage of Reuther's tax reform demands.[345] Rustin, in particular, was one of the most forceful voices for reform.

In a column reprinted in black papers across the country, Bayard Rustin slammed the Nixon administration's proposal to shift some of the bill's tax relief from low-income individuals to corporations. Nixon, Rustin argued, represented "the corporations and…the very wealthiest individuals." The president had "turned his back…[on] black people of all classes and salaried workers of every race." Rustin called Nixon the "Robin Hood of the ruling class." Real tax reform was essential, he wrote. "Corporations and men of great wealth" had lawyers who knew "ways of finding tax loopholes." Meanwhile, average workers – those "who earn more than the poverty level of $3500 a year but less than the $9500 it costs to maintain a moderate standard of

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[343] AFL-CIO Press Release, October 24, 1969, HSRP, B51, F1, WHS
[344] Bayard Rustin, "An Attack on the Black Vote," *New York Amsterdam News*, December 13, 1969; Roy Wilkins, "Says Reform Bills Are Anti-Black," *New Pittsburgh Courier*, August 23, 1969; "Wilkins Calls New Tax Cut Negro Attack," *Los Angeles Sentinel*, August 14, 1969
[345] Henry Cathcart, "Tax Reform Soon Is a Popular Subject," *Chicago Defender*, May 3, 1969; "Reuther Urges Tax Reform," *Chicago Defender*, April 9, 1969

leaving" – were "forced to bear the heaviest burden of taxation." This unfairness was driving the "tax revolt by low and middle income groups," he wrote. "Nixon's proposals…would increase the economic frustrations of working class America, which feed backlash sentiment." If the government continued to ignore the revolt, Rustin worried that their "frustrations will not be directed at the wealthy…but at federal programs for the poor and, by extension, at the poor themselves…[and] many of these poor also happen to be black…feed[ing] the flames of racial hostility." The failure to provide meaningful tax reform and relief made it more likely that "the poor and the almost poor [will] take out their frustrations against each other," while those on "Wall Street…[and] in the inner chamber of the White House" ignored the public's discontent.[346]

Baltimore *Afro-American* columnist Max Johnson also critiqued the administration's resistance to reform. By turning his back on reform, "Nixon must by now have lost big hunks of whatever esteem and endearment he may have enjoyed among millions of Americans of both races in the moderate, low-income brackets and senior citizens class." The White House's resistance to reform was especially "disheartening for millions of wage earners, especially black citizens, in the low and moderate-income brackets – trying to carry their families along on salaries that have not kept pace with rising costs of living." It was hypocritical, Johnson argued, for Republicans to worry about the revenue loss that would result from low- and middle-income tax relief while simultaneously blocking attempts by Edward Kennedy and other Democrats to raise taxes on the wealthy. But, he noted, Republicans "have consistently sheltered the wealthy – as against the needs of the poor." With the midterm election looming and public pressure for tax reform, Johnson speculated, "maybe [Nixon] might be persuaded to break GOP precedent – and

[346] Bayard Rustin, "Robin Hood of Ruling Class," *Baltimore Afro-American*, September 20, 1969; Bayard Rustin, "Robin Hood of the Ruling Class," *New York Amsterdam News*, September 20, 1969

take another long look at those tax loopholes for the wealthy."[347]

Confident in having the support of the left-liberal coalition – and the majority of the public – populist left-distributionist Democrats in the Senate began pushing their colleagues to tilt the tax reform bill more in the direction of working- and middle-income taxpayers. Tennessee's Albert Gore – supported by Indiana's Vance Harke, among others – led the way. As in the House, pushing for greater loophole closing in the Finance Committee proved to be difficult, given the opposition of most Republicans and some conservative-to-moderate Democrats. But progressives knew that distribution-minded tax relief was an easier sell. Gore's strategy was simple. Instead of suggesting rate cuts, the Tennessee populist proposed a large increase in the personal exemption, from $600 to $1,000. It was an idea that, by the fall, had a long lineage. Many angry members of the tax revolt had requested an increase in the personal exemption in their letters to Congress. The DSG and the UAW, among many others, had proposed the idea earlier in the year, but Wilbur Mills rejected it out of hand. Edwin S. Cohen, Nixon's Assistant Secretary of the Treasury for Tax Policy, also dismissed the idea as too costly in his Ways and Means Committee testimony earlier in the year. Gore himself had previously floated the idea of hiking the exemption to $1,250 during the question-and-answer period following the Nixon team's controversial Senate Finance testimony. But Treasury Secretary Kennedy echoed Cohen's earlier dismissal of the proposal as too costly, and it seemed that conservative Democrats like chairman Long agreed.[348] Still, Gore tried to insert a personal exemption increase into the bill before it made it out of the Finance Committee. His proposal to raise the personal exemption to $1,000 failed 3-13 in the committee. Then a second proposal to

[347] Max Johnson, "Nixon Gives Citizens Very Little Hope," *Baltimore Afro-American*, December 20, 1969
[348] Joseph Kraft, "Gore's Tax Approach Unites Democrats, Puts GOP in Bind," *Washington Post*, December 11, 1969; Eileen Shanahan, "Gore Asks Tax Aid for Low Incomes," *New York Times*, November 23, 1969; Frank C. Porter, "Tax Measure Favors Rich, Gore Charges," *Los Angeles Times*, November 27, 1969; H.L. Schwartz III, "Gore on Tax Fight: 'A Habit of Winning,'" *Washington Post*, November 28, 1969

raise it incrementally to $850 by 1972 failed 8-8 (a majority being required for a measure to make it out of the committee). Those opposed argued that it was too costly and that the resulting deficit increase would fan the flames of inflation. Gore supported closing loopholes to make up the revenue loss, but that was an even trickier proposition than simply pushing for the exemption increase without regard to revenue balance.[349]

Unlike the closed rule that prevailed in the House, however, the Senate tax reform bill was open to amendment on the floor after it was reported out of the Finance Committee. Undeterred by defeats in the Finance Committee, Gore took his proposal to the full Senate, setting off what the *Congressional Quarterly* called "the most heated floor fight on the bill."[350] In proposing his increase in the personal exemption – from $600 to $1,000 – Gore couched the proposal in left-distributionist terms, saying that the reform bill – like the tax system as a whole – needed to be guided by "ability to pay." The bills passed by the House and the Senate Finance Committee were "regressive" in their rate reductions, he charged, because lower brackets were reduced by one percentage point, while upper brackets had reductions as high as eight percent. "This rate reduction, it is clear, benefits the wealthy far more than it does the middle-income taxpayers," Gore wrote. The increase in the standard deduction contained in the passed bill was flawed, too, Gore argued, because it had vastly uneven benefits for different taxpayers with the same income, depending on whether they rented or owned and on the tax structure of their state. Compared to those alternatives, Gore argued that increasing the personal exemption was "fairer and more progressive."

Tapping into the discourse of the pocketbook squeeze, Gore justified his proposal in reference to taxes and inflation. "For a family of four, the present $600 exemption provides a

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[349] "Congressional Initiated Tax Reform Enacted," *Congressional Quarterly Almanac* 25 (1969), 589-649
[350] "Congressional Initiated Tax Reform Enacted," *Congressional Quarterly Almanac* 25 (1969), 589-649

lower amount of tax-free income for the necessities of life that was available to a family of four in 1940," Gore noted. "Yet the cost of living has risen more than 2 ½ times since that date – from a Consumer Price Index of 48.8 to today's 128. No one, then, can seriously question the inadequacy of the present $600 exemption. Who can live on $50 per month?" Increasing the exemption, he continued, was "the most effective and fairest means of achieving tax relief." Framing the proposal in political terms, Gore said that his colleagues had a "basic choice." They could "give the most tax relief where it is needed – the low- and middle-income taxpayer with the largest number of dependents, or…[provide an] unfairly large tax reduction for those in the high-income brackets." Compared to current law, Gore's proposal gave $300 in tax reduction to a family of four making $10,000, whereas the House- and Senate Finance Committee-passed bill gave less than $100. While an increase in the personal exemption would help upper-income taxpayers, too, Gore noted that his bill gave only about 20 percent of its total tax relief to those making more than $15,000, while the existing bill gave 33 percent of its benefits to that group. Gore continued his earlier assault on the logic of recent tax policy, including the cuts championed by JFK and LBJ, which Gore criticized for lowering top tax rates dramatically. Cutting taxes for the wealthy was equivalent to raising taxes on everyone else, he argued. "Our tax system has become steadily less progressive since 1964. The rate reduction provisions of the bill continue that process...," Gore said. "A reduction in progressivity is just another way of increasing the tax burden for the average taxpayer on whom the major burden of the tax system already falls." To those who said his proposal was too expensive and fiscally irresponsible, Gore outlined a host of loophole-closing options that would raise more than enough money to pay for his proposal.[351]

[351] "Tax Reform Act of 1969," Report of the Committee on Finance, United States Senate, November 21, 1969

Indiana Democrat Vance Hartke co-sponsored Gore's proposal. "I do not think that aid to the wealthy is what is meant by tax relief," Hartke said of the existing bill. The Indiana Democrat cited a 1947 Treasury Department study that found that the personal exemption "should be at least adequate to cover some minimum essential living costs…where the minimal means of life have been obtained." Everything from inflation to current poverty thresholds to the BLS family budgets showed, according to Hartke, that the personal exemption should be much higher in 1969 than in was in 1948, yet that was the last time the exemption was raised. Lower- and middle-income taxpayers "desperately" needed "tax relief," Hartke argued, "because they bear a disproportionate share of the existing tax burden, endure the full brunt of the present high tax and high interest rate policies and pay more than their share of the highly regressive state, local, and property taxes."[352] At least when it came to the exemption, Hartke was able to reclaim the idea that the federal tax code should provide relief from state and local taxes from the mayors and bankers who appropriated the argument to protect the government bond interest loophole.

With low-income taxpayers already helped by other provisions in the act, the political room existed for Gore and Hartke to aim their proposal squarely at median income voters making around $10,000-a-year. Gore said that Senate Finance Committee proposals would "provide disproportionate and, in my view, unfairly large, tax reduction for those in the upper brackets."[353] Compared to the Senate Finance Committee's bill, the exemption increase gave "proportionately more tax relief to the middle income, about the same to the lower income, and

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(GPO 1969)

352 "Tax Reform Act of 1969," Report of the Committee on Finance, United States Senate, November 21, 1969 (GPO 1969)

353 Joseph Kraft, "Gore's Tax Approach Unites Democrats, Puts GOP in Bind," *Washington Post*, December 11, 1969; Eileen Shanahan, "Gore Asks Tax Aid for Low Incomes," *New York Times*, November 23, 1969; Frank C. Porter, "Tax Measure Favors Rich, Gore Charges," *Los Angeles Times*, November 27, 1969; H.L. Schwartz III, "Gore on Tax Fight: 'A Habit of Winning,'" *Washington Post*, November 28, 1969

proportionately less to the upper-middle and upper income" taxpayers.[354] Gore's rationale for favoring middle-income voters was simple. "[M]idle-income families feel sorely pressed by taxes on one side and inflation on the other, and they are clamoring for tax relief," the *New York Times* explained in its piece on Gore's proposal. "They also vote, much more than the poor do."[355] In fact, he explicitly framed his proposal as a pocketbook program designed to combat Republican's cultural appeals to the "Silent Majority."[356] Though similar proposals by Gore in previous years had been blocked by a combination of Republicans and conservative Democrats, Gore believed that the growing tax revolt would make the political calculus different this time. Specifically, he hoped to make "Republicans stand up and be counted on economic issues – mainly taxes," as *Washington Post* reporter Joseph Kraft put it. He also hoped to win enough moderate Democrats to his side to pass the amendment.[357] President Nixon and Republicans countered that Gore's proposal was fiscally irresponsible. If it passed, they argued, Democrats would be to blame for future inflation. "This bill represents the most irresponsible piece of legislation that I have seen since I have been in the Senate," declared Delaware Republican Senator John J. Williams.[358]

The Democrats who supported the personal exemption increase welcomed Republican opposition. In speeches and press releases, Representative Henry Reuss, who had been a leading advocate of progressive reform in the House, used the administration's new position on tax reform as an opportunity portray Nixon the friend of corporations and Democrats as the friend of average Americans. "Only when it was clear that Congress intended to close tax loopholes

[354] Eileen Shanahan, "Outlook in Fight Over Tax Cuts," *New York Times*, November 20, 1969
[355] Eileen Shanahan, "Gore Asks Senate to Back Tax Plan," *New York Times*, November 27, 1969
[356] Joseph Kraft, "Gore's Tax Approach Unites Democrats, Puts GOP in Bind," *Washington Post*, December 11, 1969.
[357] Joseph Kraft, "Gore's Tax Approach Unites Democrats, Puts GOP in Bind," *Washington Post*, December 11, 1969.
[358] John W. Finney, "A Lot of Politics in that Tax Bill," New York Times, December 14, 1969

despite the Administration did we get a few half-hearted tax proposals from the Nixon Treasury," Reuss said. "Now the Administration is complaining that the House-passed tax reform bill is too generous to Mr. Average American…. The story is different for Mr. Corporate America… The way the Administration tells it, a too-generous tax reform bill for Most Americans is too onerous for corporate America…. In the meantime, Mr. Average American can wait [for tax reform] and pay the surcharge."[359] Likewise, Gore challenged Vice President Agnew to a public debate pitting his proposal versus what he called the administration's "rich man's tax bill."[360] Indeed, Republicans' intransigence seemed to create an air of political opportunity around the Gore proposal that tempted previously reluctant Democrats. "More than any other development, the tax bill was responsible for bringing the domestic issue to the fore along classical lines between Democrats and Republicans…," one reporter observed. "[I]n the form of tax relief, Democrats are fighting for the political affections of that 'mid-America' the Nixon Administration is counting on for its political future."[361] Democrats, the *New York Times* reported, were suddenly reviving tax rhetoric that "sounded like faint echoes from New Deal and Fair Deal days."[362]

Though claims of Democratic unity around left-distributionist populism were exaggerations, they did capture a subtle swing of the pendulum back in the direction of downwardly redistributive relief and reform. "What we are fighting for is suburbia," one unnamed Democratic senator declared. Gore put it more evocatively, saying that he wanted "to give tax relief to the guy who needs it the most – the man living in the suburbs in his little house

[359] Reuss Press Release, September 26, 1969, HSRP, B57, F12, WHS
[360] "Gore Seeks Tax Debate with Agnew," *Washington Post*, December 11, 1969
[361] John W. Finney, "A Lot of Politics in that Tax Bill," *New York Times*, December 14, 1969
[362] John W. Finney, "A Lot of Politics in that Tax Bill," *New York Times*, December 14, 1969

with a big mortgage and filled with children."[363] Giving the proposal a blue-collar burnishing, the AFL-CIO, which had long proposed a substantial increase in the personal exemption, strongly backed Gore's plan.[364] Looking towards what many expected to be a difficult reelection fight in 1970, Gore believed the public was on his side when it came to taxes. He seemed to be reading the pubic correctly. The *New York Times* reported that the public was letting the Republicans and conservative Democrats opposing Gore's proposal know that they wanted "a tax cut in a form they can see – an increase in the personal exemption."[365] Columnist Joseph Kraft called Gore's tax plan an "emerging Democratic defense against the administration's Southern Strategy." "Gore has developed an approach to taxes that emphasizes relief for middle-income voters," Kraft wrote. "And that approach unites Democrats and puts the Republicans in a terrible bind." [366]

But, despite exaggerated media reports, Democrats were not united around Gore's proposal. Many moderate-to-conservative – thinking of taxes in fiscalist or, sometimes, right-distributionist terms – Democrats bristled at the potential revenue loss, as well as the supposedly anti-business tone of Gore's populist appeal. Despite the support from the public for Gore's proposal, moderates and conservatives like Russell Long, in particular, made it clear that he would lead the fight on the floor against any increase in the personal exemption. When voting on amendments began, however, supporters of the increased personal exemption started with the boldest proposal possible. Alabama Democratic James B. Allen's introduced an amendment to raise the exemption to $1,200. It was rejected 13-46. Only two Republicans voted in favor of the measure, while the measure's strongest support came from left-leaning, most Northern and

[363] John W. Finney, "A Lot of Politics in that Tax Bill," New York Times, December 14, 1969
[364] Frank C. Porter, "Gore Maps Tax Fight on Floor," *Washington Post*, November 23, 1970
[365] Eileen Shanahan, "Taxes: Reduction Has More Fans than Reform," *New York Times*, November 30, 1969
[366] Joseph Kraft, "Nixon 'Gored' on Taxes," *Youngstown Vindicator*, December 13, 1969

Western, Democrats, including Hawaii's Daniel Inouye, South Dakota's George McGovern, and Montana's Mike Mansfield. Even many ostensibly liberal Democrats opposed the increase, including Maine's Edmund Muskie and Minnesota's Eugene McCarthy. [367] To the disappointment of progressive reformers, it became clear that even Gore's $1,000 did not have the votes to pass, and eventually Gore settled on an increase to $800 as the only viable amendment in the full Senate – and even it seemed far from assured of victory.[368]

Even Gore's more modest amendment was cosponsored only by Democrats and, for the most part, only by the most left-leaning of Democrats, including Hartke, Ted Kennedy, Fred Harris, and Walter Mondale. When debate began on his amendment, Gore joked to laughs across the Senate chamber that it might not even be "necessary to have a roll call on this amendment," since he feared that – like previous proposals – the increase to $800 was doomed to defeat. Indeed, two bipartisan coalitions of Senators – pro-business conservatives and balanced budget, anti-inflation moderates – attacked Gore and his supporters. Capital-friendly senators argued that making the tax system more progressive would discourage business investment, while balanced-budget senators slammed an increase in the personal exemption as too inflationary. Speaking for the former camp, an unhappy Long proclaimed that those who supported Gore did not "understand" the tax debate. Loophole closing that hurt the wealthy had to be balanced by cuts in the upper-income brackets to benefit the wealthy. "[I]f we are to have tax reform…by putting heavier taxes on corporations and persons receiving $25,000 or more, to the point where we are saying that one man who now pays little or nothing will now pay substantially," Long said, "then, in fairness we should have some reduction in tax rates so as to encourage those who are in high tax brackets – who are actually paying 70 percent of their income in taxes – to invest their

[367] "CQ Senate Votes 135 to 138," *Congressional Quarterly Almanac* 29-S (1969)
[368] Eileen Shanahan, "Gore Asks Tax Aid for Low Incomes," *New York Times*, November 23, 1969; Frank C. Porter, "Senate Bars Doubling of $600 Tax Exemption," *Washington Post*, November 25, 1969

money in ways that are productive….” Plus, Long argued, lower tax rates on the rich would actually pay for themselves due to the higher growth they would create. “I do not think much money will be lost if we reduce the upper tax rate because if people are encouraged to invest their money in productive ways…that will result in benefits to the economy and the nation,” he explained, “and whatever reduction is made in taxes will be more than made up as a result of the investment of their money and effort in constructive ways.”[369] Moderate Massachusetts Republican Edward Brooke proclaimed that “any increase in personal exemptions will, in fact, be illusory…because such an increase is bound to fueled the very inflation that destroys the benefit it offers.” Delaware Republican John Williams and Nebraska Republican Carl Curtis both flatly opposed any tax cut that would increase the deficit, while Colorado Republican Gordon Allott said that the “emotional pull” of Gore’s appeal for the “little man” did not outweigh the “vital need for fiscal moderation to combat the inflationary spiral.”[370]

However, as debate wore on, it became clear that the $800 amendment had more friends in the full Senate than Gore’s previous proposals, sometimes from unexpected places. Despite the skepticism from the pro-capital, anti-inflation contingent, as the debate wore on, more and more Senators – including everyone from West Virginia’s Robert Byrd to George McGovern – lined up behind Gore’s amendment, either in floor statements or as cosponsors. John Stennis, an ardent segregationist Mississippi Democrat began the debate with an impassioned plea for Gore’s amendment and a stinging criticism of the overall reform bill. “If it is indeed to be a tax reform bill, I think we must shift the burden away from the low income and middle income taxpayer and make that revenue up from others,” Stennis said. “I am afraid the bill does not do as much as it should, but certainly the Gore amendment is a step in the right direction.” Stennis

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[369] *Congressional Record*, December 3, 1969, 36672-36673
[370] *Congressional Record*, December 3, 1969, 36673-36675

argued for closing loopholes that benefitted the wealthy and giving more of the relief average taxpayers in order to create a more "progressive tax structure" that was truly "based on the ability to pay." Stennis had voted against the $1,200 increase, but he argued that defeating the $800 increase would prove that Congress had no desire to respond to the tax revolt. "[D]uring the last year we have heard a lot of rhetoric about tax relief for the average taxpayer," Stennis said, "but now when Senator Gore's amendment offers us a chance to do something about it, we suddenly begin to hear all sorts of excuses about why it cannot be done…. To plagiarize from Frost, 'tax reform still has many miles to go and many promises to keep.'"[371] Hawaii Democrat Daniel Inouye noted that his home state had one of the highest cost-of-living levels in the U.S., but that rather than claim inflation as a reason to oppose Gore's bill, he saw the pocketbook squeeze created by inflation as a reason to support the personal exemption increase. "The Gore amendment…merely recognize[s] what should be apparent to all: the declining value of the dollar and the value of the present personal exemption," Inouye said. "If we leave that exemption at its current level we will in effect increase taxes with every increase in inflation at a rate in excess of the inflationary increase [because the fixed value of the exemption declines in real terms]."[372] Robert Byrd also turned a conservative argument on its head. He agreed that "the cost of living has skyrocketed," that the government "was wasted too much money on questionable programs," and that Gore's amendment might threaten the deficit if nothing was done in response. But the government could cut those wasteful programs to fund Gore's proposal. "As far as I am concerned," Byrd said, "a platoon of spacemen on the moon is not as important as a $200 tax break for the low- and middle-income American."[373]

As Gore's proposal gained momentum, moderate Republicans, including Pennsylvania's

[371] *Congressional Record*, December 3, 1969, 36672
[372] *Congressional Record*, December 3, 1969, 36675
[373] *Congressional Record*, December 3, 1969, 36675

Hugh Scott and Illinois' Charles Percy hoped to craft a more conservative alternative to Gore's $800 plan, by proposing a Republican plan that also raised the exemption to $800, but did so by $50 a year for four years, rather than immediately. President Nixon had repeatedly indicated his opposition to any increase in the exemption, even at the $800 level.[374] But Senate Republicans believed their Percy-crafted moderate alternative to Gore's plan was smart politics. They hoped to win the White House's support for the measure, but the Nixon team sent Senate Republicans mixed signals regarding the Percy plan. Still, Republican leaders believed that it had Nixon's support and pushed forward with the bill.[375] So Senate Republicans felt betrayed when, the day before the vote on the Percy amendment, Nixon sent a public letter to Mike Mansfield and Hugh Scott declaring his opposition to a hike in the personal exemption, even at the $800 level.[376] Such increases, Nixon said, were "too generous" and failed the "test of fiscal responsibility," because they would increase the deficit. "The spirit of this legislation is tax reform which attempts to make taxation fairer to all Americans not tax reduction," Nixon wrote. "It would be unfortunate indeed if Congress violated this spirit of reform and thereby jeopardized both the source of revenue for vital national goals and the fight against inflation."[377] Senate Republican leaders scrambled to mitigate the political damage done by Nixon's letter and tried rally support for the Percy alternative. At the last minute, Bob Dole helped Percy lower his alternative from $800 to $750, phased in over three years. But many Republicans believed Nixon opposed any increase, and the amendment was defeated 23-72, with Republicans evenly divided (21-21) on

[374] Eileen Shanahan, "Tax Issues," *New York Times*, December 14, 1969

[375] Frank Porter, "Republicans Join Senate Rush to Increase Tax Exemption," *Washington Post*, December 3, 1969; "Congressional Initiated Tax Reform Enacted," *Congressional Quarterly Almanac* 25 (1969), 589-649

[376] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 199

[377] Richard Nixon, "Letter to Senate Leaders Mike Mansfield and Hugh Scott on the Tax Reform Bill," Public Papers of the President, December 2, 1969

the measure.[378]

Immediately after Percy's amendment, the Senate voted on Gore's $800 plan. It passed 58-37 with 10 Republicans, including moderates – such as Vermont's Winston Prouty, Oregon's Mark Hatfield, and Pennsylvania's Richard Schweiker – voting in support. In contrast, many of the most liberal Republicans – including New York's Jacob Javits and Massachusetts's Edward Brooke – voted against it. Five conservative Democrats, including Long and Georgia's Richard Russell, joined Republicans voting against the Gore amendment, too.[379] Republican leaders were furious. Immediately after the vote, Republican senators began debating the extent to which the Nixon administration was responsible for the success of Gore's amendment. Some believed the hard-line strategy of the Nixon team and some Senate Republicans doomed the party, while others believed moderates undermined unified Republican opposition. Scott and Percy blamed the Nixon Treasury – and Nixon personally – for opposing Scott's more moderate increase in the personal exemption. "[Republicans] simply 'blew it,'" Percy declared. "I do hope," he said, "that responsible officials in the Treasury of my own Administration will listen when next time we advise them we understand more about strategy than they do." Senator Baker worried about creating the "appearance of divisiveness within our party" and scolded Scott and Percy for "washing dirty linen in public" by criticizing Nixon. Baker acknowledged that there was no clear administration strategy on the Gore amendment, but faulted Percy equally for creating a "confused situation" by proposing his alterative and dividing the Republicans by appearing to accede to the idea of an increase in the personal exemption. If Republicans had held strong against any increasing the personal exemption, Baker implied, opponents to the Gore plan would

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[378] "Congressional Initiated Tax Reform Enacted," *Congressional Quarterly Almanac* 25 (1969), 589-649

[379] *Congressional Record*, December 3, 1969, 36676; "CQ Senate Votes 144 through 148," *Congressional Quarterly Almanac* (1969 31-S); Americans for Democratic Action, *Voting Record*, 1969 (http://www.adaction.org/media/votingrecords/1969.pdf); 91st Senate DW Nominate Scores, *Voteview* (http://voteview.com/SENATE_SORT91.HTM)

have prevailed.[380]

Despite Republicans' reaction to the success of the Gore amendment, it was still a relatively modest success. Letters from the public had indicated widespread support for increasing the exemption to $1,200. Moreover, many reform amendments – including lowering the oil depletion allowance to 20 percent – were rejected in the Senate, usually by a coalition of Republicans and moderate-to-conservative Democrats.[381] Taking the concerns about state and local budget crises and rising regressive property taxes seriously, Harke even offered an amendment that would have returned the revenue from the surtax to local governments to fund education. It was rejected 8-74.[382] So, despite conservatives' anger, securing an increase in the personal exemption to only $800 seemed more like a compromise than a victory for the left.

The Failure of Reform – and the Persistence of the Revolt

Days after the passage of the Gore amendment, Nixon was asked at a press conference whether he would sign a bill that included the $800 person exemption. The president gave a one-word answer: "No."[383] The conservative right-distributionist members of the administration, in particular, were not enamored with the Senate tax bill. In a December speech to the conservative Tax Foundation titled "The Control of Government Expenditures," Burns criticized the bill for tilting too far to the left and cast it as a symptom of a bloated government fed by high taxes. Burns sent his speech to Nixon, hoping to influence the president to stand strong against the

[380] *Congressional Record*, December 3, 1969, 36677-36678; "Congressional Initiated Tax Reform Enacted," *Congressional Quarterly Almanac* 25 (1969), 589-649

[381] "Congressional Initiated Tax Reform Enacted," *Congressional Quarterly Almanac* 25 (1969), 589-649; "CQ Senate Votes 139 through 143," *Congressional Quarterly Almanac* 30-S (1969)

[382] "CQ Senate Votes 139 through 143," *Congressional Quarterly Almanac* 30-S (1969)

[383] Richard Nixon, "The President's News Conference," *Public Papers of the President*, December 8, 1969

bill.[384]

But, to the public, the prospect of Nixon vetoing the tax bill seemed cruel. A White House analysis of the president's mail following the press conference where he threatened to veto the tax bill found that most letter writers "expressed disapproval of the president's position."[385] A letter from a New Jersey woman with a son in Vietnam and a husband who worked at DuPont was indicative of the public's view. "You are not responsible for the war and we realize your hands are tied…. We do not participate in public demonstrations…. We have a strong belief in God and honor our flag, our president, and certainly [are] proud to be Americans…," she wrote. "The one thing you are in a position to do and seem reluctant about is our taxes. Now, when you have been offered an opportunity to help the silent majority you threaten to veto the bill. Since World War II our basic $600.00 exemption has remained the same. The cost of living has doubled and is still rising steadily. If you and all those in office were to change places with us in the lower middle income bracket you would appreciate the struggle we are having. With rents and utilities high and food rising steadily it is almost impossible to keep one's head above water…. [W]e look to you for help and you seem to have turned your head the other way when you do have the chance to help us…. We the people must have some relief."[386]

With both signing and vetoing the bill unappealing, Nixon moved to use the House-Senate conference committee to tame the bill. The president met privately with both Mills and Byrnes to ask them to ensure that a more conservative bill emerged from conference.[387] In his

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[384] Burns to Nixon, December 1, 1969, PHWH-6A; Burns, "The Control of Government Expenditures," December 2, 1969, PHWH-6A
[385] Keogh to Staff Secretary, December 24, 1969, PHWH-6A
[386] Pedrick Letter, December 9, 1969, WHCF Gen FI 11 Taxation [9 of 20, November 1969], RNPL
[387] Rowland Evans and Robert Novak, *Nixon in the White House: The Frustration of Power* (Random House 1971), 200

concern with an inflation-fighting balanced budget, rather than tax relief for low- and middle-income taxpayers, Nixon had the support of most mainstream pundits. Adopting a fiscalist tone, the *New York Times* editorial page worried that Gore's proposal had turned the Tax Reform Act of 1969 into the "Tax Fiasco of 1969" – a "disastrous abdication of responsibility" that would feed inflation – and pledged the paper's support to Nixon as the president fought for a more fiscally conservative bill.[388] Even some liberals agreed. One of Kennedy's "New Economics" wizards, Yale Professor James Tobin, private fretted that the tax reform bill was the "wrong direction," since it increased the deficit. Like the Nixon team, Tobin argued that fiscal policy should be more restrictive to allow for easier money and lower interest rates.[389]

Nixon worried that the conference bill would still be too costly, even if Mills and Byrnes succeeded in tilting it back towards the right. If it looked as if the conference bill would end up too progressive, Nixon would shift strategy again by trying to make a veto more politically viable. He told his closest advisers to prepare for "some very high politics" on the tax bill. Specifically, if it seemed Mills and Byrnes were failing, Nixon looked to "set the tax bill up for a veto in conf[erence]" by making it more costly.[390] Nixon and his advisers prepared for the possibility of "leav[ing] it [the bill] screwed up" by trying to enlist Republican senators' help to "get a bill as bad as possible." This would make a veto more justifiable. The president's personal preference, according to meeting notes taken by John Ehrlichman, was to "sink it."[391] The president's biggest concern, however, was that a bill that seemed popular but that was still too far to the left for his tastes would emerge from the conference committee. It was possible, Nixon and

[388] "Tax Reform and Tax Revenue," *New York Times*, December 5, 1969
[389] Tobin to Harris, November 12, 1969, Harris Collection, B172, F6, CAC
[390] Ehrlichman Notes, December 5, 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [4 of 4]
[391] Ehrlichman Notes, December 9, 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [4 of 4]

Ehrlichman discussed, that the president "might get a bill [that he] must sign."[392]

Fortunately for Nixon, the final House-Senate conference bill proved to be far smaller. It was notably less generous to middle-income taxpayers, in part because it fell far short of Gore's initial proposal for the personal exemption. The exemption would be raised in $50 increments over three years, finally settling at $750 in 1973 – a plan identical to the Republican Percy plan that the Senate had rejected.[393] Long called the bill that emerged from the conference committee "fiscally responsible" and predicted that it would be "a very popular bill with the overwhelming majority of the American people."[394] But, by December 1969, if Long was praising a tax bill, it was likely that it was very weak reform, indeed.

And, in fact, both the relief and reform provisions in the final bill were modest. The low-income allowance did provide relief to the very poorest. But the bill's tax relief tapered off sharply as one approached median income. According to estimates, most middle-income families could expect about $100 in initial tax cuts from the Tax Reform Act of 1969.[395] Though nothing to sneeze at for the family making $10,000-a-year, taxpayers could be forgiven for viewing it as lackluster, given that average homeowners across the country were facing yearly property tax increases of $100 or more.[396] The plan was projected to save an addition $100 per year for a median income family over the next three years, totaling $300 in cuts by 1973 – an amount almost double the relief contained in the original House and Senate Finance Committee versions

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[392] Ehrlichman Notes, December 9, 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [4 of 4]
[393] Joint Committee on Taxation, "General Explanation of the Tax Reform Act of 1969," December 3, 1970
[394] "Tax Reform Bill/Facets/Reaction," *NBC Evening News*, December 19, 1969
[395] "How Tax Reform Will Affect You," *U.S. News & World* Report, January 5, 1970
[396] "Rising Taxes on Homes and the Search for a Way Out," *U.S. News and World Report*, July 12, 1971; Dan Cordtz, "A Word For the Property Tax," *Fortune*, May 1972; Michael J. Sniffen, "Demand Grows for Easing of Property Tax," *Newburgh (New York) Evening News*, October 16, 1972; Jim Miller, "City Property Owners Get a Tax Break," *Dubuque (Iowa) Telegraph-Herald*, February 5, 1970;

of the bill.[397] However, as the next several years made clear, inflation and increases in payroll taxes ensured that the federal effective tax rate paid by the middle income quintile dropped less than two percent in real terms – from 21.1 in 1969 to 19.5 in 1971 – before climbing back upwards and exceeding 1969 levels in 1973.[398]

The bill's reform provisions were equally lackluster. While it included versions of several long-discussed reforms, including an increase in the maximum rate on capital gains, a reduction the oil depletion allowance, a reduction in the benefits resulting from various tax-loss schemes, and a minimum tax that served as the predecessor to the Alternative Minimum Tax, among others, most were only half-measures, at best.[399] Most gallingly to reformers, the bill included a *maximum* tax rate of 50 percent.[400] In fact, the average federal tax rate for the top five percent of taxpayers actually *decreased* after 1969.[401] Former Treasury official Joseph Pechman, the longtime voice of mainstream reformers, declared the package "a weak brew compared to what people would identify as a prescription for tax reform."[402] The Associated Press ran a series of damning reports exposing the limits of the tax reform bill. "While tax reformers debated publicly about closing well-known loopholes," the first report began, "a diverse array of private interests working quietly in complex areas are winning new hand-tailored tax gimmicks." For many powerful corporations and individuals, it seemed, when Congress closed a door, it opened a window. Some of the changes were subtle and did not necessarily seek to completely block a

[397] "How Tax Reform Will Affect You," *U.S. News & World* Report, January 5, 1970; "Tax Reform Act of 1969: Report of the Committee on Finance, United States Senate" (USGPO 1969), 23-24
[398] Data from Emanuel Saez and Thomas Piketty, "How Progressive is the U.S. Federal tax system? A Historical and International Perspective," *Journal of Economic Perspectives* 21:1 (Winter 2007), online table A3 (http://elsa.berkeley.edu/~saez/jep-results-standalone.xls)
[399] Joint Committee on Taxation, "General Explanation of the Tax Reform Act of 1969," December 3, 1970
[400] "Congressional Initiated Tax Reform Enacted," *Congressional Quarterly Almanac* 25 (1969), 589-649;
[401] Data from Emanuel Saez and Thomas Piketty, "How Progressive is the U.S. Federal tax system? A Historical and International Perspective," *Journal of Economic Perspectives* 21:1 (Winter 2007), online table A3 (http://elsa.berkeley.edu/~saez/jep-results-standalone.xls)
[402] Allen J. Matusow, *Nixon's Economy: Booms, Busts, Dollars, and Votes* (University of Kansas, 1998), 50.

reform, just to shift it slightly in a certain taxpayer's favor. Winn Dixie, the politically well-connected Jacksonville, Florida, grocery chain, lobbied successfully to move back the enactment date of a provision in the act, saving its stockholder millions of dollars. The company was planning a convertible stock issuance and the tax reform bill proposed taxing shares of that type at the common stock dividend, rather than the capital gains, rate. With the help of former Florida Senator George Smathers, a longtime friend of President Nixon who also happened to own 12,000 convertible Winn-Dixie shares, the enactment date was delayed, making Winn Dixie the last major corporation to take advantage of the tax break and saving Winn-Dixie's owners, the Davis family, millions of dollars in taxes.[403] In an analysis picked up by newspapers across the country, including cities like Youngstown, the *New York Times* dismissed the legislation as "a mouse of a reform bill" that fell short of the high expectations stirred by the public outcry early in the year. Not only had the loophole problem not been solved, the *Times* reported, it had "hardly been touched."[404]

The biggest surprise in the bill was a 15 percent increase in Social Security benefits.[405] The president had suggested a 10-percent increase in a proposal completely unrelated to the tax reform bill, and the 15-percent raise was proposed by Russell Long as an amendment to the Senate tax reform bill. Left-leaning Democrats could take solace in the fact that amendments by Fred Harris, Robert Byrd, and Mike Mansfield increased the minimum Social Security payment, boosted payments to elderly who received both Social Security and welfare, and raised the

[403] Edmond LeBreton and Dick Barnes, "Tax Reform Bill, After Months of Debate, Closes Some Loopholes, Opens New Ones," *Daytona Beach Morning Journal*, December 8, 1969; "Stockholder Smathers Opposed Winn-Dixie Tax," *St. Petersburg Times*, October 31, 1971

[404] Anthony Lewis, "Sisyphus as Tax Reformer," November 3, 1969; Anthony Lewis, "Disappointing Tax Bill," *Youngstown Vindicator*, November 4, 1969

[405] Joint Committee on Taxation, "General Explanation of the Tax Reform Act of 1969," December 3, 1970; Steven Maguire, "The Alternative Minimum Tax for Individuals," Congressional Research Service, September 20, 2012; Julian Zelizer, *Taxing America: Wilbur D. Mills, Congress, and the State, 1945-1975* (Cambridge, 1998), 298-308; Allen J. Matusow, *Nixon's Economy: Booms, Busts, Dollars, and Votes* (University of Kansas, 1998), 34-54.

ceiling on the income subjected to the Social Security tax from $7,800 to $12,000. Yet, everyone knew that the Social Security measures had little to do with tax reform.[406]

Despite the conference committee's taming of the tax bill, Nixon still debated whether to sign or veto it. In a memo to the president, Kennedy, Mayo, and McCracken warned him that the public could interpret a veto as "denying taxpayers, especially low-income taxpayers, and Social Security beneficiaries advantages offered by Congress while protecting upper-income taxpayers against the loss of their loopholes." The argument in favor of a veto, in contrast, was that it was tilted in favor of consumption against capital and could result in budget deficits. They prepared both a veto message and a signing statement for the president.[407] Nixon and his advisers met with Republican congressional leaders, including Representatives Gerald Ford and John Byrnes and Senators Hugh Scott and Wallace Bennett. Bennett worried that the tax bill was "heavily titled to consumption" and anti-business. Nixon responded that he thought limiting the oil depreciation allowance was the right direction, despite other Republicans' objections – and the president's own past statements. The question for Nixon was whether to favor traditional Republican campaign donors – business and the wealthy – or the public. With that conflict in mind, Nixon and the Republican leaders debated the small increase in the capital gains rate contained in the bill. Nixon noted that it would hit what the he called "the risk-takers." But, clearly pointing out the rhetorical significance that curbing the capital gains preference had for the left, Nixon noted that, by lessening the capital gains preference, the bill could also be seen as "favor[ing] the man who earns pay by his own talents, hard work" while "hit[ting] 'unearned'

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406 "Congressional Initiated Tax Reform Enacted," *Congressional Quarterly Almanac* 25 (1969), 589-649; "CQ Votes 155 through 160," *Congressional Quarterly Almanac* 33-S (1969)

407 Kennedy et al to Nixon, December 19, 1969, WHCF EX FI-11 Taxation [5 of 18 August September 1969], RNPL

income."[408] Yet, Nixon still worried that it would be damaging for a Republican president to sign a bill seen as "very" anti-business. "Truman always stuck w[ith] his constituency," the president noted. "LBJ made the mistake of not doing so." Presumably, Nixon did not want to make the same mistake.[409]

After a year of wrangling with Congress and the Fed to control inflation, ultimately political considerations trumped economic considerations for Nixon when it came to the tax bill. The positives in the bill, as Nixon and the other Republicans saw it, were that it was good for single women, took the poor off the federal income tax rolls, and made sure that "no one escapes tax" among the "affluent rich," thanks to the minimum tax.[410] They also understood that most of the middle-income relief measures were too timid to have much political effect – an ironic observation given that Nixon fought that very relief. It was a "real prob[lem]," they noted, that middle-income taxpayers who were facing "high state [and] local tax[es]," among other issues, but were not receiving much tax relief in the reform bill. The "av[era]g[e] homeowner…gets nothing under this bill," Nixon and the Republican leaders noted.[411] Ultimately, the president worried that a "veto would help Gore." He knew that if he vetoed the bill, it would be dead. Congress was about to go to recess and there would be "no chance" for Democrats to override Nixon's veto.[412] Therefore, if Nixon vetoed the bill, Democrats would slam Nixon and the Republicans in 1970 and 1972 by talking up the elements of the bill with "popular appeal." Moreover, it was not clear to Nixon that the revenue loss could be sold to the public as a reason to veto the bill.[413] Ford said that the 1970 midterms were a "must win" for Republicans and

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408 Ehrlichman Notes, December 20, 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [4 of 4], RNPL
409 Ehrlichman Notes, December 20, 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [4 of 4], RNPL
410 Ehrlichman Notes, December 20, 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [4 of 4], RNPL
411 Ehrlichman Notes, December 20, 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [4 of 4], RNPL
412 Ehrlichman Notes, December 20, 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [4 of 4], RNPL
413 Ehrlichman Notes, December 20, 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [4 of 4], RNPL

urged the president to sign the bill. Scott agreed. Ultimately, though, they said that it was the president's decision alone whether to sign the bill or not.[414]

In another meeting the same day, Nixon and McCracken debated the effects of signing versus vetoing the bill on the "inflation psychology" of the "b[usiness] community." Nixon noted that the bill was "tilted too much to consumers, but [that] can't be [the] basis of [the] veto." On the other hand, vetoing the bill would save so much revenue that the budget would be in a projected surplus by 1970, allowing the president to argue that he "favors reform" – not tax reform, but the welfare reform and revenue sharing that would be possible the following year thanks to the revenue saved by vetoing the tax bill.[415] Nixon worried about what the bill's effect on the deficit would be. Secretary Shultz explained that a budget deficit "would prob[ably] cause the Fed to keep a tight money policy" because it would be "the only responsible fiscal control left."[416] But, returning to the conclusion of his discussion with House and Senate Republicans earlier in the day, Nixon declared that victory in the midterms was more important than controlling inflation.[417] The president decided to sign the bill.

Nixon's signing statement touted the bill's reforms, which the president said would make the "tax system more fair," but also served as a lecture scolding congressional Democrats for their "irresponsible" actions. Nixon noted that the bill "unduly favors spending at the expense of saving at a time when demands on our savings are heavy." It was also too expensive and, the president said, he would have vetoed it had the bill not been changed in the conference committee. "The critical moment for this legislation came after the Senate had passed a totally irresponsible bill that would have led to a sharp increase in the cost of living for every family in

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[414] Ehrlichman Notes, December 20, 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [4 of 4], RNPL
[415] Ehrlichman Notes, December 20, 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [4 of 4], RNPL
[416] Ehrlichman Notes, December 20, 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [4 of 4], RNPL
[417] Ehrlichman Notes, December 20, 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [4 of 4], RNPL

America," Nixon said. "In a letter to the leaders of the Congress, I left no doubt that such a bill would be vetoed. As a result, when Members of the Congress met to work out the differences between the House and Senate bills, the bill that came out of that conference was over $6 billion less inflationary for the next fiscal year than the bill that had passed the Senate." Despite these changes, Nixon said he was still displeased with the unbalanced nature of the bill, and – in a seeming declaration of solidarity with balanced-budget Republicans against the new Goldwater-influenced tax-cutting insurgents – Nixon declared that, "If taxes are to be reduced, there must be corresponding reductions on the expenditure side."[418]

But the predictions from Gore, the press, and even Nixon himself, that Tax Reform Act of 1969 would have little impact on the public were correct. Even after the Tax Reform Act was fully implemented, the percentage of Americans who told pollsters that their taxes were too high barely budged – and for good reason, considering the modest relief provided in the bill, as noted earlier. Even the reform measures in the bill received mixed praise, at best, from the public. Only four percent of Americans told pollsters that the bill was "excellent," while 30 percent rated it "pretty good," 27 percent said it was "only fair," and 11 percent called it "poor." Nearly 80 percent of Americans said there were "still a lot of tax loopholes for the rich to avoid taxes." Perhaps most significantly, 67 percent of American said they still felt the same about their taxes, while only 20 percent said they felt better about their taxes because of the Tax Reform Act's loophole changes.[419] By almost any measure – and after a year of contentious political battle – the Tax Reform Act of 1969 was a failure – and the "tax revolt" continued unabated.

[418] Richard Nixon, "Statement on Signing the Tax Reform Act of 1969," Public Papers of the President, December 30, 1969
[419] Harris Survey, February 1970, Roper iPoll Database [USHARRIS.70FEB.R29]

Conclusion

"There are those within the Nixon official family who are already telling the President that he should never again recommend tax reform," the *New York Times* reported.[420] Indeed, Nixon's frustrations with the reform bill caused the president to call his entire fiscal philosophy into question. Arthur Burns warned Nixon that the country was tilting too far to the left. Taxes were too high, and the state was too big. "We surely cannot afford to take capital formation or economic progress for granted," Burns said in the speech he sent to Nixon. "In recent times, our nation has moved rapidly towards the welfare state, such as various European countries previously developed…" At some point taxes would become so high that they would strangle the American economy. "I do not know precisely at what point the burden of taxation will materially serve to check our nation's economic progress, but I also do no think it wise to test this issue too closely. The trend of governmental spending and taxes in the past forty years has been sharply and inexorably upward…," Burns said. "With over a third of our nation's output already moving into the hands of the tax collector, it seems hardly prudent to contemplate any further increase in the level of taxation." While some blamed the Vietnam War and defense expenditures for the growth of the federal budget, Burns said that the welfare state was to blame. "[T]he need for expenditure reform may be even greater than the need for tax reform," Burns argued – and Nixon noted this point when he read the speech. As a solution, Burns called for ceilings on expenditures and "zero-base budgeting," as well as a "larger reliance on volunteer efforts for dealing with our great social ills."[421]

This hard-right view was gaining traction with Nixon. Liberal Democrats' push for an increase in the personal exemption – despite its potential to increase the deficit – began to

420 Eileen Shanahan, "Taxes: Reduction Has More Fans than Reform," *New York Times*, November 30, 1969
421 Burns to Nixon, December 1, 1969, PHWH-6A; Burns, "The Control of Government Expenditures," December 2, 1969, PHWH-6A

convince the president that fighting for "fiscal responsibility" was a fool's errand. Just as Friedman predicted, Democrats were willing to blow up the deficit, it seemed, and leave Nixon to fix it later. Moreover, the backlash from the Republican Party and its well-heeled backers to even modest loophole-closing seemed to indicate that Nixon would be better off trying to avoid reforms in the future. Moreover – despite what polls and letters said – Nixon remained unconvinced that the public actually cared about unfairness in the tax code. Maybe, just as those on the right argued, the public really wanted lower taxes and smaller government. As the Nixon team waited to see the outcome of the conference committee's bill, Nixon, Haldeman and Ehrlichman had speculated that the "country doesn't want tax reform."[422]

The 1970 midterms, however, quashed Nixon's flirtation with right-distributionism. Running to the right on a backlash thesis-inspired interpretation of the tax revolt, GOP gubernatorial candidates in states like Ohio, Pennsylvania, and Florida lost to populist Democrats openly advocating new, but progressive, forms of taxation.[423] Following the stinging disappointment of the 1970 midterms, in which Nixon took a leading role, the President began to consider a different, more pocketbook squeeze-oriented interpretation of the tax revolt, spurred in part by the successes of left-distributionist activists like Ralph Nader and Democrats like Edmund Muskie and George McGovern. Rather than moving right, Nixon would move left.

[422] Ehrlichman Notes, December 9, 1969, WHSF, SMOF, Ehrlichman, B3, F 1969 JDE Notes [4 of 4], RNPL
[423] This story is covered at length in a separate article manuscript. It was intended to be the third chapter in this dissertation. However, it has been excised due to length considerations.

CHAPTER 3

"New Populism" and the Ascendance of Left-Distributionism

By the spring of election year 1972, the mood of the nation when it came to taxes was unmistakable. "Election-year rhetoric seldom has great or lasting impact on the course of economic policy," the First National City Bank of New York noted in its monthly newsletter. "But this year could prove to be one of the exceptions. Discontent over the heavy tax burden [on low- and middle-income Americans] has given rise not only to demands for tax reform…but to a 'new populism' which centers about proposals for a radical redistribution of income and wealth."[1] Not only were national activists and local grassroots groups turning their attention to taxes, but a series of local and state studies, as well as federal hearings and reports, were also providing ever greater levels of legitimacy to the idea that the country was gripped in an unstoppable "tax revolt." In fact, 69 percent of Americans now told pollsters that they "would sympathize with a taxpayers' revolt," and 64 percent agreed that "the tax laws are written to help the rich, not the average man."[2] The context for activists, policymakers, and aspiring officeholders to turn their attention to tax reform – not only at the federal level, but also at the state and local levels, too – could not have been more auspicious.

This chapter charts the triumph of the left-"distributionist" vision of comprehensive tax reform in 1972. By the late-1960s, key activists like Saul Alinsky and Ralph Nader, cognizant of

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[1] "Economic Populism," *New Castle News*, June 6, 1972; Leonard Silk, "Examining McGovern's New Populism," *New York Times*, May 10, 1972

[2] Louis Harris & Associates, March, 1971, Roper iPoll Databank [USHARRIS.71MAR.R26]; Louis Harris, "Alienation Remains Abiding Sentiment," *Beaver County Times*, November 29, 1972

the power of the "tax revolt," were turning to inequities in the tax code as a key organizing issue. The ideas and attitudes of these activists and state policymakers quickly trickled up into federal politics and policymaking. Democrats vying for the 1972 presidential nomination embraced a "new populism" premised largely on the necessity of pursuing left-distributionist tax reforms. Moreover, President Nixon alarmed his most conservative advisers by turning to the left on taxes in response. After reluctantly embracing federal income tax reform in 1969 and turning to a hard-right "backlash" approach in the 1970 midterms, Nixon now followed both left reformers and the public mood in portraying himself as a left-distributionist in the run-up to the 1972 election.

Perhaps most significantly, federal policymakers in both parties now sought to tear down the distinction between local, state, and federal taxes. Beginning with the debates surrounding the enactment of federal Revenue Sharing and continuing through the presidential election, both left-leaning Democrats and Republicans loyal to Nixon insisted that it was the responsibility of the federal government to solve not only the "fiscal crisis" facing states and localities but also to end inequities in local property taxes and provide lower- and middle-income Americans relief from the most onerous and unfair taxes, regardless of which level of government levied them. Thus, this chapter explains how a bipartisan majority of federal policymakers – pushed by public opinion, grassroots activists, and politicians at lower levels of government – came to two interlocking, and profoundly significant, conclusions about the "tax revolt": that the fairness and distribution of taxes, not just their level, were key to understanding American's tax discontent and that only a federal initiative to close loopholes in the tax code at all levels of government and shift the tax burden upward would quell the "revolt." As a result, by the end of 1972, it seemed that left-distributionism had triumphed.

This triumph began with an attack on business-friendly inequities in the local property tax – inequities that were often missed by many observers.

The Business of Property Tax Preferences

By the early-1970s, the local property tax had become yet another loophole-ridden code that seemed to be stacked against average Americans in favor of powerful property owners. These violations of equity extended beyond the race- and income-based assessment discrimination among homeowners and cut to the very core of the relationship between businesses and all homeowners in the property tax system. Throughout the 1950s and 1960s, businesses shifted from the urban core to suburbs within metropolitan areas and from the Northeast and Midwest to the South and Southwest within the country at large. A significant part of this shift had to do with intrastate and interstate competition. Many states and localities attempted to lure businesses by offering them favorable tax treatment – either through statutorily lower rates on all businesses or by offering specific incentives, legal and extra-legal, for individual industries or firms. Thus, incentives to attract businesses not only shifted the georgraphic localities of business and industry, it altered the very distribution of the burden tax itself, both among businesses and between businesses and homeowners.[3]

States and localities had a variety of legal tools at their fingertips to attract or retain favored businesses. "Undoubtedly, the most dramatic example of specific tax benefit for new industry is to be found in the legislation of 13 states that authorizes local governments to exempt from local taxation the real estate holdings of 'new industries' for a designated number of years,"

[3] ACIR, *State-Local Taxation and Industrial Location* (GPO, April 1967), 37

the ACIR noted.[4] States and localities also pursued a variety of other tax incentives for businesses in the 1950s and 1960s, including state-level accelerate depreciation and other corporate income tax breaks.[5] Localities had additionally attracted "unfavorable public notice to the detriment of the public's regard for local government administration" by utilizing the increasingly popular tool of industrial development bonds to dole out tax breaks to favored firms, including large national companies that could easily afford their own financing. Communities also made headlines by using the bonds for "pirating established firms [from] one community to another" and "establishing specially incorporated areas with relatively few residents to develop tax havens at the expense of neighboring communities."[6]

Thus, by the 1960s, businesses, not homeowners, had the upper hand in setting state and local tax policies. This reality reflected itself in the shifting tax burden. "[P]olicymakers are inclined to make use of direct consumer-type taxes (levies that are least likely to provoke the opposition of the business community) rather than to raise personal and corporate income taxes – levies that are more likely to trigger business community opposition," the ACIR explained in 1967.[7] While states hiked a variety of other taxes, they consistently avoided increases in corporate income taxes.[8] When it came to property taxes, state and local policymakers avoided keeping property taxes low across-the-board. Instead, they used targeted tax breaks for favored businesses, which allowed officials to keep property taxes high on homeowners and less-favored businesses and low on selected properties, thereby protecting revenue while rewarding favored businesses and "encourag[ing] economic growth."[9] "The industrial promotion slogan – 'profit is

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[4] ACIR, *State-Local Taxation and Industrial Location* (GPO, April 1967), 48
[5] ACIR, *State-Local Taxation and Industrial Location* (GPO, April 1967)
[6] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 117
[7] ACIR, *State-Local Taxation and Industrial Location* (GPO, April 1967), 79
[8] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 116
[9] ACIR, *State-Local Taxation and Industrial Location* (GPO, April 1967), 6-7, 46,

not a dirty word in Ohio' – dramatically illustrates the increasing willingness of state political leaders to embrace publicly the free enterprise philosophy…," the ACIR noted. "Since World War II, state tax policymakers have tended to adopt direct consumer tax policy…. There is ample documentation to support the contention that the business community generally favors state sales and other forms of consumer taxation of more intensive state use of corporate and individual income taxes."[10] As a result, the percentage of state and local taxes paid by businesses fell throughout the 1950s and 1960s. This meant that the tax burden throughout the post-WWII era was slowly being shifted from corporations to homeowners, consumers, and workers. Between 1950 and 1964, taxes on individuals rose from 60.1 to 65.4 percent of the total taxes collected by states and localities, while taxes on businesses fell from 39.9 percent of to 34.5 percent – a fall that was actually cushioned by the inclusion of unemployment compensation taxes in ACIR's calculations. Nearly the entire drop in business taxes occurred in property taxation of businesses, which fell from 21.2 percent of total state and local revenue in 1950 to 16.9 in 1964. The increase in individual taxes, in contrast, was spread among hikes in property, sales, and income taxes.[11]

Breaks for businesses did not begin and end with legal preferences, however. Often, property tax assessors took it upon themselves to offer extra-legal "incentives" – which the ACIR euphemistically called "locally negotiated property tax concessions" – to businesses in the form of artificially low assessments.[12] "While there are examples of deliberate over-assessment of industrial property, it is not uncommon for local assessors to go in the other direction and assess industrial property below the prevailing assessment ration," the ACIR noted. The expertise needed to assess industrial and commercial property was often beyond local assessors,

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[10] ACIR, *State-Local Taxation and Industrial Location* (GPO, April 1967), 42-43
[11] ACIR, *State-Local Taxation and Industrial Location* (GPO, April 1967), 37
[12] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 116-117

a fact that could contribute either to over- or under-assessment. But many extra-legal breaks for businesses were intentional, rather than a product of inexperience or incompetence. "In communities actively competing for new industry, local assessors are often under considerable pressure to give a prospective industry a 'tax break,'" the ACIR noted. "This preferential assessment policy is often justified as being in the best interest of the community and the mere threat by a dominant manufacturing firm to locate or relocate in another community may yield tax assessment benefits."[13] In fact, a Prentice-Hall handbook for businesses on industrial development incentives advised businesses to appeal to local assessors and politicians for informal property tax breaks. "It is often more advantageous to work with local groups, especially those with close connections to the local government – official or unofficial – than to work through state agencies," the guidebook explained. "Local groups may be in a better position to arrange for such local matters as extending water and sewerage lines to, and improving roads near, your site. Too, they may be able to obtain a 'better break' for you on your property assessment."[14] Unsurprisingly, the same assessors who were willing to offer a "better break" for favored businesses were usually also willing to do the same for well-connected homeowners. These informal breaks, moreover, were often not reflected in official statistics. "While the extent of this 'bargaining table approach to property tax assessment cannot be documented, its existence cannot be denied," the ACIR explained.[15] But the flaws in official data were clear. In the late-1960s, the ACIR cautioned that projections of increased property tax revenue flowing to localities were flawed because of the artificial tax breaks given to many property owners. While rising property values could usually be counted upon to increase tax

[13] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 66
[14] *The Prentice-Hall Guide to State Industrial Development Incentives* (Prentice-Hall, 1963), quoted in ACIR, *State-Local Taxation and Industrial Location* (GPO, April 1967).
[15] ACIR, *State-Local Taxation and Industrial Location* (GPO, April 1967), 48

yields, those property owners who enjoyed informal assessment breaks could expect their already low assessments to remain flat.[16]

This trend towards increased use of business tax incentives by states and localities troubled policymakers, at least in the abstract. However, the knowledge that other communities were using them forced even the most reluctant governor, mayor, or assessor to offer property tax breaks, lest their state or community be left out in the cold. The ACIR – made up of a cross-section of local, state, and federal policymakers – worried that these legal and extra-legal tax breaks were reating a zero-sum race to the bottom among states and localities – one that undercut revenue capacity nationwide. "The commission concludes that the practice of making special tax concessions to new industry can have baneful effects on our federal system by setting in motion a self-defeating cycle of competitive tax undercutting and irrational discriminations among business firms," the ACIR concluded at the end of its long investigation of taxes and industrial location. The commission noted that the "baneful" effects of tax competition were harder to discern during a period of "full employment." But it predicted, prophetically, that it could "take on a new ruthless character should the economy dip into a major recession" or "even a 'flattening out.'"[17]

Moreover, there was little evidence that tax incentives for businesses served their intended purpose. The ACIR's review of the literature showed that "as a general rule tax considerations do not figure prominent in the selection of a general region or area in which is plant is to be located."[18] Beyond regional effects, the literature on the effect of tax differences between neighboring states or cities was less conclusive, but it still strongly suggested that taxes played only a very small part on firms' location decision. The only area in which it seemed taxes

[16] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 66
[17] ACIR, *State-Local Taxation and Industrial Location* (GPO, April 1967), 83
[18] ACIR, *State-Local Taxation and Industrial Location* (GPO, April 1967)

had a significant impact on firms' locations occurred between metropolitan areas within states. As a result, the desire of cities and suburbs to compete against their peers caused them to push down property tax rates on businesses, by legal or informal means, and especially on large firms.[19]

The idea of widespread property tax breaks throughout the post-WWII era, however, stands in sharp contrast both to the beliefs of many experts at the time and the conclusions of subsequent scholarly studies of the property tax and the tax revolt. Some scholars have argued that homeowners received informal property tax breaks in the form of fractional assessment, while businesses were socked with high taxes.[20] However, this argument misses the type of "locally negotiated property tax concessions" described by the ACIR and exposed in often shocking detail by local grassroots activists. Moreover, both local studies and Census data, based on actual assessment-to-sales price ratios, paint a very different – and more nuanced – picture of the distribution of the property tax burden. In the aggregate, homeowners and the industrial and commercial property owners paid almost exactly the same property tax rate as a percent of the sale price. For example, the 1967 *Census of Governments* found that the nationwide assessment to sales price ratio was just under 35 percent for residential property and just over 35 percent for commercial and industrial property.[21] However, this general pattern, as the Census data also make clear, concealed wide variation – measured by "coefficients of dispersion" – within classes of property, both at the state and the local level. Two nearly identical homes or businesses in the same city could see their assessment vary by 10, 20, or even 50 percent, whether due to simple assessment errors or intentional extra-legal tax breaks. To understand the specifics of this

[19] ACIR, *State-Local Taxation and Industrial Location* (GPO, April 1967), 59-70

[20] This argument is central to Isaac William Martin's study of the property tax revolt, in particular. Isaac Martin, *The Permanent Tax Revolt: How the Property Tax Transformed American Politics* (Stanford, 2008).

[21] For national and state-by-state data, see Table 9 of *Taxable Property Values, 1967 Census of Governments, Volume 2*, Bureau of the Census, U.S. Department of Commerce (U.S. GPO, 1968).

assessment variation – which generally seemed to favor large and well-connected businesses and homeowners at the expense of small businesses, homeowners of color, and homeowners in poor and working-class neighborhoods – it is necessary to dig into the nuances of local politics.

And, indeed, by the late-1960s and early-1970s, left-grassroots reformers were beginning to attack these patterns of inequity at their source.

Nader, Alinsky, and the Left Capture of the Tax Revolt

For both consumer crusader Ralph Nader and community organizer Saul Alinsky, interest in taxes grew organically from past activism. Nader's commitments to consumer rights and good government intersected in the form tax loopholes that benefitted big businesses at the expense of average taxpayers. Alinsky's longtime concern with organizing the poor and disenfranchised against powerful interests – often by lettering the poor themselves define the movement's goals – seemed almost certain to be on a collision course with taxes, given the rising public discontent embodied in the tax revolt. However, the respective styles and philosophies of Nader and Alinsky, though complimentary, seemed to spring from different intellectual traditions on the left, at least superficially. Alinksy, who had studied criminology at the University of Chicago, left academia in part because he rejected top-down, social work model of progressive reformism it embodied. Instead, Alinsky's bottom-up method of community organizing, which stressed the collective power of seemingly powerless citizens, seemed to veer closer to populism than progressivism.[22] The Harvard Law-educated, Nader, in contrast, embodied the top-down reformism of American progressivism. Though Nader would become immensely popular among

[22] Sanford D. Horwitt, *Let Them Call Me Rebel: Saul Alinsky, His Life and Legacy* (Vintage 1992), 524-530

the public, his methods focused on using the power of legal expertise to force change in regulation and legislation.[23]

Taxes, though, proved to be an issue that encompassed both Nader's top-down and Alinsky's bottom-up approaches. Though undoubtedly a complex and highly technical legal issue, taxes also proved to be an issue shot through with raw emotion, one that was highly amenable to straightforward claims to fairness and morality. Indeed, despite their other seeming differences, Nader and Alinsky shared rhetorical style that was undeniably populist – relying, as it did, on the image of a average citizens besieged by corrupt and powerful interests. Their rhetoric was similarly confrontational and relied on making the enemies of the people clear. Alinksy famously advised community organizers to "pick the target, freeze it, personalize it, and polarize it."[24] Alinksy never hesitated to make his rhetoric and his actions combative, or even crude, if it served the larger purpose of garnering attention and advancing his cause. Likewise, Nader, despite his Harvard Law pedigree, peppered his accusations of wrongdoing with inflammatory, cutting prose. As with Alinsky, this invective served a purpose. Not only did it help garner media attention, it also "sharpens the conflict and aggravates the target," as one news account of Nader's strategy summarized, provoking a backlash often more bile-filled as the original accusations.[25] The mutual influence of Alinsky and Nader on one another seemed clear. With his tax campaign, Nader would explicitly move to support local grassroots groups, if not organize them directly. Likewise by the late-1960s, Alinsky's Industrial Areas Foundation training center would be assigning its students to read a Ralph Nader speech on the absence of

[23] Robert F. Buckhorn, *Nader: The People's Lawyer* (Prentice-Hall, 1972); Charles McCarry, *Citizen Nader* (Signet, 1973)
[24] Saul Alinsky, *Rules for Radicals* (Vintage 1989), 1930
[25] William Greider, "Institutional 'Lone Ranger': Ralph Nader Strives to Inspire 'Public Citizens,'" *Washington Post*, December 5, 1971

"law and order" for big business.[26] As with each of their earlier interests, Nader and Alinsky's shared goal when it came to taxes was to tilt the tax code away from powerful interests to the benefit of average Americans.

By the late-1960s Saul Alinsky had become a national figure. "It is not too much to argue that American democracy is being altered by Alinsky's ideas," *Time* magazine declared in 1970. "In an age of dissolving political labels, he is a radical…. He has instructed white slums and black ghettos in organizing to improve their living and working conditions; he inspired Cesar Chavez's effort to organize California's grape pickers. His strategy was emulated by the Federal Government in its antipoverty and model-cities programs…."[27] Though Alinsky had made his reputation organizing poor whites and African Americans through groups associated with his Chicago-based Industrial Areas Foundation, by the late-1960s, Alinsky was turning towards organizing the working- and middle-class.[28] "Although he has largely helped the very poor," *Time* noted, "he has begun to teach members of the alienated middle classes how to use power to combat increasingly burdensome taxes and pollution."[29] The conservative *Chicago Tribune* editorial page cynically postulated competition among left-leaning leaders for Alinsky's new attention to the middle-class. "Ralph Nader has been getting more publicity," it quipped. "So Alinsky has gone out for bigger game. He wants to wants to corner the middle class…."[30] Alinsky's interest in the middle-class was more instrumental, however. "One thing I've come to realize is that any positive action for radical social change will have to be focused on the white middle class, for the simple reason that this is where the real power lies," Alinsky explained.

[26] EC [Chambers] to SDA[Alinsky], June 26, 1969, IAF, B 39, F 611, UIC
[27] "Radical Saul Alinsky Alinsky: Prophet of Power to the People," *Time*, March 2, 1970
[28] "To Remember Forgotten America," *Time*, August 8, 1969
[29] "Radical Saul Alinsky: Prophet of Power to the People," *Time*, March 2, 1970
[30] "Alinsky's At It Again," *Chicago Tribune*, September 3, 1971

"Today, three fourths of our population is middle class, either through actual earning power or through value identification."[31]

Alinsky had learned from both the clear successes of the United Farmworkers' Cesar Chavez and Delores Huera – both of whom were trained by Fred Ross, an employee of Alinsky's Industrial Areas Foundation – and from the decidedly mixed successes of FIGHT, Alinsky's own Rochester, New York, organization. "We are belatedly beginning to understand…that even if all the low-income parts of our population were organized – all the blacks, Mexican-Americans, Puerto Ricans, Appalachian poor whites – if through some genius of organization they were all united in a coalition, it would not be powerful enough to get significant, basic, needed change…," Alinsky explained. "The only potential allies for America's poor would be in various organized sectors of the middle class. We have seen Cesar Chavez' migrant farm workers turn to the middle class with their grape boycott. In the fight against Eastman Kodak, the blacks of Rochester, New York, turned to the middle class and their proxies."[32] In private memos, IAF explained that its transition towards targeting the middle-class began in the late-1960s, when it moved away from the "geographic community organizations" that began with Alinsky's Back of the Yards group and continued with groups like FIGHT and instead turned towards "a broader concept which could best be described as organizing around community of interest [sic], or, people around issues." By organizing around issues, IAF groups could broaden their membership, both in terms of income and geography, culling members "from diverse sections of the cities and suburbs." Most issue-oriented groups, IAF explained, gravitated towards "specific

[31] Playboy Interview: Saul Alinsky *Playboy* (March 1972)
[32] Chambers to Trustees, December 1, 1972, IAF, B 70, F 854, UIC

problem areas such as: pollution, elderly, taxes, consumer items (telephone, electrical utilities, etc.), schools, inflation, race, health, crime, etc."[33]

Beyond the simple math of creating coalitional majorities, Alinsky's move into the middle-class seemed to be motivated, at least in part, by President Nixon's focus on building his "New Majority" by making inroads into formerly Democratic constituencies. "This is the so-called Silent Majority that our great Greek philosopher in Washington is trying to galvanize, and it's here that the die will be cast and this country's future decided for the next 50 years," Alinsky said. "Pragmatically, the only hope for genuine minority [a term Alinsky used as a catchall for 'all the blacks, Chicanos, Puerto Ricans, poor whites'] progress is to seek out allies within the majority and to organize that majority itself as part of a national movement for change. If we just give up and let the middle classes go to the likes of Agnew and Nixon by default, then you might as well call the whole ball game. But they're still up for grabs – and we're gonna grab 'em."[34] He called the idea that the "Silent Majority" was "inherently conservative" a "crock of crap."[35] The "blue-collar or hard-hat group," in Alinsky's view, had legitimate complaints that extended beyond an amorphous cultural conservatism.[36] "[F]rom taxation to pollution," Alinsky said, "the middle class actually feels more defeated and lost today on a wide range of issues than the poor do. And this creates a situation that's supercharged with both opportunity and danger." They were, Alsinsky said, "a bewildered, frightened and as-yet-inarticulate group of desperate people groping for alternatives – for hope."[37] "The instinct of middle-class people is to support and celebrate the status quo," he conceded, "but the realities of their daily lives drill it home that the

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[33] Chambers to Trustees, December 1, 1972, IAF, B 70, F 854, UIC
[34] Playboy Interview: Saul Alinsky *Playboy* (March 1972)
[35] Playboy Interview: Saul Alinsky *Playboy* (March 1972)
[36] Playboy Interview: Saul Alinsky *Playboy* (March 1972)
[37] Playboy Interview: Saul Alinsky *Playboy* (March 1972)

status quo has exploited and betrayed them."[38] In Alinsky's view, the white working- and middle- classes would "go either of two ways in the coming years – to a native American fascism or toward radical social change."[39] Conservatives' goal, he said, was to "give them scapegoats for their misery – blacks, hippies, communists…" "Their fears and their frustrations over their impotence can turn into political paranoia and demonize them, driving them to the right," he warned in a prognostication eerily reminiscent of how Ronald Reagan would present himself just a few years later, "making them ripe for the plucking by some guy on horseback promising a return to the vanished verities of yesterday."[40] Alinsky hoped to avoid that fate by "show[ing] the middle class their real enemies: the corporate power elite that runs and ruins the country – the true beneficiaries of Nixon's so-called economic reforms."[41]

In making the organizing working- and middle-class whites part of its new mission, Alinksy's Industrial Areas Foundation needed to overcome two issues. The first was the belief that a move to organize the "Silent Majority" meant an abandonment of IAF's previous commitments to the poor and people of color. Ed Chambers, the director of IAF following Alinsky, took pains to stress that IAF's incursion into the middle class did not constitute abandonment of other groups, either psychologically or in terms of actual organizing and training. Nor did Chamber see it as necessary for all groups to be integrated. "The answer isn't to get all the blacks, whites, and Chicanos fighting together in one big group," Chambers explained. "That's impossible, and the impossible can never be an answer. The answer is to organize the blacks around black issues, the Chicanos around Chicano issues, and the whites around white

[38] Playboy Interview: Saul Alinsky *Playboy* (March 1972)
[39] Playboy Interview: Saul Alinsky *Playboy* (March 1972)
[40] Playboy Interview: Saul Alinsky *Playboy* (March 1972)
[41] Playboy Interview: Saul Alinsky *Playboy* (March 1972)

issues. Then you let them bargain with each other – and that's when you'll have integration."[42] The second issue facing IAF with its new strategy were "stereotypes" many on the left harbored about working- and middle-class whites. Chambers suggested that some of would-be organizers who came to IAF for training – as well some already-establish religious and community leaders – saw working- and middle-class whites as little more than "conservatives afraid of change." IAF's goal, he argued, was to get those on the left to listen to the "middle class people" to find out where they were "hurting – on money, alienation, and powerlessness." Often, Chambers argued, their attitudes would surprise organizers. Even when they encountered negative attitudes on some issues, Chambers suggested that organizers remember "the premise that racism and reaction are products of powerlessness."[43] By using key issues to break through the conservative façade of the "Silent Majority," IAF leaders believed, organizers could tap into deeper strains of latent progressivism.

From the beginning, an understanding of the tax revolt and the pocketbook squeeze was central to Alinsky's working- and middle-class mission.[44] "They live in small bungalows or building tract suburbs," Alinsky said of working-class whites. "They are caught in the squeeze of rising taxes and resent the many tax dodges of those above them dumping an unfair burden on them."[45] Alinsky believed that middle-class Americans harbored many of the same feelings as their working-class counterparts. "They're oppressed by taxation and inflation, poisoned by pollution, terrorized by urban crime, frightened by the new youth culture, baffled by the computerized world around them," Alinsky said of the middle class. "They've worked all their lives to get their own little house in the suburbs, their color TV, their two cars, and now the good

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[42] "Organized School Focuses on Middle Class," *Sun Sentinel*, November 7, 1973
[43] Chambers to Trustees, December 1, 1972, IAF, B 70, F 854, UIC
[44] "To Remember Forgotten America," *Time*, August 8, 1969
[45] "Alinsky's At It Again," *Chicago Tribune*, September 3, 1971

life seems to have turned to ashes in their mouths."[46] Rather than believe that the working- and middle-class tax revolt was a sign of rising conservatism, Alinsky believed that it was an expression of genuine concerns over the fairness and the distribution of the tax burden. As early as 1957, an Alinsky group under the supervision of Nicholas Von Hoffman in Lackawanna, New York, near Buffalo, concluded that the nearby Bethlehem Steel plant was underassessed by at least 50 percent. "The Bethlehem Steel company has made sure that tax assessments and tax rates are not touched without its approval," a report on the Lackawanna organizing project by the National Conference of Catholic Charities concluded. "By dispensing easy jobs in the plant to influential local politicians, and by giving these individuals a certain amount of patronage through plant jobs, the company has managed to keep assessments and taxes at levels satisfactory to it." To additionally ensure its favorable assessment, Von Hoffman found, the company employed all three local assessors and granted them two-to-three months paid leave each year to "perform their official duties" as assessors.[47] This pattern, uncovered so early by Hoffman, would be discovered by Alinsky groups across the country in the early-1970s.

Though taxes rarely proved central to the activities of Alinsky groups in the 1950s, with the tax revolt of the 1960s, the importance of taxes to organizing the working- and middle-classes was unmistakable. Like many on the left, Alinsky saw tax discontent as a question of both the fairness and regressivity of certain taxes. In a long 1969 study of suburbia, longtime IAF staffer Richard Harmon argued that taxes – along with women's issues, environmental issues, education, the environment, and consumer issues (for which he praised Ralph Nader) – were key topics for motivating middle-class Americans to become involved in politics. Loopholes for the wealthy and corporations, he argued, were "a public scandal" that angered average Americans.

[46] Playboy Interview: Saul Alinsky *Playboy* (March 1972)
[47] "Interim Report on the Lackawanna Project," November 5, 1957, IAF, B 55, F 732, UIC; Von Hoffman Memo, November 10, 1956, IAF, B 55, F 732, UIC

Not only were federal tax loopholes exacerbating economic inequality, Harmon noted, they were also undermining "the American ability to collect taxes," since such an ability "rests on the citizen believing the tax structure is fair." Likewise, he wrote, "local tax policy usually benefits large industry" and "encourage[es]…slums and blight." "Taxation is another self-interest issue around which coalitions of organized blacks, New Class whites [middle-income whites making more than $7,000, in Harmon's definition] and blue collar whites could develop," Harmon concluded. "New Class owners are not only demoralized by a city which cannot, because of a penalizing property tax, rehabilitate and rebuild; they are also discouraged from improving their own homes. Blue-collar whites, heavily saddled with debt, are also penalized every time they want to make major repairs. Black homeowners are in the same bind. Black tenants are exploited by slumlords whose economic incentive, under present tax regulations is to make no repairs and to get out in a hurry."[48] Nor did IAF's critique of the tax system end at the cul-de-sac. In 1969, Alinsky even suggested to *Time* that all Americans making less than $12,000 per year be exempted from the sales tax.[49]

By the late-1960s, countless number of left-leaning activists – many with experience in Civil Rights and New Left groups – were flocking to Alinsky's Chicago training facility, the Industrial Areas Foundation, to learn the organizing model Alinsky had been perfecting since his work in the city's poor Back of the Yards neighborhood in the 1930s. In fact, taxes were becoming central to the campaigns of Alinsky groups. Of eight Alinsky-affiliated grassroots organizations reviewed at the 1971 IAF annual meeting, five were successfully organizing around taxes.[50] Alinsky held out high hopes, in particular, for a new Chicago group, the Citizens Action Program, which was focusing on organizing working- and middle-class Chicagoans, both

[48] Richard Harmon, "Split-Level Cashbah: The Natives Are Restless," February 15, 1969, IAF, B 77, F 927, UIC
[49] "To Remember Forgotten America," *Time*, August 8, 1969
[50] IAF Annual Meeting Report, December 6, 1971, IAF, B 71, F 868, UIC

black and white. When it came to taxes, CAP's success would be rivaled by another Alinksy-affiliated group in nearby Gary, Indiana, the Calumet Community Congress. Due to his untimely death in June 1972 of a heart attack, Alinsky would only get to witness some of these successes, but the Industrial Areas Foundation would carry on his work. And, in both Chicago and, especially, Gary, Alinksy's groups would have the help of the man the *Tribune* derisively suggested had inspired Alinsky's interest in the middle class – Ralph Nader.

By time Ralph Nader placed the nation's tax system in his sights, he was already a household name. His 1965 investigation of automobile safety, *Unsafe at Any Speed*, along with the publicity generated by the revelation that General Motors had hired investigators to trail and discredit Nader, catapulted the consumer advocate to nationwide celebrity. In the late-1960s and early-1970s, Nader had enviable name recognition, landing seventh on Gallup's 1971 "Most Admired Man" list behind Nixon and Ted Kennedy, but ahead of the Pope and Bob Hope.[51] "Quite contrary to his original intentions, 'Ralph Nader' has become a brand name," the *Washington Post* noted in a long 1971 profile of Nader, "the label of credibility which sells a report or a news item to the media and to the general public."[52] The clean-cut, highly educated activists populating Nader's growing number of organizations – funded, at least in part, by money from GM's settlement with Nader – became known as "Nader's Raiders." Most "Raiders" were recent graduates of elite colleges, law schools, and graduate programs – "bright, white, middle-class strivers," as the *Washington Post* put it. Sensitive to the claim of "elitism," Nader's organizations attempted to recruit black lawyers and encouraged investigations that had

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[51] George Gallup, "NIon Still 'Most Admired Man,'" *San Francisco Chronicle*, December 28, 1972; "Public Perceptions of Ralph Nader," *Gallup*, March 2, 2004 (http://www.gallup.com/poll/10828/Gallup-Brain-Public-Perceptions-Ralph-Nader.aspx)
[52] William Greider, "Institutional 'Lone Ranger': Ralph Nader Strives to Inspire 'Public Citizens,'" *Washington Post*, December 5, 1971

"blue collar" appeal.[53] (When it came to taxes, as we shall soon see, partnerships with other grassroots activists helped overcome the class and racial divides that concerned Nader.) Yet, even if Nader seemed to struggle to attract "Raiders" from the groups he fought for, he seemed to have no trouble attracting supporters from those very people. "Although Nader is usually tagged simply as a 'consumer advocate' by the newspaper, he is much more than that," the *New York Times* argued. "[H]e is an ombudsman; a symbol to all the little people of the world; a one-man court of last resort that receives an average of 1,500 letters a week from the helpless; an inspiration to college students; the man who turned the phrase 'public interest law' into a whole new concept of the legal profession." "But is he a revolutionary?" the *Times* wondered.[54] The answer, of course, seemed to depend on how the term was defined.

While sharing the spirit of 1960s New Left activism, Nader's determination to use staid tools like research and legislation to force change from within the system stood in contrast to the tactics of many New Left activists. Like the consumer movement, the rise of grassroots tax activism was dependent on the democratization of specialized knowledge, which was, in part, itself dependent on the activism of highly educated activists like Nader with the expertise – and social status – to challenge the privileged knowledge of powerful companies like U.S. Steel. James Turner, one of Nader's "Raiders," explained the appeal Nader's organizations made to college students and would-be-radicals. "The real change is going into a court room and having the establishment's own judge come down on your side and say the other guy is wrong," Turner said. "That does more to shake up the corporate structure than destroying some buildings."[55] Indeed, Nader placed a premium on diligent research, believing that to beat the powerful, the

[53] William Greider, "Institutional 'Lone Ranger': Ralph Nader Strives to Inspire 'Public Citizens,'" *Washington Post*, December 5, 1971
[54] Julius Duscha, "Stop! In the Public Interest!" *New York Time*, March 21, 1971
[55] Ronald G. Shafer, "Empire of the Consumer Crusader Blooms, Bringing Him New Challenges and Problems," *Wall Street Journal*, November 19, 1970

work of the "Raiders" needed to be as good, or better, than that put forth by the opposition. Thus, the factual claims in most Nader-affiliated reports were well documented and rarely proven incorrect.[56] Even though many public officials privately criticized Nader and his organization – just as many corporations did without hesitation – few were willing to do so publicly. Nixon's consumer adviser Virginia Knauer praised "Nader's Raiders" as "dedicated young men and women working legally within the system to improve conditions for consumers," saying that their actions "should be encouraged." An unnamed White House official noted that Nader's tendency to "come on like the prosecuting attorney…turns some people off" before adding, "But I think they're doing a good job."[57]

In turning to taxes, Nader hoped to inspire in American youth a passion for taking on unfair taxes, just as he had for consumer safety and environmental protection. True to Nader's hopes, many college students seemed as excited about using public interest law to affect property tax reform as they had been to turn it against corporate malfeasance or environmental degradation. "Environmental groups, like the Sierra Club, have argued their cases all the way to the Supreme Court, and they have won," one 22-year-old law student in suburban Milwaukee commented in 1973. "Now local citizens' lobbies are using the courts even to fight tax assessments that are unfair."[58] Such services seemed likely to be welcomed by overburdened homeowners, too. Even before Nader launched his tax campaign, the notion that someone like Nader should tackle the property tax was not far from the public's mind. Many in the public seemed to welcome Nader's attention to taxes. As one Los Angeles man wrote in a letter to the

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[56] William Greider, "Institutional 'Lone Ranger': Ralph Nader Strives to Inspire 'Public Citizens,'" *Washington Post*, December 5, 1971
[57] Ronald G. Shafer, "Empire of the Consumer Crusader Blooms, Bringing Him New Challenges and Problems," *Wall Street Journal*, November 19, 1970
[58] Subcommittee on Intergovernmental Relations, U.S. Senate, *Confidence and Concern: Citizens View American Government: A Survey of Public Attitudes by the Subcommittee on Intergovernmental Relations* (GPO 1973)

Los Angeles Times complaining about unfair assessments, the country needed "our Ralph Nader of the property owner" to "get relief" from rising property taxes.[59]

Nader's opening salvo in his tax campaign was an August 1970 letter to Democratic Senator Edmund Muskie calling for his Senate Intergovernmental Relations Subcommittee to open investigations into inequities in the local property tax. Nader charged that "unbridled abuses" in local property tax administration had created a "national scandal of corruption" and "industrial extortion toward local communities" that cost local governments $6 billion annually, largely from businesses and mineral properties, such as oil, coal, and gas.[60] The political and secretive nature of assessment, the ability of corporations to hide or challenge the value of their property, and the "shopping" of corporations for low taxes by playing localities off one another all combined, according to Nader, to create the "grossest inequities."[61] Nader linked the low assessments for large businesses and well-connected individuals with the rising property tax burdens on average homeowners that had helped create the tax revolt. When favored property owners shirked their bills, Nader wrote to Muskie, it is "small business and home owners who have to pay the bills."[62] Nader made the case that corruption in the property tax system was endemic. "There is no doubt whatsoever that the grossest inequities, discrimination, illegalities and incompetence prevail on a scale well beyond the episodic," the activist wrote to Muskie. "It is important to note that, unlike sales and income taxes, property tax liabilities for the average not-well-connected taxpayer are not initially determined by taxpayers but by assessors who are elected, for the most part, in highly partisan rather than professional contexts. Add to these contexts the camouflaging capacity of valuation and assessment advocacy by corporate

[59] "Tax Hike Protests," *Los Angeles Times*, August 24, 1970
[60] Nader to Muskie, August 9, 1970, EMP, B 967, F 10, BCMA
[61] Peter Braestrup, "Nader Urges Local Tax Probe," *Washington Post*, August 10, 1970
[62] Nader to Muskie, August 9, 1970, EMP, B 967, F 10, BCMA

advocates operating well out of public visibility and the interlocal and interstate property tax competition induced by tax 'shopping' industries and the backdrop for profound and unbridled abuses becomes clearer."[63] Nader's letter included specific examples uncovered by his "Raiders," including oil and gas properties underassessed by 50 percent in Texas, timber land underassessed in the Northwest, coal land underassessed in West Virginia, and the national trend of tax-favored "industrial zones."[64] Nader argued that only federal investigation by a committee like Muskie's could uncover the pattern of property taxation across the country.[65] Nader's letter to Muskie was reported widely in the press, and following that publicity, the senator received letters from property taxpayers across the country supportive of Nader's arguments and calls for a federal investigation.[66]

Nader went on a press blitz to publicize his new tax initiative. On ABC's "Issues and Answers" Nader made the case that the public was right to be cynical about the property tax. "In some major cities like Chicago and New York, it is just notorious," Nader told viewers. "People who know the property law firms go to… get their assessed valuations cut down very, very significantly." The underassessment of large commercial and industrial property meant that "the small homeowner, the small businessman, the small property holder has to pay a higher share…billions of dollars have to be paid by those in the least position to pay them."[67] "Unprofessional assessments done by assessors subject to enormous political and economic pressures results in a system that favors large economic interests at the expense of the small

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[63] Nader to Muskie, August 9, 1970, EMP, B 967, F 10, BCMA
[64] Peter Braestrup, "Nader Urges Local Tax Probe," *Washington Post*, August 10, 1970
[65] Nader to Muskie, August 9, 1970, EMP, B 967, F 10, BCMA
[66] See Muskie to Anwyl, Muskie to Koach, and other "Nader Letter" standard responses in EMP, B 967, F 10, BCMA
[67] Peter Braestrup, "Nader Urges Local Tax Probe," *Washington Post*, August 10, 1970

homeowner and businessman," Nader told the *New York Times*.[68] "All too often it is the corporate taxpayer who is not carrying a property share of the tax load," Nader explained the *Boston Globe*. "In example after example, we have seen situations in which corporate taxpayers have used their economic influence to obtain more favorable tax treatment."[69] The consumer crusader was determined to go beyond generalities, however, and provide concrete evidence of the epidemic of underassessment he claimed existed – and for which he had provided some examines in his letter to Muskie.

Beginning in late-1970, Nader and his "Raiders" released a series of studies, usually in conjunction with a news conference, on preferential property tax treatment for specific industries and companies in states around the country.[70] In November, it was a report on oil, timber, and commercial property in Texas, which found that oil and gas fields in West Texas, timber lands in East Texas, and commercial real estate in Houston were all underassessed between 50 and 70 percent.[71] Underassessment of properties belonging to Atlantic Richfield and Texaco in Ector County, for example, cost local schools $1 million per year in lost tax revenue, Nader noted.[72] In Houston, industrial and commercial properties were assessed at 13 percent, while residents were assessed at 32 percent, according to a Nader study.[73] Another report pointed to underassessment of coalmines in West Virginia.[74] "Coal properties in Kentucky, West Virginia, and other Appalachian states escape taxation almost completely," Nader explained, because they assessed themselves.[75] Nader quoted two Kentucky assessors' own explanation of how coal companies

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[68] Eileen Shanahan, "Nader to Press for Tax Reform," *New York Times*, November 8, 1970
[69] "Nader's Latest Target: Property Tax Reform," *Boston Globe*, November 8, 1970
[70] Ralph Nader, "The Property Tax Gyp," *New Republic*, March 4, 1972
[71] "Texas Land Undervalued, Nader Says," *Milwaukee Journal*, November 2, 1970
[72] Ralph Nader, "Corporations Fail to Pay Adequate Property Tax," *Boston Globe*, February 28, 1972
[73] Ralph Nader, "Corporations Fail to Pay Adeqate Property Tax," *Boston Globe*, February 28, 1972
[74] Eileen Shanahan, "Nader to Press for Tax Reform," *New York Times*, November 8, 1970
[75] Ralph Nader, "Remarks Before the Conference on Property Tax Reform," December 12, 1970, in *The Ralph Nader Reader* (Seven Stories Press, 2000); "Nader Urges Overhaul of Property Tax System," *Chicago Tribune*,

were treated. “The coal companies pretty much set their own assessments…. We have no system for finding out what they own,” one assessor said. “Like they may tell us they own 50 acres at a certain place, when actually they own 500 acres…. If a company says an area is barren or mined out, we have to accept It.” The other assessor agreed, noting that companies “just paid what they thought they should. Still do, mostly.”[76] Another study by Nader’s organization found that cotton and bag manufacturer The Union Camp Company of Savanna, Georgia, paid “a special tax rate that is less than one half” the rate paid by other property owners, saving the company saved $3 million per year.[77] Yet another study charged that country clubs in Montgomery County, Maryland, received $166 thousand in preferential assessment subsidies each year – the result of a 1966 law enacted specifically for country clubs, some of which still had racially exclusive policies. Maryland’s Lieutenant Governor-elect Blair Lee had successfully pushed for the law’s enactment, and he still stood by it, noting that lobbying on behalf of the country clubs was his main job between 1962 and 1966. The preferential assessment saved each country club member in the county between $25 and $45 per year, assuming that higher taxes would be passed on to members.[78] A 1972 study, completed in conjunction by a local tax group and Nader-affiliated Public Interest Research Group, found that property in Pennsylvania – particularly property associated with the Mellon family – was dramatically underassessed. One Mellon property was valued at zero dollars, while a 178-acre tract of land purchase in 1971 by Richard Mellon Scaife for $590 an acre was given a market value of $133 per acre, leading to an assessed value of only

December 13, 1970; “Nader Calls for Property Tax Overhaul,” *News and Courier*, December 13, 1970; Ralph Nader, “Corporations Fail to Pay Adequate Property Tax,” *Boston Globe*, February 28, 1972

[76] *Equal Educational Opportunity – 1971*, *Part 16B – Inequality in School Finance*, U.S. Senate Select Coommittee on Equal Educational Opportunity, September 28, 29, 30, October 5, 1971 (GPO 1971)

[77] Ralph Nader, “Corporations Fail to Pay Adequate Property Tax,” *Boston Globe*, February 28, 1972; Ralph Nader, “Remarks Before the Conference on Property Tax Reform,” December 12, 1970, in *The Ralph Nader Reader* (Seven Stories Press, 2000); “Nader Urges Overhaul of Property Tax System,” *Chicago Tribune*, December 13, 1970; “Nader Calls for Property Tax Overhaul,” *News and Courier*, December 13, 1970

[78] Jim Mann, “Study Finds County Gives Country Clubs $165,777 Subsidy,” *Washington Post*, December 27, 1970; Richard M. Cohen, “Md. Country Club Draws Tax Warning,” *Washington Post*, December 31, 1971

$27 an acre. The private company hired to conduct the assessments denied any wrongdoing.[79] In the infamous coal lands of Harlan County, Kentucky, Nader noted, United States Coal and Coke – a U.S. Steel subsidiary – paid taxes of only $34,500 a year on mines valued at more than $9 million.[80] These were just some of the examples offered by Nader in reports, speeches, press conferences, and Congressional appearances.[81] The volume was overwhelming. But the Raider's were not determined to find scandal everywhere. When Raiders undertaking a local assessment investigation uncovered little damning material, the resulting report made little attempt to hide that fact.[82] With the abundance evidence of scandal the Raiders had already uncovered, there seemed to be no need for exaggeration. And, with increase citizen activism on the property tax front, Nader was confident – not without reason – that more examples of assessment malpractice would be forthcoming.

Nader established the Tax Reform Research Group in order to "help local citizen groups" fighting for tax reform and serve as a "clearinghouse for information on such reform drives and for technical assistance to them." The TRRG's publication – packed with stories of activists around the country as well as practical help for those who wanted to organize around taxes in their own community – was initially dubbed the *Property Tax Newsletter* and later retitled *People & Taxes* to reflect a shift to covering all types of taxation.[83] To encourage its use by citizen activists, the *Property Tax Newsletter* was offered free by the TRRG.[84] Nader's opening

[79] Linda Charlton, "Tax Assesssments Termed 'Suspect,'" *New York Times*, December 28, 1972; "Favoring of Melons' Property Is Denied by Appraisal Concern," *New York Times*, January 23, 1973
[80] *Equal Educational Opportunity – 1971*, *Part 16B – Inequality in School Finance*, U.S. Senate Select Coommittee on Equal Educational Opportunity, September 28, 29, 30, October 5, 1971 (GPO 1971)
[81] *Equal Educational Opportunity – 1971*, *Part 16B – Inequality in School Finance*, U.S. Senate Select Coommittee on Equal Educational Opportunity, September 28, 29, 30, October 5, 1971 (GPO 1971)
[82] George E. Groobert, "Nader Report Will Stir Up Feelings, Provoke Changes," *Morning Record*, September 17, 1971; "No Pattern of Inequity: Nader Representatives to Issue Full Draft on 1969 Revaluation Program Investigation," *Morning Record*, July 3, 1971
[83] Eileen Shanahan, "Nader to Press for Tax Reform," *New York Times*, November 8, 1970
[84] "Clearinghouse Announced," *Property Tax Newsletter* 1:1 (October 1970)

editorial on the front page of the first *Property Tax Newsletter* outlined the issues with local property tax administration and the evasion of the property tax by wealthy interest that he had covered in the Muskie letter. The consumer crusader also issued a call for citizens across the country to organize and begin to work for change in their own communities. "The only method of securing this reform…," Nader wrote, "is for the citizenry of each locality to demand and work for change. Group activity on the part of concerned citizens can result in disclosure of those businesses, land developers, and large homeowners who are assessed or taxed at less than the legally required rates." The newsletter and TRRG's offices, Nader explained, were meant to assist local citizens in their attempts to force property tax reform in their own communities.[85] The rest of the inaugural *Property Tax Newsletter* issue was dedicated to instructions and suggestions for how to form local tax reform groups, calculate assessments, and investigate the assessment of business properties, among other topics. "You will undoubtedly be branded as 'troublemakers,'" the newsletter warned. "You should not be deterred. The most effective weapon against this kind of attack is to make public findings and expose those who are receiving favored treatment. An aroused public will be your greatest alley. For it is these people who are paying more so that the wealthy and powerful pay less."[86] Cementing Nader's conviction that he was on to an important issue, TRRG received nearly 1,000 responses to its first issue of the *Property Tax Newsletter*.[87]

In December 1970, Nader and PIRG sponsored a conference in Washington D.C. on property tax reform. The conference was advertised in *Property Tax Newsletter*, inviting activists from around the country to attend and promising appearances by Nader and other notable tax experts and public officials. Nader undoubtedly succeeded in attracting important guests.

[85] "Statement by Ralph Nader," *Property Tax Newsletter* 1:1 (October 1970)
[86] "Organizing a Tax Reform Committee," *Property Tax Newsletter* 1:1 (October 1970)
[87] "First Issue Success," *Property Tax Newsletter* 1:2 (November 1970)

Notably, the conference included speeches not only by Nader, but also by Senator Edmund Muskie and Pennsylvania Governor Milton Shapp, who had won his governorship by promising to institute a progressive state income tax, in startling opposition to his GOP opponent who pledged not to increase any taxes. Muskie praised Nader in his speech. "This conference with Ralph Nader and this assembly represents not simply the gathering of some people, but it represents, I think, the development of a program on his part to stimulate the initiation of reform in the property tax area….," Muskie said. "I think that Ralph Nader, to a greater extent than anyone else I know, has opened the property tax problem as a significant key to the door in that future. So I compliment him upon undertaking this effort, stimulating and prodding it in the only way that Ralph Nader can. I know, because he's prodded me into the area of property tax reform…"[88] Muskie said that he believed that it was time for a national solution to the property tax issue. Though unfair property taxes had long been a local concern, "Taxpayers across the nation are beginning to ask the same questions: Are property taxes fair? Are they equitable? Are they sound?" It was an issue beyond the scope of localities. "This is an issue which, although it involves local tax policy, undoubtedly deserves a searching national inquiry," he argued. Muskie agreed with Nader that taxpayers had "unwittingly" been subsidizing businesses, both because their own property taxes had to be higher and because their federal income taxes needed to be higher, since local financially strapped governments sought federal aid.[89]

Shapp used his speech not only to call for national solutions to the fiscal crisis, but also to argue that the "tax revolt" was justified by the sorry state of the national tax system. The Pennsylvania governor-elect began his speech by quipping that property taxes were "valuation not on the basis of what you own but who you know," or, paraphrasing Nader, "who you own

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[88] *Congressional Record*, May 10, 1971 (GPO 1971), 14238
[89] *Congressional Record*, May 10, 1971 (GPO 1971), 14238

and not what you own."[90] Looking at the budget crises in Pennsylvania and states across the country, as well as cities like Newark and New York, Shapp argued that the problem could only be solved by the federal government. "[A]ll cities and states must either slash services to the people or raise taxes at a time when we are experiencing a citizens tax rebellion and a citizens demand for an increase in services to be supplied by government," Shapp said.[91] Businesses were playing states and localities against one another in a race to the bottom, according to Shapp, and only the federal government could stop it. "[S]o long as there is interstate competition for industrial development, there will be the temptation to give new plants special breaks on real estate taxes," Shapp said. "And this practice, I believe, is detrimental to the tax system in the long run because it encourages the belief that a tax system can be inequitable in some ways as long as it serves some long range public good….This is why I think that we should shift emphasis and a greater bulk of our taxes should be collected at the national level and distributed locally."[92] Shapp also sought to dispel the notion that the "tax revolt" was a sign of rising conservatism. "Make no mistake about the tax rebellion – rebellion it is, but I think that it is faulty reasoning to say that our citizens are merely rebelling against the idea of taxes," Shapp argued. "Obviously, with a few exceptions, they are not rebelling against the services the taxes provide because no one really wants to close down schools, or hospitals, or stop building highways, or public transit facilities, or to make the poor and aged starve. Everybody wants to clean up our air and water. People are rebelling against the waste of tax dollars due to politics and inefficiency in government and people are rebelling against the idea that somewhere somebody else is not paying his fair share of taxes and that the rest of the community has to pick up his share of the tax burden." Homeowners, particularly those on fixed incomes, Shapp said,

[90] *Congressional Record*, May 10, 1971 (GPO 1971), 14238
[91] *Congressional Record*, May 10, 1971 (GPO 1971), 14238
[92] *Congressional Record*, May 10, 1971 (GPO 1971), 14238

were right to resent skyrocketing property taxes when they knew that other property owners – usually businesses – received property tax breaks, both legal and illegal, thanks to the "wheeling and dealing and politics" inherent in existing assessment practices.[93]

The primary purpose of Nader's speech at his convention was to dispel the myth that homeowners were getting property tax breaks, while corporate property was being overassessed. "There is a belief that is widely held among those who deal with property taxation that underassessment and undertaxation applies equally to all types of property and in equal amounts. Many of these people insist that if any property is overtaxed it is commercial and industrial property…," Nader said. "Not only is the belief that commercial, industrial and mineral property is overtaxed a myth, it verges on being hyperbolically ridiculous…. Undervaluation, underassessment, and consequently undertaxation of large commercial, industrial and mineral property is of epidemic proportions across the entire country. Studies conducted by my staff, by interested citizens, and by professional organizations have documented case after case of undertaxation of these large economic interests." Like Shapp, Nader defended average citizens against accusations that they were revolting against taxes without reason. "Taxes on residential property are increasing to a point where the average citizen can no longer afford to own a house, especially in the cities, Nader said. "Entire school systems are considering closing down because of the unwillingness of overburdened property owners to subject themselves to even higher taxes. Senior citizens are literally being forced out of their homes. Many of these elderly citizens are now paying taxes on their homes that are higher than the monthly payments they made to purchase them." Nader's final goal was to let Americans know that, despite the power differential, they could "fight city hall" and the wealthy interests that fought to keep their own

[93] *Congressional Record*, May 10, 1971 (GPO 1971), 14238

tax rates low. "This conference, the *Property Tax Newsletter*, and technical aid and support from our Public Interest Research Group, combined with citizens who are determined and who have the courage to stand up to the frequently abusive tactics of those receiving favorable tax treatment can achieve positive results," he said.[94]

Reactions to Nader's new crusade varied. Nader found support for his tax campaign among even many otherwise skeptical left-leaning groups. Though public sector unions could often be cautious when it came to property tax reform – fearful that it might result only in a loss of revenue, rather than a replacement of property tax revenue with a more progressive source – AFT president David Selden praised Nader. "When it comes to evaluating industrial property, how does a little locally elected assessor who has three clerks and three other people working in his office – how does he go down and assess an auto plant?" Selden asked rhetorically. "Well, I will tell you how he does it. Mr. Nader is exactly right. He calls up the general manager of the plant and asks him what it's worth." Selden saw the underassessment of commercial and industrial property as a major issue. "We had a strike in Gary, Indiana, last year that went on for 21 days in near-zero weather. The two sides were about $100,000 apart," he explained. "And all that time, sitting there within the confines of that school district was the main plant of U.S. Steel. The thought often crossed my mind that if we only had that plan assessed a little higher, that strike would have been unnecessary." Selden called not only for assessment reform, but for allowing states to levy a piggyback tax on the federal income tax to use instead of, or in addition to, the property tax to fund educations.[95]

The press, in contrast, remained divided along ideological lines. The *Washington Post*

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[94] *Congressional Record*, May 10, 1971 (GPO 1971), 14238; Ralph Nader, "Remarks Before the Conference on Property Tax Reform," December 12, 1970, in *The Ralph Nader Reader* (Seven Stories Press, 2000);
[95] *Equal Educational Opportunity – 1971*, *Part 16B – Inequality in School Finance*, U.S. Senate Select Coommittee on Equal Educational Opportunity, September 28, 29, 30, October 5, 1971 (GPO 1971)

editorial page praised Nader's turn to taxes. It continued, the paper noted, Nader's "insatiable zeal for attacking the unattackable – the things so big, baffling (and generally time-honored) that, for lack of a better idea, we tend to accept them."[96] But in its editorial on Nader's campaign, the *Chicago Tribune* sarcastically put Nader's charge of "abuses" in assessment favoring large businesses in quotation marks. If Nader investigated Cook County, the paper claimed, he would find that "the shoe is on the other foot." "For many years the assessors here have fixed property valuations for tax purposes to as to favor home owners and discriminate against business and industrial property…," the paper claimed, citing an unnamed study. "Ralph Nader and Sen. Muskie thus will be disappointed if they try to find 'abuses' of the tax laws which punish little property owners in Cook County."[97] Contrary to the claims of the *Chicago Tribune* editorial board, Nader held up Chicago as a city in which "nearly every major building in the city is grossly underassessed." He also singled out Gary, Indiana, where, Nader noted, "U.S. Steel's taxes went down this year while the taxes for all other taxpayers increased." It is to these cities – and the activism of Alinsky- and Nader-affiliated groups there – that we now turn.[98]

Alinsky began his move into the middle class close to home. He founded Chicago's Campaign Against Pollution in 1970 as his "first major experiment in organizing the middle class and his last major project before dying unexpectedly in 1972." CAP's initial focus on

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[96] "Assessing Tax Assessments," *Washington Post*, August 14, 1970

[97] "Tax Law 'Abuses,'" *Chicago Tribune*, August 24, 1970. The paper claimed in this editorial that single-family homes in Cook County were assessed at a rate of 37.7 percent, while commercial and industrial property was assessed at 70 percent. This was a claim it had made in several earlier editorials, too, though the study was never named. The only reference to "37.7" related to Cook County property tax assessment this author could find was contained in the 1962 *Census of Governments*. However, the 37.7 figure was related to the percentage of the total assessed value in Cook County represented by single-family homes – not the average assessment ratio of the average single-family home in the county. It seems possible that the *Tribune* misinterpreted that statistic, or else the paper's unnamed study is elusive. In either case, as is discussed later in the chapter, even for single-family homes, an assessment rate of 37.7 percent was far higher than the rate the county assessor cited as the assessment ratio for homes in the county, casting further doubt on the *Tribune* editorial's claim.

[98] Ralph Nader, "Remarks Before the Conference on Property Tax Reform," December 12, 1970, in *The Ralph Nader Reader* (Seven Stories Press, 2000); "Nader Urges Overhaul of Property Tax System," *Chicago Tribune*, December 13, 1970; "Nader Calls for Property Tax Overhaul," *News and Courier*, December 13, 1970

pollution sprung from Chicago's "air inversion crisis" in 1969, when a high-pressure system trapped pollutants over the city for five days. The anger of irate, choking Chicagoans, who had to drive through the city with their headlights on during the day to see through the chemical fog, provided CAP's initial spark. Five hundred people attended CAP's founding meeting at Saint James Cathedral. After an initial failure to block a rate increase by Commonwealth Edison, CAP succeeded in getting Com-Ed to begin purchasing low-sulfur coal and Mayor Daley and the City Council to enact a tough new anti-pollution law. With these successes, CAP's profile grew.[99] Soon, it moved beyond pollution. By 1971, CAP would change its name from Campaign Against Pollution to Citizens Action Program in order to reflect its broadening base of issues – taxes, in particular.[100] In this broadened form, CAP called "the future of our environment, taxes and economic inequality, the fiscal crisis of local government, corporate power, political corruption, [and] grass roots democracy" its "fundamental issues."[101] Tax issues proved to be crucial to the CAP leadership's decision to become a multi-issue organization.

For those on the left who sought to appeal to Chicago's working and middle classes, among others, pocketbook issues seemed the obvious route. As in Youngstown, Chicago-area workers – despite postwar prosperity – struggled to attain even a modest middle-class status. The *Chicago Daily News* reported that the BLS's 1970 "moderate" budget for a family of four exceeded the average Chicago factory worker's earnings by $70 per week. "There are no frills in the budget," the *Daily News* noted. "It does not allow for savings of extras such as a second family automobile. Nor does it allow for deductions for the Illinois state income tax, which went

[99] Don Rose and Richard Rothstein, "The Working-Class Reformers," *Nation* (September 21, 1974); David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986);
[100] *CAP Action* (October 1971); David Moberg, "Citizens Action Program: Dead Before Its Time," *In These Times* (November 30, 1977)
[101] Fundamental Issues, Undated [1972], CAP, B 1, F 2, UIC

into effect in late 1969."[102] Additionally, both inflation and steadily rising property taxes made the pocketbook squeeze so discussed nationally readily apparent in Windy City, too. While resentment of this squeeze could easily propel these Chicagoans to the right, as Alinsky feared, that outcome was not at all foreordained. The strong presence of organized labor in the city, in particular, helped give voice to a different analysis of the squeeze than the one traditionally offered by the right. As in many areas of the country organized labor in Chicago had long called attention to tax inequities in the city and region. Chicago-based union magazine *Labor Today*, for example, educated workers about inequities in the tax code by printing a "Tax Test" in its July 1969 issue that included questions like, "Between 1957 and 1967, what was the increase in (a) commercial and industrial property taxes, (b) residential property taxes?"[103] But translating this education into action was a challenge for any organization. Alinsky and CAP hoped working- and middle-class Chicagoans' frustrations had primed them for organizing. "It is clear that there is tremendous anger, especially in blue collar white areas, over the levels of property taxes," an IAF report noted. "The closing of schools this December for 12 days because of lack of revenue provides CAP with a good opportunity to rub raw more [sic] on the tax issue."[104]

As much as CAP and similar IAF-trained groups were Alinsky's counter to Nixon's "Silent Majority," they were also Alinsky's answer to what he saw as the failures of the New Left – particularly SDS's ill-fated community organization initiative, ERAP. Alinsky was cynical about the New Left's strategies and had, at best, a complex relationship with its leaders.[105] New Left activists had made attempts to tackle tax issues in Alinsky's back yard. The issues that CAP would raise about Chicago's tax system had earlier been voiced by JOIN, an

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[102] Les Hausner, "It takes $230 a Week," *Chicago Daily News*, December 18-19, 1971
[103] "Tax Test," 1971, Box 13, Folder 4, Lynd Papers, WHS
[104] IAF Annual Meeting Report, December 6, 1971, IAF, B 71, F 868, UIC
[105] Sanford D. Horwitt, *Let Them Call Me Rebel: Saul Alinsky, His Life and Legacy* (Vintage 1992), 524-530

ERAP-associated group in Chicago led, in part, by former SDS president Todd Gitlin.[106] A 1968 JOIN position paper called the tax system "one of the most important means the government uses to decide who gets what in our society and who pays the price." Charging that the rich avoided taxes through loopholes, JOIN stressed that "when some pay less, others have to pay more." Looking at Chicago's tax system, JOIN criticized the property tax, in particular. "While the homeowner has to pay every cent himself, the apartment building landlord can pass the cost of the tax on to residents by raising the rent," JOIN noted, adding that exempting large property owners like the Catholic Church from property taxes was no different from "the city given them thousands of dollars…[that] have to come out of the pockets of homeowners and tenants." JOIN also linked the property tax to corruption. "The County Assessor…is an elected official sponsored by the democratic machine," JOIN noted. "The machine can arrange lower assessments for friends, and people with money can often buy themselves a lower tax by bribing the assessor." Ultimately, "the more cheating there is, the higher rates [on everybody else] go," while lower-income residents "lose because as long as the government fails to collect the money it should, it cannot afford decent schools and libraries or to repair streets in poor neighborhoods." JOIN criticized Illinois' lack of individual or business income taxes, as well as its reliance on the regressive sales tax. Turning to the federal tax structure, JOIN cited Philip Stern's *Great Treasury Raid* approvingly. Following Stern's lead, JOIN argued that the U.S. income tax "is the best in theory, but it has the biggest loopholes," such as the preferential rate for capital gains and dividends. "Many of the riches people in America today pay no taxes at all!" JOIN noted, citing examples like capital gains, charitable donations, overseas tax havens, depreciation, and oil depletion allowances. Such loopholes existed, JOIN argued, because the wealthly "get special

[106] Todd Gitlin and Nanci Hollander, *Uptown: Poor Whites in Chicago* (Harper & Row, 1970); *Riots, Civil and Criminal Disorders*, Part 20, U.S. Senate Permanent Subcommittee on Investigations, June 26 and 30, 1969 (US GPO, 1969)

laws written to spare them the hardship of paying taxes." Taking the whole tax system into account, JOIN painted a bleak picture. "Whether you look at the city, state or federal level, it is the lower-income people who bear the burden of government in America," JOIN concluded. "Property taxes take money from poor and working people who must live in the city. Sales tax takes money from people who have to spend most of their income on necessary food and clothing. Even with the taxes which are progressive in theory, the richest people escape through loopholes open only to them, leaving the masses to carry the weight."[107] JOIN, like many ERAP groups, had more rhetoric than accomplishments. Alinsky intended for CAP to be different, but he actually started CAP with a veteran of the New Left.

From its founding, Paul Booth served as CAP's chair. Booth has served as SDS's national secretary and was a committed socialist. Additionally, both Booth and Staughton Lynd (who will be discussed later) participated in the "Union of (White) Organizers" conference in Grayslake, Illinois, on September 21 and 22, 1968. The meeting – like ERAP itself – reflected, in part, white New Left and Civil Rights Movement activists' attempt to respond to the call of African American leaders in SNCC and other black freedom groups for whites to organize their own communities for social justice.[108] The Union of Organizers meeting was monitored "by both Chicago police and federal agents, who noted license numbers and the comings and goings of the leftist leaders," as the *Chicago Tribune* reported.[109] The Union listed its first priority as "organiz[ing] a community organization in every white community in metropolitan Chicago."[110]

[107] JOIN Community Union, "Taxes," 1968, Box 12, Folder 7, Lynd Papers, WHS
[108] Author interview with Staughton and Alice Lynd, February 17, 2012; Clayborne Carson, *In Struggle: SNCC and the Black Awakening of the 1960s* (Harvard 1981); David Barber, *A Hard Rain Fell: SDS and Why It Failed* (University of Mississippi Press, 2010); Staughton Lynd, *Accompanying: Pathways to Social Change* (PM Press, 2012); Jennifer Frost, *An Interracial Movement of the Poor* (NYU, 2005)
[109] Ronald Koziol, "Parade, Red Parley Link Suspected," *Chicago Tribune*, September 28, 1968
[110] *Riots, Civil and Criminal Disorders*, Part 20, U.S. Senate Permanent Subcommittee on Investigations, June 26 and 30, 1969 (US GPO, 1969)

Given that, it is not surprising that Booth – and, as we will see later, Lynd – turned to Alinsky. However, as CAP gained in popularity and publicity, Booth's status as the face of CAP become more controversial, which led to the installation of Leonard Dubi, a priest, as CAP's co-chair. Dubi was the son of a steelworker, influenced by Pope John and radicalized by the civil rights and anti-war movements. Booth and Dubi led CAP until March 1973, when Mary Lou Wolf – who had spent 23 years as a housewife, with nine children – was elected CAP's new president, following her previous stint as the co-chair of CAP's Taxpayers Coalition.[111] IAF's Richard Harmon personally trained most of CAP's staff.[112]

As CAP grew, it developed a metropolitan structure comprising 2,000 members across fifteen separate chapters who elected delegates to the CAP steering committee, which determined the issues it would address and programs it would push. Individual chapters could also pursue their own "local action program[s]."[113] The IAF's Chambers praised CAP as a model of the kind of organizing IAF wanted to encourage, touting CAP as "the most effective grassroots, action-oriented operation that metropolitan Chicago has seen."[114] IAF leadership also praised CAP as "an example in Chicago of the alienated middle getting up on its hind feet and fighting back." CAP, IAF leadership noted, was having success at attracting "middle Americans."[115] IAF staffers also called Booth and Dubi good leaders of "this kind of metropolitan, consumer oriented, middle class organizing."[116] Likewise, the *Nation* magazine called CAP "one of the most impressive moves to organize a non-trade union, lower-middle and

[111] Don Rose and Richard Rothstein, "The Working-Class Reformers," *Nation* (September 21, 1974); Margaret Sendzimer, "My View of Mary Lou Wolff," (CAP) *Action* (April 1974); Cheryl Fries, "David and Goliath Revisited – CAP Taken on Them All," *Hyde Park Herald*, April 14, 1971
[112] Harman Bio, Undated, IAF, B 1, F Staff Bios, UIC
[113] A Democratic Organization, Undated [1972], CAP, B 1, F 2, UIC
[114] Chambers to Trustees, December 1, 1972, IAF, B 70, F 854, UIC
[115] For Saul, Undated [1972], IAF, B 46, F 652, UIC
[116] For Saul, Undated [1972], IAF, B 46, F 652, UIC

working-class base."[117] And, according to one 1970 academic study, CAP was "the nation's largest citizen coalition," with its membership numbering in the thousands.[118] CAP saw itself as a growing opposition to the "Chicago Machine," "Democratic Organization," and "Daily Bureaucracy" that ran the city. CAP wanted to show that the people were more powerful than "the machine."[119] "The organization stands as living proof that the lessons taught over the past years by people like Ralph Nader have been assimilated," Booth said, "and that people are doing something important with what they have learned."[120] Keeping with Alinsky's determination to undercut Nixon, Paul Booth bragged, "CAP's members and leaders are drawn from that segment of society that Spiro Agnew dubbed the 'Silent Majority.'"[121] Yet, CAP did not mean to imply that the "Silent Majority" it represented was the same, almost wholly white, one touted by Nixon. Despite the insistence of IAF's Chambers that groups need not be integrated, CAP broadened from a mostly white working-class group to a more multi-racial coalition as it gained notoriety and its topical areas of focus broadened. As CAP itself put it, "The backbone of CAP is the great 'silent majority' come alive: housewives, barbers, accountants, priests, policemen, printers…from all ethnic groups."[122]

Problems with property tax assessment in Chicago were well known before left-activists groups like JOIN or CAP attempted to organize around the issue. In a city known for its corruption, the idea that a tax system known for fraud would be on the level seemed impossible to most Windy City homeowners, who often needed only to look around their own neighborhoods to find evidence of assessment issues. Indeed, the ability to pass out favorable

[117] Don Rose and Richard Rothstein, "The Working-Class Reofrmers," *Nation* (September 21, 1974)
[118] P. David Finke, "The Dynamics of Citizen Coalitions," Institute for Pluralism and Group Identity Working Paper (August 1970)
[119] An Example, Undated [1972], CAP, B 1, F 2, UIC
[120] Voice to the Silent Majority, Undated [1972], CAP, B 1, F 2, UIC
[121] "Chicago 'CAP' Fights 'Crummy Taxes,'" *People & Taxes* (1972)
[122] Voice to the Silent Majority, Undated [1972], CAP, B 1, F 2, UIC

assessments to the well connected elevated the Cook County assessor to position above nearly all other offices. "In Chicago Democratic party politics the power of the assessor ranks just below that of Mayor Daley himself," as one article put it.[123] The powerful Cook County assessor was P.J. "Parky" Cullerton. As assessor, Cullerton had more than 300 employees at his disposal, many of whom received their position through patronage.[124] Under Cullerton, the practice of exchanging favorable assessments for campaign contribution was a well-known practice.[125] In 1970, both the *Daily News* and *Chicago Today* published stories claiming that Cullerton handed out low assessments to favored businesses.[126] Not only was Cullerton's office handing out wink-and-nod underassessments in exchange for campaign donations, it was also accepting out-and-out bribes. Beginning in 1969, undercover stings and grand jury indictments netted several of Cullerton's staffers for accepting bribes and using the threat of higher assessments to extort money from businesses. Over the next several years, more than a dozen Cullerton staffers would be implicated, but Cullerton remained unscathed, and the investigations generally avoided the larger issues of assessment inequity beyond the specific cases of bribery in question.[127] In response to this pressure, Mayor Daley hired the Real Estate Research Corporation, a consulting firm, to review the city's assessment practices. Just as the newspaper articles had asserted, RERC found that much of the city's commercial and industrial property was underassessed.[128] With

[123] Edward Greer and Paul Booth, "Pollution and Community Organization in Two Cities," *Social Policy* (July/August 1973)
[124] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[125] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[126] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[127] Thomas J. Gradel, et al, "Corruption in Cook County: Anti-Corruption Report Number 3," University of Illinois at Chicago Department of Political Science (February 18, 2010); Thomas J. Gradel and Dick Simpson, *Corrupt Illinois: Patronage, Cronyism, and Criminality* (University of Illinois Press, 2014)
[128] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)

Chicagoans angry not only about the corruption in the city's property tax system, but also their own rising taxes, CAP sought to turn frustration into action. CAP's shift from a single-issue group concerned only with pollution to a multi-issue group began with its tax campaign. This shift was encouraged by IAF, which saw single-issue groups as inherently short-lived.[129] CAP's planned to go beyond the isolated revelations of underassessment for powerful taxpayers uncovered by the criminal and newspaper investigations.

CAP's first step was to argue that the modest reforms taken by the assessor's office were not enough. The group argued that even the RERC study actually understated the extent of preferential assessment for businesses, since RERC was a subsidiary of First National Bank and therefore "shot through with conflicts of interest," as Booth put it. CAP also questioned why RERC had not released the full results of its assessment study.[130] CAP's arguments were supported by well-known civil rights attorney Marshall Patner, of Businessmen for the Public Interest, which would provide assistance to many left-leaning tax groups. Not only did First National Bank own RERC, Patner and BPI also claimed that RERC excluded First National's nearly $1.5 million underassessment, as well as underassessments of four other large banks totaling $2.4 million, in its study. Moreover, First National Bank's president – as well as the president of Continental Illinois Bank, which was underassessed by $1.9 million, according to Patner and BPI – joined the Cullerton's reelection committee after the scandal broke as sign of support.[131] The assessor's office responded to BPI's charges by acknowledging the banks'

[129] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[130] Meetings and Telephone Discussions, May 10, [1971?], IAF, B 129, F 1414, UIC; Press Release, October 15, 1972, IAF, B 7, F 90, UIC; Thomas J. Moore, "CAP Demands Cullerton Show Assessment Study," *Chicago Sun Times*, October 16, 1972; Bruce Ingersoll, "Charge U.S. Steel Tax Break," *Chicago Sun Times*, May 18, 1971
[131] "What Real Estate Research Corporation Forgot: A Study of Conflict of Interest in High Places," April 3, 1971, Box 12, Folder 7, Lynd Papers, WHS; "What Real Estate Research Corporation Forgot: What Bank Stock Is Not Worth," April 5, 1971, Box 12, Folder 7, Lynd Papers, WHS

underassessments. It defended the practice as a way to help Chicago banks compete with New York banks. "Banks negotiated this rate and the practice has been going on for a long time," it explained. BPI called this type of deviation from standard assessment practices a "form of civil disobedience," since the banks and assessor "did not seek a different law through the legislature, and they did not seek court review of the tax." The banks were not the only ones receiving favorable treatment, according to BPI, which wondered "how it is that as soon as Rubloff [one of Chicago's largest real estate firms] acquires a building the taxes on it go down."[132] Like CAP, BPI doubted that "homeowners and others [would] continue to subsidize the banks and their customers" if given the choice.[133]

CAP's answer to the RERC study was to conduct its own investigation into the city's most notable and valuable properties. With that assessment information in hand, CAP hoped to make a key distributional point by explaining to average homeowners that their own assessments were artificially high because the assessments for preferred business properties were artificially low. The group also sought to publicize the interrelationship of "property taxes" and "the closing of Chicago schools," as one memo put it.[134] CAP's own informal surveys noted increasing frustration among Chicagoans regarding property taxes – a finding that was not surprising given the 21 percent increase in property tax rates over the past two years. However, the group also noted that "the connection between assessments, tax rates, and revenues was probably not clear to most citizens," as former CAP organizer and research director David Emmons later remembered.[135] By conducting original assessments studies and linking them to issues like rising

[132] "Report on Conversation with Marshall Patner," April 1, 1971, Box 13, Folder 4, Lynd Papers, WHS
[133] "What Real Estate Research Corporation Forgot: Tax Day," April 10, 1971, Box 12, Folder 7, Lynd Papers, WHS
[134] Growing Organization, Undated [1972], CAP, B 1, F 2, UIC
[135] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)

property taxes for homeowners and insufficient revenue for schools, CAP hoped to create a movement for progressive tax reform in the Windy City.

CAP's tax studies began modestly, but quickly expanded into a two-and-a-half year assault on all facets of the Chicago property tax system.[136] To carry out its assessment studies, CAP enlisted the assistance of reporters at the *Chicago Daily News* and, in return, promised the paper that it would be the first to receive the results of CAP's investigation.[137] CAP began with U.S. Steel's South Works mill. CAP's study found that South Works was underassessed by nearly $120 million in 1969, resulting in a $12-million-a-year tax break for U.S. Steel. Not only did CAP's U.S. Steel study land on the *Daily News*'s front page, its findings were covered in the *Sun Times* and *Tribune*, too.[138] Cullerton's chief deputy assessor Thomas Tully called CAP's allegations "totally unfounded," while Cullerton himself dubbed the CAP studies as "amateurish and irresponsible," but CAP pressed forward.[139] CAP expanded its study from U.S. Steel to Republic Steel, Interlake Steel, and Wisconsin Steel, updating the U.S. Steel figures to the year 1970 in the process. "The whole steel industry in South Chicago shows the same pattern of flagrant property tax underassessment revealed two months ago for the South Works plant of United States Steel," CAP explained in its study. It found that, in 1970, all four plants were underassessed at an average rate of 69 percent, totaling more than $27 million in lost taxes. U.S. Steel's underassessment alone, CAP reported, cost Chicago schools $4.5 million.[140] The

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[136] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[137] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[138] William Clements and Charles Nicodemus, "Charge U.S. Steel Gets Big Tax Breaks," *Chicago Daily News*, April 13, 1971; Thomas J. Moore, "Claim U.S. Steel Gets Big Tax Cut," *Chicago Sun-Times*, April 14, 1971; Casey Burko, "Group Charges U.S. Steel Getting $12 Million Tax Break," *Chicago Tribune*, April 14, 1972
[139] Casey Burko, "Group Charges U.S. Steel Getting $12 Million Tax Break," *Chicago Tribune*, April 14, 1972; Voice to the Silent Majority, Undated [1972], CAP, B 1, F 2, UIC
[140] "U.S. Steel's $16.4 million Propoerty Tax Steal," 1971, CAP, B 1, F 12, UIC; "Industry's Illegal Swindle," September 21, 1970, CAP, B 1, F 12, UIC; "Steel Industry Underassessment," Spring 1971, CAP, B 1, F 12, UIC

organization continued its studies, turning to assessments of the First Bank National Building, five racetracks in the suburbs, and the Illinois Center Plaza. All of the studies found significant underassessment. First National Bank's "glamorous new skyscraper" in the Loop was underassessed by $20 million, costing the city more than $2 million in taxes.[141] The four racetracks were each underassessed between 48 and 74 percent, leading to a total 1970 tax loss of more than $3 million.[142] In order to make the link between the education budget shortfall and school closings, CAP's researchers calculated the tax dollars lost to individual schools, which reached more than $100,000 per year for some schools, from underassessment of race tracks alone.[143]

CAP practiced a "strategy of encirclement" to put public pressure on county assessor P.J. "Parky" Cullerton and other public officials.[144] The organization's public campaign stressed issues of fairness in taxation, along with the necessity of public services like education. "Let the big guys pay their share," CAP argued. "CAP's goal is fair taxation. If the big industries paid their share of real estate taxes, our children would get the education they deserve without an increase in the homeowners taxes."[145] With fair assessments for properties like U.S. Steel, CAP argued, "The schools wouldn't have to close and our taxes wouldn't have to go up."[146] Privately, IAF thought that CAP's focus on "the schools issue," was a good issue. "The money is there [for

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[141] "Hawthorne & Sportsman's Race Track Tax Breaks," 1971, CAP, B 1, F 12, UIC; "Washington Park Race Track Tax Break," 1971, CAP, B 1, F 12, UIC; "Maywood Park Race Track Tax Break," 1971, CAP, B 1, F 12, UIC; "Arlington Park Race Track Tax Break," 1971, CAP, B 1, F 12, UIC; "School Money Lost from Race Track Underassessment," 1971, CAP, B 1, F 12, UIC; "First National Bank $2 Million Tax Break," Summer 1971, CAP, B 1, F 12, UIC

[142] "1970 Race Track Under assessments," Undated [1971], CAP, B 1, F 12, UIC

[143] "Hawthorne & Sportsman's Race Track Tax Breaks," 1971, CAP, B 1, F 12, UIC; "Washington Park Race Track Tax Break," 1971, CAP, B 1, F 12, UIC; "Maywood Park Race Track Tax Break," 1971, CAP, B 1, F 12, UIC; "Arlington Park Race Track Tax Break," 1971, CAP, B 1, F 12, UIC; "School Money Lost from Race Track Underassessment," 1971, CAP, B 1, F 12, UIC

[144] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)

[145] *CAP Action* (October1971)

[146] *CAP Action* (October1971)

the schools] in Cullerton's underassessments," one IAF memo from Richard Harman to Alinsky explained.[147] Indeed, CAP's strategy was a consciously distributionist one. "Not only did CAP expose the tax fraud," Paul Booth later noted, "but also it drew the vital connections between properly tax boondoggles for the rich and the conditions of the victims of the property tax system."[148] Cullerton was "giving tax favors to the politically connected businessmen at the expense of the average homeowner and renter," CAP declared.[149] Cook County assessments were "arbitrary and unwritten," CAP said, which encouraged "extortion, bribery, and favoritism."[150] Tying the mayor to the system, the activists argued that "Daley, P. J. and their rich campaign contributors have fleeced the small taxpayers long enough."[151] CAP's understood the political machinations behind the pattern of underassessment it uncovered. "Cullerton's policies, in keeping with the mayor's desire for vigorous downtown development, had softened the tax burden on major business property and helped launch a building boom in Chicago's Loop and near the north side during the late 1960s," CAP's Emmons later noted. "Every year, more than ten thousand businessmen, political leaders, and party workers showed their appreciation by attending P.J. Cullerton Gold Day at St. Andrews Country Club." Rarely was any official assessment of favored commercial properties conducted and, insofar as one was, it often consisted of little more than a conversation with real estate brokers who represented the properties, and they were all too happy to provide information that encouraged low assessments for their clients.[152]

[147] Dick to Saul, February 14, 1972, IAF, B 38, F Chambers Memos 1972, UIC
[148] Edward Greer and Paul Booth, "Pollution and Community Organization in Two Cities," *Social Policy* (July/August 1973)
[149] *CAP Action* (October1971)
[150] Cap Report, 1972, CAP, B 1, F 2, UIC
[151] *CAP Action* (October1971)
[152] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)

CAP's strategy of "encirclement" began in earnest with a June meeting with Cullerton, the person CAP hoped to "encircle." In their meeting – the first and only one he would ever grant CAP – the assessor promised only that, in the coming fall, he would consider assessment changes to the properties studied by CAP. To keep the pressure on Cullerton, CAP held two "Payoff P.J. Day" protests – one in July and a second in September. CAP made "Wanted: P.J. Cullerton" posters, dubbing him the "Crook County Assessor" who was giving "tax breaks to polluters."[153] Hundreds of protestors also deposited their tax bills and "play money" bearing Cullerton's picture off at his office.[154] "On September 1, the final due date for 1971 taxes, 200 CAP members marched from the County Building to the Board of Education Building carrying huge million-dollar bills bearing P. J.'s picture, symbolizing the millions that his underassessments are costing the public schools," Booth recounted later. "One contingent of the parade was made up of retired residents of the neighborhoods near the steel mills, the group most tightly squeezed economically by an unfair tax burden. Another large contingent was made up of teachers who faced a threat of layoffs in September due to a $100 million school budget deficit. The underassessments are huge enough to afford relief to both groups."[155] Yet despite Cullerton's vague promise and CAP's protests, fall came and went without reassessments. CAP, however, continued its campaign of "encirclement." It met with the Chicago Board of Education to present its assessment findings and secured the support of the League of Women Voters, along with several parent-teacher organizations, school boards, and teachers' unions, since education groups, above all, recognized that the underassessments "depriv[ed] the schools of needed

[153] Wanted, 1971, B 4, F 34,

[154] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)

[155] Edward Greer and Paul Booth, "Pollution and Community Organization in Two Cities," *Social Policy* (July/August 1973)

revenue," as CAP put it.[156] A notable absence in CAP's coalition however, was the main Chicago teachers union, which feared crossing Daley, particularly when it already found itself under fire from conservatives who blamed the union for rising school costs.[157] CAP also attempted, unsuccessfully, to get the Cook County Board of Appeals and the city council to force Cullerton to reassess the properties.[158] CAP then turned its attention to the Illinois Department of Local Government Affairs and the Ogilvie administration, which, while more sympathetic to CAP's claims, argued that it could only order the reassessment of whole classes of properties, not specific parcels, and declined to do so since such a request would have delayed tax collections for months.[159]

CAP's biggest action in its business assessment campaign would be directed at the center of the city's power structure – Mayor Daley. On December 13th, between 100 and 300 CAP protestors stormed city hall.[160] The protestor was dubbed "Tax Break University," an act designed to teach the public about the unfair tax system that CAP said was ultimately Daley's responsibility. To publicized the protest, CAP released a flyer, "Mayor Daley's Tax Break U," that featured a cartoon of the "taxpayers," depicted as a teacher forcing Mayor Daley to write "I will not cheat de tackspayers" over and over on a chalkboard. "DALEY & CULLERTON ARE FLUNKING AS TAX COLLECTORS. They are cheating the taxpayers out of millions by

[156] *CAP Action* (July 1971); "Petition," 1971, CAP, B 6, F 51, UIC; CAP Report, 1972, CAP, B 1, F 2, UIC ; David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[157] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[158] *CAP Action* (July 1971); "Petition," 1971, CAP, B 6, F 51, UIC; CAP Report, 1972, CAP, B 1, F 2, UIC ; David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[159] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[160] Pat Murphy, "150 Protest Mayor's Tax Policy at Cap City Hall Demonstration," *Southwest News-Herald*, December 13, 1971; "Dubi Leads Local Delegation in Protest Outside Daley's Office," [Newspaper], December 13, 1971, CAP, B 7, F 57, UIC; William Granger, "Taxes Protested at Daley's Office," *Chicago Sun-Times*, December 14, 1971; "100 Protest Assesssing at City Hall," *Chicago Daily News*, December 13, 1971; Harry Golden, Jr., "Tax Protesters Rally at Daley's Office," *Chicago Sun-Times*, December 14, 1971

giving tax breaks to large business & industrial property," the flyer explained. "The teachers, students, parents and taxpayers are going to hold a special class on Dec. 8 to teach Daley and Cullerton they must collect all the taxes. NO MORE TAX BREAKS: The homeowner and small businesses won't pay the big guys' taxes anymore. If BIG TAX BREAKS are eliminated, schools will not have to close or cut back in 1972."[161] The announcement that city schools would need to close in 1972 because the city school board had run out money inspired "Tax Break U." Its goal, according to CAP, was "to teach Mayor Daley one lesson: that parents, taxpayers, and teachers will no longer tolerate tax breaks to big businesses while our tax bills shoot up (16% next year) and while the schools face financial crisis." Closing schools and borrowing money were not the solutions to the never-ending fiscal crisis, in CAP's view. "The real solution is a fairer property tax system that prevents big businessmen and political cronies from getting enormous tax favors," CAP argued. "From the tax breaks CAP has uncovered alone this would bring in an additional $13 million to the schools and this is no doubt just a beginning."[162]

The CAP coalition marched to City Hall and assembled on the fifth floor outside of the mayor's office, where members delivered statements. Then they proceeded to the Department of Local Government Affairs to demand that it "force the county assessor to reassess any property which has been unequally assessed."[163] CAP protesters carried signs with messages like "Industries Win Through Tax Breaks While Children Lose" and a banner replica of a "$1,000,000" bill with a caricature of Cullerton, who was labeled a "school swindler."[164] "We,

[161] Tax Break U, Undated [1971], CAP, B 3, F 26, UIC
[162] Course Schedule, December 13, 1971, CAP, B 7, F 57, UIC
[163] Course Schedule, December 13, 1971, CAP, B 7, F 57, UIC
[164] Pat Murphy, "150 Protest Mayor's Tax Policy at Cap City Hall Demonstration," *Southwest News-Herald*, December 13, 1971,

the homeowners, are the ones that suffer by these tax breaks," one protestor told reporters.[165] "Property taxes, that's what's making me mad," another explained. "Eleven years ago, my taxes were $300 and now they're $600."[166] Yet another CAP protester shouted, "What Chicago needs now is another Boston Tea party, but the lake is already too polluted."[167] CAP delivered a letter to Daley demanding "fairer taxes," including specific demands. They also publicized Chicago's regressive tax system and needled Daley by passing out wooden rulers inscribed with the words "Mayor Daley's Tax Rule – The Little Guy Gets the Short End of the Stick."[168] "As Cook County taxpayers, and parents and teachers, we are here this morning to demand that you take action to force P.J. Cullerton to end the enormous tax breaks which he has given to politically influential big businessmen and real estate speculators in behalf of your political organization," CAP's letter to Daley, authored by Booth and Dubi, began. It went on to charge that Daley and Cullerton effectively traded "enormous underassessment" tax breaks for "the rich and powerful" in exchange for "political support and campaign contributions." The end result, CAP reminded the mayor, was "disastrous" increases in the "tax bills of average homeowners" – like 1971's 16 percent increase – as well as the "financial crisis" forcing school closings.[169] Daley refused to meet with CAP, but decided to skip the planned dedication of a nativity scene in order to avoid being "hassled" by CAP, as a Daley aide told the *Chicago Daily News*.[170] Despite the confrontational tenor of its protest, CAP found that it had few problems with police, because

[165] Pat Murphy, "150 Protest Mayor's Tax Policy at Cap City Hall Demonstration," *Southwest News-Herald*, December 13, 1971,
[166] Pat Murphy, "150 Protest Mayor's Tax Policy at Cap City Hall Demonstration," *Southwest News-Herald*, December 13, 1971,
[167] Pat Murphy, "150 Protest Mayor's Tax Policy at Cap City Hall Demonstration," *Southwest News-Herald*, December 13, 1971,
[168] Voice to the Silent Majority, Undated [1972], CAP, B 1, F 2, UIC
[169] Booth and Dubi to Daley, December 13, 1971, CAP, B 7, F 57, UIC
[170] Voice to the Silent Majority, Undated [1972], CAP, B 1, F 2, UIC; David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)

"most policemen are taxpayers too and generally support our demands that the big guys pay their share." [171] "The people of this city are waking up to the fact that there is no need for financial crisis and high taxes," CAP declared in a press release. "If the mayor and Parky would stop giving million dollar tax breaks to their political contributors there would be plenty of money."[172]

Despite Cullerton's initial resistance and the myriad roadblocks faced by CAP from local and county governments, the organization's actions eventually brought results. Reassessment of Chicago's Illinois Center Plaza proved to be the easiest victory. Rather than a complex issue of valuation, the Illinois Center Plaza's underassessment was straightforwardly illegal. The Center's developers had struck a deal with the landowner, the Illinois Central Railroad, to purchase the property piecemeal. The developer's hope was that this ruse would allow them to avoid paying taxes on the not-yet-developed parcels of land, since the railroad was exempt from property taxes under the state charter. However, as another activist group, Citizens for a Better Environment worked with CAP to publicize that the developer's deal with the railroad was illegal. Railroad property was only exempt, according to state law, when being used for railroad purposes. Since the Illinois Central Railroad had openly advertised that this land was being taken out of use and sold to developers, it no longer could plausibly claim that the land was tax exempt. As a result, the assessor quickly conceded the correctness of CBE and CAP's argument and placed the land on the tax rolls, an action that brought in approximately $6 million in additional taxes per year. [173] CAP's victories did not end there, though. After failing in the fall of 1971 to reassess the other properties studied by CAP, Cullerton announced reassessments in January 1972, just a few

[171] Course Schedule, December 13, 1971, CAP, B 7, F 57, UIC
[172] CAP Release, December 13, 1971, CAP, B 7, F 57, UIC
[173] CAP Report, 1972, CAP, B 1, F 2, UIC; David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)

weeks after CAP's City Hall protest. These new assessments raised the county's total valuation by $534 million, the largest single-year increase of Cullerton's tenure. Of that hike, the CAP-highlighted properties were responsible for staggering $67 million.[174] Each of the steel mills studied by CAP saw their assessment raised by a minimum of 20 percent in 1972, with U.S. Steel's South Works' assessment increasing a whopping 80 percent. These reassessments brought in an additional $17 million dollars for "Chicago area schools and services," as CAP bragged.[175] Cullerton also raised the assessments of the Chicago-area racetracks exposed by CAP. One received a hike of 250 percent, which fell within five percent of CAP's own assessment.[176] Likely not coincidentally, many of the other properties that saw their assessments hiked by Cullerton looked awfully similar to those that had been singled out by CAP. They consisted primarily of property in "the Loop and other downtown real estate," as well "10 city and suburban townships" on the more well-off North side of the city, almost all of which saw higher assessments.[177]

The reassessments seemed like a clear victory for CAP. "Cullerton denied that CAP had influenced the reassessing, but it was difficult to conclude otherwise," Emmons noted. "The percentage increases in assessments on the properties over which CAP had battled were substantially higher than those for the city or county as a whole. These increases were nearly twice as great for the four steel mills, for example, as those for the city." Moreover, Cullerton's press conference announcing the new county assessments focused on the eleven "CAP

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[174] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[175] CAP Report, 1972, CAP, B 1, F 2, UIC; Judy Nicol, "Assessments Up $534 Million; Big Steel Plants Hit," *Chicago Sun-Times*, January 13, 1972; William Clements, "County Ups U.S. Steel Plant Tax," *Chicago Daily News*, January 12, 1972
[176] CAP Report, 1972, CAP, B 1, F 2, UIC; "Racetracks' Turn to Pay," *Chicago Daily News*, January 5, 1972; "CAP Provide the Push," *Maywood Herald*, December 8, 1971
[177] CAP Report, 1972, CAP, B 1, F 2, UIC; Thomas Buck, "Realty Assessments Here Top 11.7 Billion," *Chicago Tribune*, January 13, 1972; "New, Higher Assessing!" *Chicago Daily News*, May 5, 1972

Properties."[178] In its statement on the reassessments, CAP linked the assessment hikes with lower taxes for homeowners and a greater sense of fairness in county taxation. "In January, 1972, the long struggle against property tax favoritism to big business in Cool County showed its first breakthroughs in the form of reassessment announcements by Assessor P.J. Cullerton," CAP reported. "Major properties which CAP had exposed as benefiting from large and illegal tax breaks – the steel mill's race tracks, Illinois Central real estate, and Loop skyscrapers – were substantially reassessed, adding $100 million in assessed valuation to the tax rolls. Expected real estate tax increases of 19% were reduced to 14%. More important, citizens gained confidence that rigged property taxes were no longer inevitable."[179] Though CAP still argued that most of Cullerton's reassessments fell short of the value calculated by CAP, it nonetheless viewed Cullerton's raising of the properties' assessments as a triumph. "We see this as a victory for the small taxpayer," Paul Booth told the press, "proof that CAP's original charges of illegal tax breaks were on target."[180] Not surprisingly, many in the press gave CAP credit for Cullerton's reassessments.[181] Indeed, schooled observers of Windy City politics scored the assessment hikes as a victory for CAP, too. "If you mention CAP, which is a grassroots reform organization, to Parky Cullerton, his lips turn gray," *Daily News* columnist Mike Royko quipped. "There can be no higher praise."[182] Following CAP's protests, the Illinois Department of Local Government also announced an investigation into practices in Cullerton's office.[183]

Moving beyond the underassessment of major properties, CAP expanded its critique of

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[178] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[179] Cap Report, 1972, CAP, B 1, F 2, UIC
[180] William Clements, "County Ups U.S. Steel Plant Tax," *Chicago Daily News*, January 12, 1972
[181] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[182] CAP Pamphlet, 1973, CAP, B 1, F 12, UIC
[183] Voice to the Silent Majority, Undated [1972], CAP, B 1, F 2, UIC

the tax system to the method in which tax revenues were collected by savings and loan institutions and transferred to the government. Most Chicago homeowners paid their property taxes as part of their mortgage in twelve monthly installments. However, the S&Ls usually held the money in escrow, paying it to the county only once or twice a year. At the end of 1970, the 202 Cook County S&Ls, CAP reported, held over $150 million of property tax payments in escrow – money that the S&Ls invested. "That escrow money fattens the salaries and other benefits of the directors of your savings and loan association," CAP explained in a release. "Who are those directors? Some of them – perhaps your directors – are important Chicago area politicians." At the same time, local taxing units, like the Board of Education, ran short of cash throughout the year. "[T]hey have monthly bills for payrolls, rent, supplies, etc., yet they only get the bulk of their tax revenue once or twice a year," CAP continued. As a result, government taxing districts, like the Board of Education, borrowed money to meet its monthly expenses. To do so, the taxing districts issued "tax anticipation warrants," which were bought primarily by "the major downtown banks." Essentially, these warrants, CAP argued, were "short term, high interest loans." In 1970 alone, CAP reported, the interest on these warrants cost the city's seven taxing districts more than $37 million – including nearly $15 million from the schools alone. Moreover, due to federal tax law, the banks that bought the warrants paid no taxes on their profits, since they were technically municipal bonds. [184]

Between 1966 and 1970, the total interest paid by the government to banks was nearly $110 million. "This is what property owners (and tenants, through higher rents) have had to pay – unnecessarily – between 1966 and 1970 because of the problem created by the savings and loans paying our taxes only once or twice a year," CAP argued. "The problem is 'created' by the

[184] "Tax Payment Racket," Fall 1971, CAP, B 1, F 12, UIC; "Escrow Funds," Fall 1971, CAP, B 1, F 12, UIC; "Charges Use of Tax Anticipation Warrants Causes Big Losses," *Chicago Tribune*, January 12, 1972

lobbying power of savings and loans (Cook County Council of Insured Associations, and Illinois Savings and Loan League) in Springfield. Making savings and loans directors rich. Some of them are politicians. The problem is 'solved' by borrowing from the banks – making bank directors and stockholders rich. Some of them, also, are politicians." First Federal Bank was the biggest beneficiary of the existing system and the president of the County Board, George Dunne, sat on its board. This taking of money from taxpayers and handing it to S&Ls and banks was "thievery" in CAP's view, and, once again, the group connected the practice to both rising property tax rates for homeowners and the education finance crisis. "This wonton plundering of the taxpayer's pocket book is simply obscene in light of the financial crisis of the Chicago schools and the rising tax rate," CAP declared. "The politicians who manifest so much concern for school kids and taxpayers when the spotlight is on them have seen fit to do nothing about this outright robbery of the ordinary citizens." To stop this practice, CAP argued that the S&Ls should be required to turn over property taxes to the government taxing units every month, which would virtually eliminate the need for tax anticipation warrants. Like other CAP studies, the tax warrant report received ample press coverage, and CAP told the *Chicago Tribune* that it would seek a meeting with Dunne to demand that he seek monthly payments by the S&Ls to the government tax units.[185] In the end, CAP's pressure worked. Dunne successfully pushed county board to switch to a quarterly payment system, rather than a once-yearly payment system, which the *Chicago Tribune* said would "save millions of dollars in interest payments" because it "eliminates or reduces the need for tax anticipation warrants." Dunne also told the press that he expected quarterly payment would simply be the first step towards monthly ones.[186]

Following these successes, CAP moved to expand its tax campaign by turning to the

[185] "Tax Payment Racket," Fall 1971, CAP, B 1, F 12, UIC; "Escrow Funds," Fall 1971, CAP, B 1, F 12, UIC; "Charges Use of Tax Anticipation Warrants Causes Big Losses," *Chicago Tribune*, January 12, 1972
[186] Thomas Buck, "County Approves Quarterly Plan on Real Estate Taxes," *Chicago Tribune*, January 22, 1972

problems facing individual homeowners. CAP spent 1972 “organizing a tax revolt,” as AIF’s Harmon wrote to Alinksy.[187] In late-January 1972, CAP announced that it would be holding a “taxpayers’ assembly” in mid-February, which would be proceeded by eight smaller tax hearings across the city. The final assembly drew 400 attendees. Together, they drafted a “Taxpayers’ Platform.”[188] The “Taxpayers Assembly” was a forum for protesting “the unfair tax burden placed on the shoulder of the ‘little guy,’” as CAP put it.[189] The long-term reform goals decided upon by the assembly included the enactment of a classification system allowing residential property to be assessed at less than half the rate of commercial and industrial property – “the most progressive [property tax] schedule allowable under the Illinois constitution,” CAP demanded – as well as a significant increase in the current $75 to $100 homestead exemption for the elderly and, ideally, the eventual abolition of the property tax and its replacement with progressive income taxation.[190] “We demand that the state income tax be made progressive and that loopholes be plugged which currently allow may corporations to get away with paying only a pittance in state tax,” the “Taxpayers’ Platform” declared.[191] Keeping with CAP’s emphasis on school finance, the “Taxpayers’ Platform” also “demand[ed] that the Chicago School Board restore all teachers, counselors and other instructional personnel whose positions have recently been eliminated.” If reductions were going to be made at the schools, it should be made in administration, not instruction.[192] CAP believed that by announcing its platform early in the election year, some of its provisions would be more likely to be adopted, given politicians’ desire

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[187] Dick to Saul, May, 13, 1972, IAF, B 40, F 616, UIC

[188] David F. Emmons, “Community Organizing and Urban Policy: Saul Alinsky and Chicago’s Citizens Action Program,” Dissertation, University of Chicago (December 1986)

[189] Local Tax Hearings, February 6, 1972, CAP, B 1, F 5, UIC

[190] “300 Demand State Tax Bill of Rights,” *Chicago Today*, February 14, 1972; CAP Release, February 15, 1972, CAP, B 9, F 90, UIC; “Taxpayers’ Platform,” February 13, 1972, CAP, B 2, F 25, UIC; CAP Report, 1972, CAP, B 1, F 2, UIC

[191] “Taxpayers’ Platform,” February 13, 1972, B1, F 25, UIC

[192] “Taxpayers’ Platform,” February 13, 1972, B1, F 25, UIC

to seem attentive to the tax revolt.[193] IAF was pleased by CAP's emphasis on taxes. "This [tax] constituency is building," Harmon told Alinsky in late-April. "They've [CAP] got 300-400 people actively engaged now. About 70% of the tax constituency are [sic] old people."[194] CAP continued its tax-centric meetings throughout the year – at its peak, CAP's "Tax Coalition" met weekly – including a June meeting to endorse a "taxpayers' bill of rights" and an October gathering to draft a "citizens' budget."[195] In its continued meetings and publications, CAP linked the threat of school bankruptcies and shutdowns not to voters opposition to levies, but to the state's failure to use revenue from the income tax to assist financially strapped localities.[196] CAP began calling for a two-year property tax freeze, and eventually upped the ante by announcing that it goal was not simply a statewide property tax freeze, but a "at least a 10% real estate tax <u>cut</u>," which it believed could be used to force the use of other, more progressive, forms of taxation.[197] The *Tribune* described one CAP tax meeting as "300 Chicagoans…rich and poor, black and white, young and old" gathered to "let off steam about high taxes and unresponsive politicians."[198]

In many of its new goals, however, it seemed CAP was overreaching. By pushing legislative actions, CAP was running headlong not only into the Daley machine within Chicago, but Chicago-area Daley loyalists in the state legislature. As a result, CAP's success on its platform demands were mixed. Perhaps CAP's greatest legislative success came in securing greater tax relief for seniors. Hyde Part Democrat Robert Mann, a state representative, and three

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[193] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[194] Dick to Saul, April 25, 1972, IAF, B 40, F 616, UIC
[195] *CAP Action* (October1971); David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[196] Citizen Ordinance Fact Sheet, 1972, CAP, B 1, F 2, UIC
[197] Cap Report, 1972, CAP, B 1, F 2, UIC
[198] Peter Negronida, "300 Citizens Roast Officials on Taxes, Political Waste," *Chicago Tribune*, October 14, 1972

Democratic state senators partnered with CAP to submit CAP's "circuit breaker" bill for the elderly. Governor Ogilvie countered with his own, less generous, proposal. More than 100 seniors from CAP's tax coalition went to the state capital to lobby legislators in their hallways and offices. CAP's version of the bill passed the House, but Ogilvie's passed the GOP-dominated Senate. CAP them met with Ogilvie directly to push for CAP's bill in committee and, ultimately, they succeeded in pressuring the governor to accept most of the CAP bill's more generous provisions. With Ogilvie's approval, it quickly passed. The final bill effectively capped property tax payment for both renting and owning seniors making less than $10,000 at between six and seven percent of income, offering rebates of up to $500 for property taxes exceeding the ceiling. Ogilvie, joined by representatives of CAP and other senior groups, signed the bill on July 17, 1972.[199] "A major victory was won by the Citizens Action Program (CAP) on Monday when Governor Ogilvie signed Senate B 11 1363, the Senior Citizens' Property Tax Relief Act, into law," CAP declared.[200]

Both classification and the property tax freeze, however, proved more difficult for CAP to get enacted. On classification, Cullerton eventually conceded. However it was a somewhat hollow victory for CAP, since Cullerton's guidelines did little to raise taxes on commercial and industrial property[201] The two-year property tax freeze's politics were even more complicated. AT an April 17, 1972, protest at the county board of commissioners meeting, 200 CAP members called for a tax freeze, threatening to bring thousands of supporters to the county building or even stage a tax strike, if the board did not comply. Over the next several weeks, hundred of

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[199] Cap Report, 1972, CAP, B 1, F 2, UIC; *CAP Action* (July 1972); "Ogilvie Signs CAP Senior Citizen Property Tax Relief Bill," July 17, 1972, CAP, B 6, F 51, UIC; "CAP Proposal," CAP, B 6, F 52, UIC; David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[200] CAP Release, July 17 1972, CAP, B 9, B 90, UIC
[201] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)

CAP members staged further protests at commissioners' meetings. At one, they displayed a banner that declared "Don't Tread on Me," with Father Dubi, explaining, "This was the motto of the American Revolution. So remember, a tax revolt is the other side of no tax freeze." The board promised to grant CAP its freeze and two weeks later, it did.[202] "CAP forced the County Board to freeze its taxes," CAP declared. "That shows it can be done. This is the year of the taxpayers' revolt and we're going to stop runaway inflation."[203] Next, CAP sought to get a statewide freeze and, here, CAP would hit a wall in the form of Mayor Daley. Unlike the county board, which included a strong minority of Republicans with little allegiance to Daley, the state legislature was dominated by Daley Democrats, who – thanks to the fact that the legislature needed 3/5th approval to include Chicago, a home rule jurisdiction, under the freeze – easily blocked attempts by some Republican and downstate Democrats to act on CAP's tax freeze proposal. Forty-one out of 43 Cook County Democrats, reportedly acting on Daley's direct orders, blocked CAP's freeze legislation. Indeed, Daley-controlled Democrats – with the mayor's public support – would continue blocking new versions of the tax freeze bill, including one that faced a conference committee stalemate after passing the House and Senate in different incarnations, into 1974. In the end, CAP's activism and the overwhelming support among downstate Democrats, as well as many Republicans, were little match for the Daley machine.[204] CAP charged that Daley was unconcerned with rising property taxes, but Daley remained unmoved.[205] The group was more successful, however, in forcing selective tax cuts through reassessment.

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[202] CAP Report, 1972, CAP, B 1, F 2, UIC; David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[203] Citizen Ordinance Fact Sheet, 1972, CAP, B 1, F 2, UIC
[204] Charles N. Wheeler, "Proposal to Freeze Real Estate Taxes Dies in House," *Chicago Sun Times*, June 23, 1972; David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[205] Citizen Ordinance Fact Sheet, 1972, CAP, B 1, F 2, UIC

After succeeding in its investigation of industrial property, CAP turned to conducting assessment studies of residential neighborhoods it thought were likely to be overassessed. To help with this task, CAP turned to Northwestern economist Arthur Lyons, who assisted CAP in its spring 1972 analysis of assessment variation between Chicago's neighborhoods. To complete the study Lyons and volunteers "combed through sales data from real estate boards…, the state Department of Local Government Affairs, and assessment information from the local assessor's office," as CAP's research director put it. Unwilling to push higher taxes on any homeowners, CAP focused its attention on lowering assessments in neighborhoods that were overassessed, rather than raising them in those that were underassessed. Crucially, the study found that homes in the predominantly black South Shore neighborhood and the working- and middle-class mixed-race Beverly neighborhood – both of which CAP had hoped to organize – were "systematically overassessed" by an average of 30 percent relative to the statewide ratio of 21 percent.[206] For example, CAP found that South Shore homes' assessments averaged 26.5 percent of market value.[207] In dollar terms, the overassessment of the two neighborhoods cost each family an average of between $150 and $250 per year.[208]

With the results in hand, CAP spent the early fall publicizing the study's findings and organizing the neighborhoods' residents. Like CAP's earlier tax actions, the Beverly and South Shore studies attracted wide media coverage.[209] Moreover, among the residents of the two

[206] David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)
[207] "Tax War Looms in S. Shore," *Chicago Daily Defender*, November 25, 1972
[208] Press Release, October 15, 1972, B1, F 18, UIC
[209] CAP Press Release, January 9, 1972 [1973], B1, F 18, UIC; "Fair Assessments for Beverly," Undated [1972], B1, F 18, UIC; "History of CAP's Property Tax Overassessment Campaign," Undated, B1, F 18, UIC; Thomas J. Moore, "Beverly Homes Highly Overassessed, CAP Finds," *Chicago Sun Times*, October 15, 1972; "CAP Victory," *Chicago Tribune*, December 6, 1972; "Tax Victory Rally!" January 28, 1973, B1, F 25, UIC; "New Assessment Method Results in Lower Taxes," [1973], B 6, F "Property Tax Over-Asessments," UIC; David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)

neighborhoods the notion that they were being assessed unfairly was common knowledge, and many pointed to both class- and race-based discrimination as the cause. "Up and down both sides of Yates for two blocks the houses are identical and taxes range from $800 to $1,000," South Shore's Mildred Howell, who decided to participate in CAP's campaign, told the *Sun-Times*. When Howell looked at similar homes in other neighborhoods, she thought, "We [in South Shore] are all paying too much…. We were paying more for the same thing." In interviewing residents of both neighborhoods, the *Sun-Times* found that Howell's attitudes were typical. Many black residents said they believed that the assessor and real estate agents were colluding – taxing them even more than their already over-taxed white neighbors in order to force them out of their homes. "The real estate people are just sitting there waiting for us to abandon our building so they can pick them up for taxes," Edna Vaughs argued. Some of their white neighbors agreed. "In essence," Beverly's Walter Holan explained, "the blacks who have moved in are paying more and getting less [services]."[210]

Keeping with their consistent themes of progressive distributionism and tax fairness, CAP stressed the relationship between low taxes on powerful property owners and high assessments for average working- and middle-class homeowners in Beverly and South Shore. CAP's Beverly and South Shore study included a list of large commercial and industrial properties – including Illinois Center Plaza, Wisconsin Steel, and U.S. Steel's South Works – assessed at lower rates than single-family homes in Beverly and South Shore.[211] "Assessor P.J. Cullerton is systematically discriminating against the residents of South Shore," Booth told the *Daily Defender*, "who are subsiding the beneficiaries of illegal tax breaks such as United States Steel, the First National Bank, Arlington Park Race Track, and the Woodfield Mall Shopping

[210] Judy Nicol, "Overassessments No News to Homeowners," *Chicago Sun-Times*, October 16, 1972
[211] "What the Average Owner…," Undated 1972,

Center."[212]

After publicizing their findings, CAP held meetings in the two neighborhoods, where attendance exceeded their wildest expectations.[213] An October 30th meeting in Beverly, for example, drew 400 attendees. From there, the CAP campaign to secure lower assessments in South Shore and Beverly proceeded along two fronts. The public campaign, as Booth explained, was designed get "a large and expanding number of residents involved in protest, massive publicity on the protest in newspaper and on television, and the backing of key officials and large institutions with political power." The second prong of the campaign would be assisting individual homeowners in computing and appealing their overassessment and, perhaps eventually, the pursuit of a lawsuit to compel reassessment. For individual homeowners, CAP created a Fair Property Tax Assessment Program that guided homeowners through formally challenging their assessment. Though CAP secured the support of local aldermen and realtors, among other community leaders, Cullerton refused to meet with CAP. In response, 200 Beverly and South Shore residents placed their tax protest forms into a black coffin and paraded it to Cullerton's office on December 5th. Cullerton's deputy, Thomas Tully, met with CAP members to hear their complaints. Tully told them that the state's attorney would need to rule on whether the neighborhoods could be reassessed. Two months later, the state's attorney Bernard Carey, a Republican, ruled that, while the neighborhoods could not reassessed out of turn, the assessor could issue certificates of error – usually reserved for simple mistakes, like an incorrect address – to lower the assessments. Cullerton agreed to abide by Carey's ruling, and CAP dropped its lawsuit to force reassessment.[214] Perhaps not coincidentally, Cullerton's capitulation also fell

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212 "Tax War Looms in S. Shore," *Chicago Daily Defender*, November 25, 1972
213 Flier, Undated [1972], B1, F 18, UIC
214 David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)

just before the date CAP had announced would be the day on which it would sue Cullerton for assessment reductions. "CAP considers this to be a complete and total victory for the taxpayers…," declared Paul Booth, adding that CAP's success proved naysayers wrong. "Our study that showed systematic overassessment in South Shore and Beverly, and the willingness of the residents of these two communities to fight for their rights has established this new procedure [for 'timely adjustment of overassessments'] that will benefit taxpayers throughout the county." The victory's long-term effects meant that "when a homeowner is being fleeced by an unfair assessment he no longer has to wait until next year for relief."[215] Under the procedure negotiated by Cullerton and CAP, residents in the two neighborhoods could received a revised assessment if they submitted evidence that their home was assessed at higher than the 21 percent average. Over the next several months, CAP helped over 500 residents in Beverly and South Shore submit their appeals and secure lower assessments. CAP also helped about 150 residents in other, predominantly black and low-income, neighborhoods successfully challenge their assessments.[216] CAP was not alone in its success challenging assessments. Thirty miles southeast of Chicago, another grassroots group affiliated with Alinsky and Nader mounted its own challenge to unfair property tax assessments.

During its relatively short history, the Calumet Community Congress, an Alinsky-affiliated group whose early years overlapped almost exactly with CAP's, ultimately proved to

[215] CAP Press Release, January 9, 1972 [1973], B1, F 18, UIC; "Fair Assessments for Beverly," Undated [1972], B1, F 18, UIC; "History of CAP's Property Tax Overassessment Campaign," Undated, B1, F 18, UIC; Thomas J. Moore, "Beverly Homes Highly Overassessed, CAP Finds," *Chicago Sun Times*, October 15, 1972; "CAP Victory," *Chicago Tribune*, December 6, 1972; "Tax Victory Rally!" January 28, 1973, B1, F 25, UIC; "New Assessment Method Results in Lower Taxes," [1973], B 6, F "Property Tax Over-Asessments," UIC

[216] CAP Press Release, January 9, 1972 [1973], B1, F 18, UIC; "Fair Assessments for Beverly," Undated [1972], B1, F 18, UIC; "History of CAP's Property Tax Overassessment Campaign," Undated, B1, F 18, UIC; Thomas J. Moore, "Beverly Homes Highly Overassessed, CAP Finds," *Chicago Sun Times*, October 15, 1972; "CAP Victory," *Chicago Tribune*, December 6, 1972; "Tax Victory Rally!" January 28, 1973, B1, F 25, UIC; "New Assessment Method Results in Lower Taxes," [1973], B 6, F "Property Tax Over-Asessments," UIC; David F. Emmons, "Community Organizing and Urban Policy: Saul Alinsky and Chicago's Citizens Action Program," Dissertation, University of Chicago (December 1986)

be both more celebrated and more controversial than CAP. Even more explicitly than CAP, CCC's origins are to be found in the fears of left-leaning community leaders that working-class white "ethnics" were turning away from liberalism and the Democratic Party toward not only Nixon but also the overtly racist politics embodied by George Wallace and the political far right. By the mid-1960s, some religious leaders in the Gary area became concerned about what they saw as the growing racial strife in the city. In response, they formed the Lake County Inner City Task force, comprised of the heads of, or representatives from, United Methodist, Catholic, United Church of Christ, Lutheran, Presbyterian, and Baptist denominations, among others. In late-1966, after previous attempts to keep the city "cool" during years of urban strife, the task force decided that it needed to encourage "broad-based community organization" in order to deal with "major social problems in the region."[217] In a city divided by the election of one of the first black mayors in the U.S. – Richard Hatcher in 1968 – one of the religious coalition's hopes was to organize working-class whites into a progressive coalition, rather than letting them fall into a politics of reactionary whiteness that might pull them to the right and further divide the Calumet region along racial lines. The Inner City Task Force first planned to fund an organizing project in Gary's black community, but soon shifted their focus to whites, because, as the group's president, Reverend Harold Lundgren, put it, "We then started to think that the real problem was in the while community."[218] The question for the ICTF became how to organize the white community in Lake County to move them towards more progressive ends.

Initial organizing of what would become the Calumet Community Congress began in February 1969, when the ICTF's religious denominations paid for Jim Wright, an ICTF staffer, to be trained at Alinsky's Industrial Areas Foundation in Chicago. *Newsweek* described Wright

[217] "United Methodist Church Will Not Support Community Congress," *Lake County Star*, November 27, 1970
[218] George Crile, "Power for People Aim of New Area Community Project," *Gary Post-Tribune*, November 15, 1970

as "a 230-pound Mexican-American…former steelworker." Wright's father had come from Mexico after WWI to work at East Chicago's Inland Steel mill.[219] As a former Steelworker, Wright "was convinced that Wallace's appeal to his old workmates was a result of being disenfranchised from decisions that profoundly affect their lives," as one account summarized.[220] Indeed, a study of Wallace supporters in Gary found that, while they undoubtedly harbored racist sentiments, their attitudes were born of "relative depravation," both economically and socially. In fact, it found that Wallace voters actually had more resentment for white-collar workers than for African Americans.[221] Wright wanted the ICTF to send him to train under Alinsky so he could help avert the shift of such workers to Wallace. These workers were still economically on the left and Wright believed their racial views could be overcome if they were empowered by a community group.[222] The bishop of Gary's Catholic diocese, Andrew Grutka, who had himself once been a steelworker, helped push the ICTF in this direction, too. Grutka would prove to be perhaps CCC's most enthusiastic supporter among Lake County's religious leaders. He had known Alinsky since the 1930s and supported the idea of Alinsky-trained organizers tackling the problems of "ethnic" whites in Gary. [223]

In February 1970, after a year of training at IAF, Wright returned to Gary with Mike Barnes and Staughton Lynd. The IAF-trained Barnes was a former Catholic seminarian who had

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[219] Leigh S. Plummer, "Thinking It Over," *Glen Park Herald*, November 19, 1970
[220] Richard J. Krickus, "Organizing Neighborhoods: Gary and Newark," *Dissent*, January 1972
[221] Thomas Pettigrew, Robert Riley, and Reeve Vanemann, "George Wallace's Constituents," *Psychology Today* (February 1972); William B. Hixson, Jr., *Search for the American Right Wing: An Analysis of the Social Science Record, 1955-1987* (Princeton, 1992), 142-148
[222] Perry L. Weed, *The White Ethnic Movement and Ethnic Politics* (Praeger 1973), 101-106
[223] "A Rising Cry: 'Ethnic Power,'" *Newsweek*, December 21, 1970; Richard J. Krickus, "Organizing Neighborhoods: Gary and Newark," *Dissent*, January 1972; Staughton Lynd, "RE: Calumet Community Congress," *Dissent*, September 1972;

experience as an organizer both in Chicago and during the California grape boycott.[224] Lynd, by the mid-1960s, was already viewed as "indisputably…a leader, elder statesman, and doyen theoretician of the New Left, with vast appeal among its disparate parts," as the *New York Times* put it. By the time Lynd arrived in Gary, the Marxist Quaker had already lived and worked at a rural cooperative in Georgia and New York's Lower East Side Settlement House, taught at the historically black Spellman College, directed SNCC's Mississippi Freedom Schools, chaired the first major anti-Vietnam War march in D.C., spoken at antiwar teach-ins in Berkeley, traveled to North Vietnam with SDS's Tom Hayden, and been denied tenure in Yale's History Department thanks to that trip to North Vietnam. Following the Yale debacle, Lynd sought – and was denied – teaching positions at several Chicago colleges. But in late-1969 he landed a position teaching organizing-related American history at the Industrial Areas Foundation.[225] Now Lynd went to Gary, serving the role of staff director for the nascent-CCC, with Wright and Barnes serving as organizers.[226]

The Lake County Inner City Task Force also began a "black community organizing project," which it hoped would exist in cooperation with the largely white organization spearheaded by Lynd, Wright, and Barnes. Obadiah Simms, a former OEO administrator in Pittsburgh, was tapped to organize the group. Like Barnes and Wright, Simms – whom the *Gary Post-Tribune* described as "a tall, well dressed man with a short Afro hair cut, bushy sideburns

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[224] Richard J. Krickus, "Organizing Neighborhoods: Gary and Newark," *Dissent*, January 1972; Perry L. Weed, *The White Ethnic Movement and Ethnic Politics* (Praeger 1973), 101-106; "'Blue Collar' Power Group Forms," *Hammond Times*, November 13, 1970

[225] Author interview with Staughton and Alice Lynd, February 17, 2012; Lynd Resume, IAF, B 38, F 610, UIC; Lynd's Job Description, IAF, B 50, F 691, UIC; Contract, IAF, B 50, F 691, UIC; Proposed Job Definition, IAF, B 50, F 691, UIC; Carl Mirra, *The Admirable Radical: Staughton Lynd and Cold War Dissent, 1945-1970* (Kent State, 2010); Alice Lynd and Staughton Lynd, *Stepping Stones: Memoir of a Life Together* (Lexington 2009); "Leader of New Let Is a Quaker Teacher at Yale," *New York Times*, December 28, 1965; John Corry, "We Must Say Yes to Our Souls – Staughton Lynd, Spokesman for the New Left," *New York Times*, January 23, 1966;

[226] Agreement, May 22, 1970, IAF, B 129, F 1414, UIC; Staughton Lynd, "RE: Calumet Community Congress," *Dissent*, September 1972; "'Blue Collar' Power Group Forms," *Hammond Times*, November 13, 1970; George Crile, "Krupa Turns Fire on Community Congress," November 24, 1970

and moustache" – received a year of training at Alinsky's IAF.[227] The ICTF hoped that the formation of the two groups would reduce racial polarization and instead lead to cooperation between the two groups. "The theory holds that working class whites and most blacks need each other to successfully work toward the solution of certain problems they share in common: political corruption, pollution, inadequate law enforcement, inequities in the taxing system and others," as one report summarized.[228] Simms began working in Gary in September 1970, seven months after Barnes and Wright began organizing. Like CCC, Simms hoped to create a coalition of existing black organizations. "This area has a rich supply of black leadership and solid organizational base," Simms told the *Post-Tribune*. "The only thing I'm trying to do is get the different groups together so they can have the power to fully participate in the democratic process."[229] However, not only did Simms get a late start organizing his group, but he also became seriously ill early in the organizing process. Making matters more difficult for Simms, the Hatcher administration made "no bones about the fact that they were not about to have anyone else organizing the black in Gary," as one account put it. Ultimately, despite several halting attempts, Simms's black companion organization to CCC never got off the ground.[230] Any grassroots left-activism in Gary would need to be engineered by CCC alone.

By March 1970, Jim Wright, Mike Barnes, and Staughton Lynd were in Gary working on what was simply called the "Lake County Project."[231] The organizers "canvassed Lake County's bars, churches, street corners, mills, union halls, and shopping centers."[232] An early planning paper on "Lake County Project Needs" began by declaring, "This project is an attempt to reach

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[227] George Crile, "Blacks Eye CCC-Type Body," *Gary Post-Tribune*, December 2, 1970
[228] George Crile, "Blacks Eye CCC-Type Body," *Gary Post-Tribune*, December 2, 1970
[229] George Crile, "Blacks Eye CCC-Type Body," *Gary Post-Tribune*, December 2, 1970
[230] Chambers and Harmon to Alinsky, February 10, 1971, IAF, B 129, F 1413, UIC
[231] Jim Wright, "Lake County Project," March 20, 1970, CCC Collection (CRA-095), IUN
[232] Richard J. Krickus, "Organizing Neighborhoods: Gary and Newark," *Dissent*, January 1972

and to organize for fundamental and progressive social change a constituency which many liberals and radicals have written off: white, working-class, union-belonging and home-owning, ethnic, often racist and Wallace-voting, Americans…in a community which the media have made a symbol of blue-collar conservatism, Lake County, Indiana."[233] As the organizers talked to Lake County residents, certain issues – like "pollution and high taxes" – emerged again and again.[234] Indeed, Gary homeowners paid some of the highest property taxes in the country – 50 percent higher than the Indiana average and 15 percent higher than the national average. A typical homeowner in 1970 with a $10,000 income and a $15,000 home paid $750 in property taxes annually.[235] Rumors of the underassessment of local steel companies had also swirled throughout Lake County for decades. "[F]rom the people we were hearing from, they thought 'How come U.S. Steel doesn't pay taxes and we do?'" Staughton Lynd's wife, Alice, recalled. "[Y]ou know they [U.S. Steel] occupy all of this territory. They make all this money…. [W]e're struggling along to make ends meet and they [U.S. Steel] get away with not paying taxes? They [Lake County residents] didn't like that."[236]

When it came to taxes, the Lynds took the lead. Both Staughton and Alice had been working on the tax issue prior to CCC's launch. The Lynds helped organize a group called the Writers Workshop, which sought to give ordinary workers and citizens an opportunity to share their stories and views, often in the creation of pamphlets that were shared throughout the Calumet region and, sometimes, found their way into wider publication. "They are, by profession, truck drivers and housewives, steelworkers and hardhats," as the *Post-Tribune* put it.

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[233] "Lake County Project Needs," July 1970, Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[234] Richard J. Krickus, "Organizing Neighborhoods: Gary and Newark," *Dissent*, January 1972; Author interview with Staughton and Alice Lynd, February 17, 2012
[235] Edward Greer, *Big Steel: Black Politics and Corporate Power in Gary, Indiana* (Monthly Review Press, 1979), 164
[236] Author interview with Staughton and Alice Lynd, February 17, 2012

“But on Tuesday and Thursday nights, while others might sit frozen before their TV sets, they become authors and philosophers, students and teachers.”[237] One pamphlet, which went into a second printing after all 1,000 of the initial run were claimed, outlined the benefits available to laid-off steelworkers. Metro Corps, a federally funded Gary antipoverty agency paid to have an additional 5000 copies printed.[238] The Lynds also formed a second group, called the Labor History Workshop, which was even better attended than the Writers Workshop and attracted “another strange conglomeration of participants ranging from young steelworkers to teachers, housewives, and old time labor figures in the county.” The labor workshop was run “under Lynd’s loose supervision,” and featured regular presentations by “old time labor organizers,” as well as informal sessions where current union members could discuss “their changing viewpoints toward their jobs in the mill.”[239] The success of the first two workshops spurred the creation of a Literature Workshop and a Woman’s Study Group.[240]

From the beginning, taxes came up organically in the Writers Workshop. In conjunction with members of local unions, the workshop drafted a pamphlet styled as an “imaginary agreement” with local steel companies. “This is an imaginary contract,” it explained, “but it doesn’t have to stay imaginary.” What made the “imaginary contract” unique is that in included, but went beyond, traditional collective bargaining demands. Alongside calls for substantial wage increases and the inclusion of a cost-of-living escalator in the next contract were calls for pollution abatement, tax reform, and inflation control. “If the companies in a community fail to pay their fair share of local property taxes, their workers must make up the difference,” the

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[237] “Hardhat Writers Group Springs Up,” *Gary Post-Tribune*, August 25, 1971; Andrej Grubacic, ed., *From Here to There: A Staughton Lynd Reader* (PM Press, 2010), 161; *Accompanying: Pathways to Social Change* (PM Press, 2012), 15-16; Staughton Lynd, Walter Howard, *The Essential Staughton Lynd* (iUniverse, 2013), 10
[238] “Hardhat Writers Group Springs Up,” *Gary Post-Tribune*, August 25, 1971
[239] “Hardhat Writers Group Springs Up,” *Gary Post-Tribune*, August 25, 1971
[240] “Hardhat Writers Group Springs Up,” *Gary Post-Tribune*, August 25, 1971

agreement declared. "Therefore, whether the company is paying its fair share of local taxes shall be a legitimate subject for bargaining, and the union shall have the right to inspect company as well as public records pertaining to tax questions." Gary residents wanted to ensure that higher taxes and higher wages were not simply passed on to consumers. "Higher prices and taxes are eating up increases in wages," the workshop members wrote. "Moreover substantial wage increases and more equitable business property taxes, if achieved, are usually passed on to the consumer in the form of higher prices which are a burden for all working people." To avoid that outcome, the "agreement" argued that workers and the community deserved a say in the steel companies' price decisions.[241] With their activism outside the CCC, the Lynds were already advocating a left-distributionist view of taxes.

As their interest into tax issues expanded, the Alice and Staughton Lynd created the Tax Research Group, an organization separate from CCC, but which would help shape CCC's direction on fiscal issues.[242] As part of their anti-Vietnam activism, the Lynds had a history of federal income tax resistance.[243] Now, with the Tax Research Group, the Lynds advanced a broader critique of the U.S. tax system beyond its role in financing the military-industrial complex. The Tax Research Group's drafted a program for reforming Indiana taxes that included a graduated income tax, exempting food and health care from the sales tax, statewide administration of the property tax, a homestead exemption, and the state to assume responsibility of school funding.[244] The Lynds and the Tax Research Group strived to stay informed of the left-

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[241] "Agreement," Undated, CCC Collection (CRA-095), IUN
[242] For many documents in the Lynd collection at the Wisconsin Historical Society, it is unclear whether Alice or Staughton was the writer. Therefore, given that they were both intimately involved with the Writers Workshop, Tax Research Group, and CCC, documents are attributed to the Lynds as a couple whenever authorship is in doubt.
[243] Andrej Grubacic, ed., *From Here to There: A Staughton Lynd Reader* (PM Press, 2010), 130; "The Time Has Come" Advertisement, *Washington Post*, April 14, 1966; "War Protester Lynd's Account Tapped for Tax," *Washington Post*, December 31, 1965; "Vietnam War Foes Balk at Income Tax," *New York Times*, April 10, 1966
[244] "Tax Research Group," September 1, 1971, Box 13, Folder 4, Lynd Papers, WHS

leaning tax movement elsewhere. They kept abreast of CAP's campaign in Chicago, which Alice Lynd summarized as arguing that the "underassessment of industry means schools close for 12 days."[245] CAP's Robert Creamer also attended a Tax Research Group meeting.[246] Similarly, the Lynds subscribed to Nader's *Property Tax Newsletter*, while the *Newsletter* used the Lynds' research for its reporting.[247] Most significantly for CCC's long-term success in changing taxation in Lake County, Staughton Lynd approached Ralph Nader in late-1970 after a lecture by Nader at the University of Chicago. Lynd passed Nader information on the TRG's ongoing investigation into U.S. Steel's property taxes in Gary.[248] Later, Lynd also appealed to Nader to send "Raiders" to Gary to help CCC investigate U.S Steel.[249] Lynd's contact with Nader came early in the consumer advocate's tax activism and this timely connection between Nader and the CCC would pay dividends, both directly and indirectly, for the Gary activists.

By the fall of 1970, Barnes, Lynd, and Wright organized a series of meetings with leaders of other local groups and interested citizens. As the organizers had hoped, the idea of a Calumet region "community union" grew among the leaders of the various groups.[250] An early-September meeting at the Holy Angels Cathedral in Gary attracted 75 "grassroots community leaders" who coalesced around the idea that a large coalition was needed to tackle "problems too big for existing local groups." Volunteers formed a steering committee that planned a recruitment drive and arranged two more planning meetings leading up to the December 5 founding congress.[251]

[245] "Notes on Meeting of Tax Research Group," September 1, 1971, Box 13, Folder 4, Lynd Papers, WHS
[246] "Tax Research Group," September 1, 1971, Box 13, Folder 4, Lynd Papers, WHS
[247] Simon to Lynd, February 11, 1971, Box 12, Folder 5, Lynd Papers, WHS
[248] Lynd to Patner, October 18, 1970, Box 12, Folder 5, Lynd Papers, WHS; Author interview with Staughton and Alice Lynd, February 17, 2012; Lynn Taylor, "Nader Details Weakness in Consumerism," *Chicago Tribune*, October 19, 1970
[249] Lynd to Simon, February 13, 1971, Box 12, Folder 5, Lynd Papers, WHS
[250] "Brief History," Undated, CCC Collection (CRA-095), IUN; "Leadership Meeting," 1970, CCC Collection (CRA-095), IUN
[251] "Brief History," Undated, CCC Collection (CRA-095), IUN; "Leadership Meeting," 1970, CCC Collection (CRA-095), IUN

Wright, Barnes, and other CCC organizers made the rounds to churches and other organizations to invite their leaders to participate in upcoming CCC meetings.[252] Even at this early stage, the nascent CCC attracted notable supporters. "Oil Can" Ed Sadlowski, the president of United Steelworkers Local 65 attended the October planning meeting and encouraged the organizers to broaden the planned group's geographic reach.[253] The organizers viewed these early planning meetings as a "great success."[254] Ken Tucker, secretary of the local chemical workers union, noted the enthusiasm among attendees. Most participants were concerned about the same issues, prompting many to ask, "Why haven't we come together long ago?"[255] "From talks with the acting leaders, the dream for the congress is that it develop into a Ralph Nader-type of organization which would do extensive research, identify problems, and offer solutions to problems in the Calumet area," the *Gary Post-Tribune*'s George Crile wrote of the embryonic CCC in November 1970. "But then, unlike Nader's operation, the congress would act by applying pressure to bring about change."[256]

As the IAF-trained organizers and the growing contingent of local leaders like Tucker continued planning CCC's founding congress, the Lake County Inner City Task Force gave the group another boost. In the fall, the ICTF sponsored the "We Are Many Clergy Conference on the Issues Facing the Working People of Northwest Indiana" in Gary. In its conference program, the Task Force argued that "the working man sick of people stereotyped as a racist and a dullard." "Tricked by political rhetoric," the ICTF continued, the white worker "turns his anger to race," even though "he himself is the victim of class prejudice." Ultimately, material concerns

[252] Handwritten Notes, October 7, 1970, Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[253] "Minutes of October 11, 1970," Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[254] Tucker Memo, September 18, 1970, Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[255] "Minutes of October 11, 1970," Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[256] George Crile, "Power for People Aim of New Area Community Project," *Gary Post-Tribune*, November 15, 1970

drove this anger, it argued. "The working man is over-taxed and under-served at every level of government. He does not have fancy lawyers or expensive lobbyists getting him tax breaks on his income," the program explained. "Being a homeowner he shoulders the rising property taxes…. Yet he enjoys very from these unfair and burdensome levies." If he wants to move to a better house, he finds he "cannot get an FHA loan" in the "Old Neighborhood," and he does not want to move to subdivisions full of identical houses built with "second-grade materials." "His income of $5,000 to $10,000 per year makes him 'near poor.' He is the victim of both inflation and anti-inflation measures. He is the guy that is hurt by layoffs, tight money that chokes him with high interest rates for installment buying and home improvements," the Task Force continued. "Manufacturers with their price fixing, shoddy merchandise and exorbitant repair bills are gouging him to death…. When he complains about the cost of things, he is told that it is the 'high cost of labor' that is to blame. Yet he know he is the 'labor' and that in term of real dollars his income ahs dropped…. The public and private institutions have made him frustrated by their lack of response to his needs, and he feels powerless in his…efforts to change them." Instead of turning to "old prejudices and new fears" that channel anger "against other minority groups rather than those who have power," a community alliance was needed. "This new kind of organization is fast becoming a reality in Lake County," the Task Force concluded.[257] The "primary purpose" for this clergy conference, in the view of CCC's religious leaders, was "to inform the clergy of the region that an effort was underway to build a large, democratic organization throughout the Calumet region."[258]

Approximately 175 religious leaders attended the "We Are Many" conference. They heard speeches by local religious and labor leaders. Bust the most important attendee, by any

[257] "We Are Many," 1970, CCC Collection (CRA-095), IUN; "Notes on the Calumet Community Congress," Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[258] "Minutes of October 11, 1970," Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN

measure, was the keynote speaker, Geno Baroni.[259] Baroni was a "cigar-smoking activist priest," as *Newsweek* put it, who had in the previous few years become one of the country's most well-known exponents of the theory that working-class white "ethnics" were not hopelessly conservative.[260] Baroni served as the Director of Program Development for U.S. Catholic Conference's Task Force. Under Baroni's direction, the Task Force held workshops for urban clergy designed to assist them in managing racial conflict in their communities and organizing white ethnics for more progressive reform. The workshops included classes on the history of immigration and black history.[261] Baroni felt that abstract discussions of "racial brotherhood" often led nowhere. Instead, he encouraged those who hoped to organize white ethnics "to get at the economic and social issues that affect people's lives" common to both blacks and whites. Eventually, Baroni argued, both groups would recognize they were working towards the same goals. "Where you have common problems, there is hope for a coalition that will reduce the polarization and conflict," Baroni said.[262] The priest argued that because "the Catholic Church has traditionally been an urban church, indeed an inner-city church" it was well positioned to respond to racial conflict in cities. Working-class whites who "see themselves in direct competition with neighboring Negreos for jobs, education, housing, recreation, shopping, and street life" were embracing attitudes that distracted them from constructive responses to the urban crisis, in Baroni's view.[263] But they were not permanently lost. Working-class whites were politically schizophrenic, the priest argued. "It's true that they will vote for a Walace but then

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[259] "We Are Many," 1970, CCC Collection (CRA-095), IUN
[260] "A Rising Cry: 'Ethnic Power,'" *Newsweek*, December 21, 1970
[261] Sue Cribari, "Alienated Poor," April 9, 1970, CCC Collection (CRA-095), IUN
[262] Sue Cribari, "Alienated Poor," April 9, 1970, CCC Collection (CRA-095), IUN
[263] Baroni to Lundbergen, April 20, 1970, CCC Collection (CRA-095), IUN

they'll vote for a Kennedy if they're given the choice," he explained. "They did it in Gary."[264] Many other clergy agreed with Baroni's views. "You just can't write these people off as racists and reactionaries," David Roth of the American Jewish Committee agreed said. "They're the ones who formed the cornerstones of the Liberal-labor coalition which pushed through all the progressive social legislation we've gotten since the depression." [265]

The Lake County Inner City Task Force based their decision to hire Alinsky-trained organizers like Barnes, Lynd, and Wright to address racial conflict in Gary on the philosophy embraced by Baroni. Indeed, Baroni encouraged CCC during its planning phase, citing tax issues as ones of particular concern to the working class. In private correspondence in April 1970, Baroni told Reverend Harold Lundbergen, the president of the ICTF, that the "urban crisis" had "become our major domestic issue," but that it could only be solved by reaching out to the white working class in order to reduce what others described as "inevitable group conflict." In Baroni's view, second- and third-generation "almost poor" white ethnics were "the traditional backbone support" of the Catholic Church. But they had become "socially and politically alienated," in part because they were "burdened by a lion's share of taxes." These ethnics were "dissatisfied because they are so heavily taxed…fearful of their job security and extremely concerned about the prohibitive cost of college education for their children." The only answer was organization. "We must build together in out agenda for the '70's a new coalition – press for new goals and new priorities for all the poor – the under-privileged poor, including the blacks, the Applachians [sic], the Indians, the Spanish-speaking, and white urban ethnic groups," Baroni wrote to Lundbergen. "Only then can we develop a true culture in this country and reduce the 'inevitable

[264] George Crile, "Power for People Aim of New Area Community Project," *Gary Post-Tribune*, November 15, 1970

[265] George Crile, "Power for People Aim of New Area Community Project," *Gary Post-Tribune*, November 15, 1970

group conflict.'"[266] If the reaction of the gathered clergy at the "We Are Many" conference in Gary was any indication, the ICTF was working towards the type of organization that Baroni envisioned. The attendees were, as the meeting notes explained, uniformly "enthusiastic" about the progress of the nascent CCC.[267] By CCC's founding convention in early-December, the group had become national cause célèbre.

On a cold Saturday in early December 1970, CCC held its founding convention. In addition to their previous planning meetings, CCC's organizers had distributed a flyer urging other community organizations to attend the convention and join the congress. The flyer argued that CCC was being formed "because of silence and a lack of action on such issues as: Pollution of the air and water, crime in the streets, our inadequate schools, the insanely high taxes paid by the homeowner and working person."[268] All told, 1,500 people crowded into Hammond's George Rogers Clark High School gymnasium to participate in the creation of CCC. The attendees were ostensibly representing nearly 150 separate groups. The *Post-Tribune* reported that these groups "defy simple categorization." Largest among them were the nearly 40 religious organizations, followed by education and environmental groups, labor unions, civic groups, and ethnic organizations, from the Chicago Youth Organization to the B'nai B'rith Women. Because CCC's organizers specified that participating organizations must have at least ten members, some Garyites banded together in groups of ten "just to participate in the CCC."[269] In a symbolic gesture of continuity with the past, George Patterson – who had been the picket line captain

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[266] Baroni to Lundbergen, April 30, 1970, CCC Collection (CRA-095), IUN
[267] "Minutes of October 11, 1970," Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[268] "'Blue Collar' Power Group Forms," *Hammond Times*, November 13, 1970; "Calumet Community Congress," Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[269] George Crile, "CCC Participants Diversified," *Gary Post-Tribune*, December 13, 1970

during the famed 1937 "Memorial Day Massacre" at Republic Steel – chaired the convention.[270] Together, the members of the newly christened Calumet Community Congress elected leaders and began formulating its direction on key issues. "The 20 elected officers of the CCC fit rather closely into the groups of people the sponsors of the CCC were trying to reach…mainly white, union members, ethnic oriented wage earners who earn from $5 to $11,000 a year…includ[ing] two union officials, to welfare workers, two truck drivers, two housewives, two students with outside jobs, two clergymen, a cook, a roofer, a secretary, a Gary city employee, and a steel worker," the *Post-Tribune* reported. Ken Tucker was elected CCC's first president.[271] Given the belief at the time CCC's founding that Simms's black group would still come to fruition, only a handful of African American groups were represented at the convention, though Latinos were better represented, occupying an space somewhat undifferentiated from other white "ethnics" – as Wright's role of organizer perhaps suggested.[272]

CCC's convention attracted widespread local and national attention. Following initial contact with Ralph Nader orchestrated by Staughton Lynd, CCC's organizers invited Nader to address its founding convention. Nader told the group he wanted to attend, but had a speech scheduled in Canada for the same day. Instead, Nader sent his "key aid," John Esposito, to address the convention.[273] Esposito argued in his keynote address that it CCC's actions were democratic, not radical. Standing up for the "little guy" was not radical. The real radicals, Esposito argued, were corporations that twisted democratic principles. "Who takes money out of your pockets through special tax advantages? Who manipulates prices and interest rates to

[270] Richard J. Krickus, "Organizing Neighborhoods: Gary and Newark," *Dissent*, January 1972; Godfre Hogdson and George Crile, "Gary: Epitaph for a Model City," *Washington Post*, March 4, 1973
[271] George Crile, "CCC Participants Diversified," *Gary Post-Tribune*, December 13, 1970
[272] Charles Nicodemus, "Inland Steel Assessment Under Attack," *Chicago Daily News*, April 28, 1971
[273] George Crile, "Nader Aide to Key CCC Founding Meet," *Gary Post-Tribune*, November 29, 1970

reduce the fruits of your labor?" he asked.[274] Nader used CCC's convention as an opportunity to formally ask the group to join him in investigating U.S. Steel's Gary Works.[275] "With Nader's reputation as a reformer of such corporate giants as General Motors, the CCC became a significant force over night," the *Post-Tribune* reported, adding that CCC had also received backing from the National Urban Coalition, the American Jewish Committee, and the U.S. Catholic Conference.[276] "Much of the explanation for the national attention paid to the CCC's birth can be attributed to Msgr. Gino Baroni," the *Post-Tribune*'s George Crile suggested.[277] Baroni attended CCC's founding congress and brought organizers from Baltimore, Newark, Providence, Cleveland, and Detroit, among other cities, who hoped to replicate CCC's success in their own communities.[278] Baroni praised CCC, arguing that none of the other working-class groups around the country were "as advanced or sophisticated as the CCC."[279] National figures like Senators Edmund Muskie, Ted Kennedy, and Vance Hartke, as well as John Gardner, LBJ's HEW secretary and the head of Common Cause, sent CCC congratulatory telegrams. CCC's efforts to "articulate the needs of the American working man and the fight for [their] fulfillment deserve full support from all of us who look for a prosperous future for our nation's workers," Kennedy wrote. "Perhaps in years go come the entire country will look to this Congress as proof that the democratic system can be made responsive to citizens united by a common cause and concern." Muskie wrote that he hoped "CCC will be duplicated many times over" throughout the

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[274] George Crile and Tom Stundza, "CCC Formed; Hears Attack on Polluters," *Gary Post-Tribune*, December 6, 1970
[275] Bill Kovach, "Gary Groups Join to Fight Dirty Air," *New York Times*, December 7, 1970
[276] George Crile, "CCC Welcomed Nationally," *Gary Post-Tribune*, December 16, 1970
[277] George Crile, "CCC Welcomed Nationally," *Gary Post-Tribune*, December 16, 1970
[278] George Crile, "CCC Welcomed Nationally," *Gary Post-Tribune*, December 16, 1970
[279] George Crile, "CCC Welcomed Nationally," *Gary Post-Tribune*, December 16, 1970

country. And Gardner called CCC's a "pioneering effort" that "represents the kind of grass roots citizens action that will move the nation toward a better future."[280]

The press treated CCC as a model of a rising backlash against the very notion of working-class conservatism. *Newsweek* marveled that a "sweaty, shirt-sleeved convention in a high-school gymnasium in Hammond [Indiana]" could cause such a stir that Senator Muskie would call the group "exactly what America must have if our democracy is to become more responsive to the people's real needs." "If we don't organize them, George Wallace or some other demagogue will," a CCC member told *Newsweek*.[281] The *New York Times* reported that CCC's convention "unite[d] [the] left and right" by gathering together "1,500 working-class white ethnics, students, suburban liberals, and conservatives" to elect delegates "from labor unions, Latin-American organizations, suburban betterment groups, church, student, and women's associations."[282] "Now the American working man, hard hat, flag in lapel and all, is joining the procession of those seeking more power for the people. But this time there's a difference," the *Washington Post*'s Haynes Johnson began his report on CCC's founding congress. "Workers here are not organizing to satisfy the longings of some 'silent majority, not to run back the clock, nor elect a Wallace figure. They're seeking power for social reform." "If successful, [CCC] could serve as a model for other basically blue collar political organizations around the country," Johnson concluded.[283] Days after Johnson's report, a *Washington Post* editorial praised CCC. Even though it was "only one of thousands of organizations across the

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[280] Haynes Johnson, "Ethnic Workers Seek Social Reform, *Washington Post*,December 7, 1970; Bill Kovach, "Gary Groups Join to Fight Dirty Air," *New York Times*, December 7, 1970; George Crile and Tom Stundza, "CCC Formed; Hears Attack on Polluters," *Gary Post-Tribune*, December 6, 1970; "CCC's Goals Upheld," *Hammond Times*, December 6, 1970

[281] "A Rising Cry: 'Ethnic Power,'" *Newsweek*, December 21, 1970

[282] Bill Kovach, "Gary Groups Join to Fight Dirty Air," *New York Times*, December 7, 1970

[283] Haynes Johnson, "Ethnic Workers Seek Social Reform, *Washington Post*,December 7, 1970; Bill Kovach, "Gary Groups Join to Fight Dirty Air," *New York Times*, December 7, 1970

land that unite people with common interests and goals," CCC's founding had "national significance far beyond the hopes of some 1,500 working class white ethnics who met in a hall amid high hopes and high-waving American flags." Unlike the Nixonian politics of the moment, the "ethnics" of CCC "seek power not to back a Wallace or an Agnew figure, or to advance the so-called hardhat philosophy, but for social reform." "They now see only too clearly that the poor and the black are allies, not enemies, and that the real foes are unresponsive institutions…," the *Post*'s editorial board argued. "The workingman has long been exploited by many politicians and businessmen…[but] [t]he Calumet Community Congress is a sign that the exploitation days are coming to an end…."[284] Locally, the *Hammond Times* praised the convention, calling CCC "'blue collar' power group" that could be "a potentially powerful, region-wide political action group dedicated to the needs of blue collar workers and small homeowners."[285] The *Gary Post-Tribune* noted that "the Calumet Community Congress (CCC) is being welcomed nationally as a hopeful and significant movement." "Little more than a week old, the CCC has earned the endorsement of several of the country's most respected political figures, enjoyed favorable comment from the national news media, and enlisted a number of formidable allies…," the *Post-Tribune* continued. "Accounts of the congress founding appeared in newspapers from Boston to San Francisco and included lengthy reports in the *New York Times*, *Newsweek*, and the *Washington Post*."[286]

But not everyone appreciated the newly formed CCC. Local politicians from both parties – particularly the conservative anti-Hatcher wing of the Democratic Party – as well as local business interests, such as U.S. Steel, began attacking the ICTF and the Alinsky-trained organizers months prior to the founding convention, and the attacks only intensified from there.

[284] "Ethnics United," *Washington Post*, December 9, 1970
[285] "'Blue Collar' Power Group Forms," *Hammond Times*, November 13, 1970
[286] George Crile, "CCC Welcomed Nationally," *Gary Post-Tribune*, December 16, 1970

Lake County Democratic Chairman John Krupa formed a group dubbed the Alert Americans as "conservative" rival to CCC and mailed a letter to 2,000 political and civic leaders in the Calumet area asking them to join "Al-Am" to combat CCC's alleged subversiveness. A four-page pamphlet accompanied the plea purporting to demonstrate CCC's real intention, which it claimed was proving the "illegitimacy of private ownership."[287] Addressed "Dear Fellow American," Krupa's letter began by noting that "all of us" agree with goals like "a cleaner environment, social justice, [and] an end to poverty." But, Krupa argued, "certain movements" exist where "the real ultimate objectives are to lay siege to our system of free enterprise, and in some instances to wreck entirely those fundamental institutions of American democracy." Such movements "are often made attractive my a façade of good causes." CCC was just such a movement. Krupa sought to expose "the hard core of this new movement," "alien persons with backgrounds of highly questionable nature." The radical ideas CCC represented were "invading our homes, our schools, our community, and, now, our churches." "Right-thinking citizens" needed to form "counter force." Krupa's mailing ended with a mail-in form to indicate interest in meeting to plan the "counter force" to CCC.[288] The appeal included an attached four-page "fact sheet," titled "Notes on the Calumet Community Congress." It hinted that CCC had been "blessed" by the IAF, local religious groups, "and possibly by the Office of Economic Opportunity." The "fact sheet" described Jim Wright as a "socialist and proponent of revolutionary methods," Mike Barnes as "interested in New Mobe, a violent revolutionary movement," and noted that both had been trained in Alinsky's school. Going further, it listed Wright's home address and noted his involvement in "the Miller Mafia (a group of Jewish people in the Miller area of Gary who were in support of Mr. Hatcher when he was a candidate

[287] "Krupa Backs 'Al-Am' As Rival to CCC," *Gary Post-Tribune*, November 29, 1970
[288] Krupa Letter, November 28, 1970, Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN

for election as Mayor of Gary" and his role as an editor of *New Left Notes*, which the "fact sheet" described as "a weekly publication of Students for a Democratic Society (SDS) distributed on Calumet university campuses."[289]

Krupa reserved special vitriol for Lynd and Alinsky. But the real threat posed by CCC, Krupa suggested, was its popularity – including the possibility that it would organize blacks and whites together. Krupa's "fact sheet exposed Lynd's "radical and leftist views and activities," such as his trip to North Vietnam and informed concerned Lake County residents know that "a brochure on Mr. Lynd…listing about 70 incidents of leftist and/or pro-communist nature is available." The "fact sheet" also described Alinsky as "the ideological champion of the entire movement," who has "preached and waged class warfare, the haves vs. the have-nots, by organizing poor people in places such as Buffalo, Chicago, Rochester, Los Angeles, Detroit, and Syracuse." In those locales, Krupa explained, "Alinsky's agitators work with Negro leaders, Protestant and Catholic clergymen, and so-called civil rights organizers… leav[ing] in their wake social chaos and racial bitterness." However, rather than portray CCC as merely a case of outside agitators attempting to make an issue where one did not exist, Krupa's "fact sheet" conceded that CCC was, in fact, popular and implied that the mass support for the group was the true threat. "What should be frightening to all is the ease with which people are being attracted to this movement," the fact sheet noted, "which gives evidence that the people want action in many areas being championed by the likes of CCC." Krupa attributed the emphasis on organizing whites to Alinsky's teachings. Once organized, whites would join people of color in a "revolutionary force." He warned that Simms's black group would soon be off the ground. "In the not too distant future," Krupa noted darkly, "a huge force of 'black activists' organizations

[289] "Notes on the Calumet Community Congress," Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN

will be merged with the Calumet Community Congress."[290] In a two-hour interview with the *Gary Post-Tribune* November 1970, Krupa declared that CCC was "motivated by the Godless, atheistic force of Communism," while simultaneously criticizing the religious leaders funding CCC. "Right now you're seeing the embryonic stages of a revolutionary movement," Krupa noted ominously. "For all we know it might end up being called the Calumet Communist Congress."[291] The *Tribune* reported that "the bulk of Krupa's allegations against the CCC stems from the participation of radical historian Staughton Lynd as a part-time volunteer for the organization."[292]

The Alert Americans, as well as other conservative and business opponents of CCC, hoped to quash the group before it got off the ground. The John Birch Society tried to recruit veterans' organizations in opposition to CCC and the Ku Klux Klan circulated anti-CCC literature.[293] When the CCC held a preliminary public meeting at the Andrean School on November 15th, members of the Alert Americans attended to protest the CCC, including Krupa and Sydney Garner, a Republican county council member.[294] "Phones in south Lake County have been hot during the last few days as the anti-CCC John Birch Society sought backing from veterans organizations and other groups," the *Hammond Times* reported. Members of Al-Am passed out newspaper clippings about Lynd, implying that he was a communist.[295] "[T]ensions ran high" as the Alert Americans protesters at the meeting "attempted to squelch" the CCC.[296] Of the 500 at the CCC planning meeting, about half were there to protest CCC, the *Times*

[290] "Notes on the Calumet Community Congress," Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[291] George Crile, "Krupa Turns Fire on Community Congress," *Gary Post-Tribune* November 24, 1970
[292] George Crile, "Krupa Turns Fire on Community Congress," *Gary Post-Tribune* November 24, 1970
[293] Haynes Johnson, "Ethnic Workers Seek Social Reform, *Washington Post*, December 7, 1970
[294] George Crile, "Krupa Turns Fire on Community Congress," *Gary Post-Tribune* November 24, 1970
[295] "Right Wingers Attempt CCC Meeting Disruption," *Hammond Times*, November 16, 1970
[296] "Region's Right, Left Clash at Meeting," *Hammond Times*, November 17, 1970

estimated.[297] Methodist Reverend David Bonner tried to calm the Alert Americans in the audience by explaining that organizing the Calumet region's working class "would be conducted in a democratic manner dealing with issues and not political ideologies." But the Alert Americans would not hear it.[298] Calling CCC's organizers "capetbaggers," Garner called for U.S. House Internal Security Committee (formerly the House Un-American Activities Committee) to investigate CCC's activities and the IRS to investigate its financing.[299] Representative Earl Landgrebe, a Valparaiso Republican, publicly denounced CCC, linking it to communism, largely because of Lynd's involvement, which he said "casts a shadow of great doubt on this movement's true purposes." "One of the favorite tactics of Communists and other radical elements is to find a legitimate concern and take it over…. There are strong indications hat this is taking place in Lake County in a group known as the Calumet Community Congress," Landgrebe said in a statement. The congressman quoted material from the House Internal Security Committee claiming that Lynd made "anti-American broadcasts" in Hanoi and London.[300] Because of his anti-corporate stance, Landgrebe wrote, Lynd "appears to be more interested in destroying the workers' means of earning a living than in ending pollution or racism."[301]

Opposition to CCC extended far beyond the public slandering of its leaders. In particular, the Lake County business community seemed particularly suspicious of the new community group, likely given its announced intention of attacking a tax system that benefitted large local businesses so well. Much of Krupa's information on CCC's organizers came from reports provided by the American Security Council, a conservative business- and military-oriented anti-

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[297] "Right Wingers Attempt CCC Meeting Disruption," *Hammond Times*, November 16, 1970
[298] "Region's Right, Left Clash at Meeting," *Hammond Times*, November 17, 1970
[299] "Garner Issues Call for Probe of CCC," *Gary Post-Tribune*, November 30, 1970
[300] "Landgrebe Flays CCC," *Gary Post-Tribune*, November 27, 1970
[301] "Landgrebe Warns of 'Hidden' Motives," *Gary Post-Tribune*, November 29, 1970

communist group. Additionally, Methodist Pastor Rod Musselman, who was involved with the ICTF, "lost" his briefcase, which found its way into the hands of Krupa and other anti-CCC forces, who "found [the briefcase] and turned over to the FBI," though not before first mining the documents on the "Lake County Project" for information.[302] Opponents treated members of CCC as communist subversives to be stopped at all costs. The private Northwest Indiana Crime Commission spied on CCC's organizers almost from the moment they set foot in Gary. The Crime Commission was formed in 1959, in part as a response to the bad reputation given to Northwest Indiana by the U.S. Senate Racket Committee led by Senator John McClellan and Chief Counsel Robert Kennedy.[303] As an "unofficial watchdog," the commission relied on public donations, which it claimed did not affect the commission's investigations.[304] The commission was touted as "represent[ing] all facets of community life without regard to political views, race, color, or religion."[305] But, from the beginning, the Gary Chamber of Commerce guided the group. The Chamber's president outlined the structure of the crime commission, and the manager of the Whiting Standard refinery served as the commission's first president. The NWIC's predecessor, the Gary Crime Commission, was headed by the secretary of Inland Steel.[306] The NWICC's leaders and board members were comprised almost exclusively of executives and managers from the area's major businesses, including Inland Steel and U.S. Steel, Standard Oil and Shell Oil, and Gary National Bank, with a few academics and religious leaders mixed in.[307] The largest donors to the Crime Commission were the area's major businesses, particularly

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[302] "Notes on the Calumet Community Congress," Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN

[303] "New Crime Group Is Formed," *Gary Post-Tribune*, July 24, 1959; "Crime Commission: Unofficial Watchdog," *Northwest Indiana Sentinel*, January 1, 1964

[304] "Crime Commission: Unofficial Watchdog," *Northwest Indiana Sentinel*, January 1, 1964

[305] "Crime Commission: Unofficial Watchdog," *Northwest Indiana Sentinel*, January 1, 1964

[306] "Form Area Crime Commission," *Gary Post-Tribune*, Julyyy. 23, 1959

[307] "Area Crime Commission Personnel Announced," *Hammond Times*, September 27, 1959; "Crime Unit Elects Members Tonight," *Gary Post-Tribune*, March 10, 1960; "Northwest Indiana Crime Commission," Box 1, Folder 1, Elmer Jacobsen Collection (CRA-309), IUN

Inland Steel and U.S. Steel, which donated $3,000 and $5,000 in 1971, respectively. American Oil, Bethlehem Steel, LaSalle Steel, Gary National Bank, the *Post-Tribune*, and Youngstown sheet & Tube, among other companies, also donated at least $1,000.[308] Indeed, representatives of Inland, U.S. Steel, and the *Gary Post-Tribune*, among other major local political power players served in executive positions on the Crime Commission.[309] The commission was, in other words, synonymous with the most powerful businesses in Lake County.

When CCC began organizing, the Crime Commission's "operating director" was Elmer Jacobsen. Jacobsen was a questionable choice to head the commission in its day-to-day activities. In 1955, J. Edgar Hoover requested Jacobsen's resignation from the Federal Bureau of Investigation for "unbecoming conduct." The nature of Jacobsen's conduct was debated, and he later insisted both that he had been the victim of corruption in the Bureau and that he had resigned voluntarily.[310] Regardless, Jacobsen viewed CCC as a subversive group and, like Krupa, seemed to believe they were a communist front organization. Jacobsen kept extensive files of clippings not only on CCC, but also on national left-leaning grassroots groups, in general, most of which portrayed New Left, antiwar, and black freedom movement groups as communist plots. As soon as the ICTF began the organizational operation that would eventually birth CCC, Jacobsen started investigating and monitoring the organizers. Using informers, the former G-Man kept notes on the minutest details of CCC's meetings. "Rod Musselman attended meeting at Cedar Lake community center…. Good many people were there," Jacobsen recorded on one

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[308] "Roster of Subscribers," June 2, 1971, B 2, F 2, Elmer Jacobsen Collection (CRA-309), IUN; "Confidential!," Undated [1971],

[309] NWCC, Undated, B 1, F 1, Elmer Jacobsen Collection (CRA-309), IUN

[310] Hoover to Jacobsen, April 1, 1955, B 1, F 10, Elmer Jacobsen Collection (CRA-309), IUN; Jacobsen to Hoover, April 1, 1955, B 1, F 10, Elmer Jacobsen Collection (CRA-309), IUN; Jacobsen to Hoover, September 1, 1955, B , 1 10, Elmer Jacobsen Collection (CRA-309), IUN; John Hopkins, "FBI Chief Kept Elmer," *Hammong Times*, August 6, 1971

scribbled slip. "Door locked & identification necessary to get in."[311] Jacobsen secured copies of CCC memos and used informed culled from them to monitor even smallest CCC gatherings. For example, Jacobsen secured one early memo that noted a planning meeting at St. Andrew's Catholic Church the following week. With that information, Jacobsen or an associate recorded the license plate numbers of 19 vehicles in St. Andrew's lot the night of the meeting, and Jacobsen used the plate numbers to find out to whom the vehicles were registered.[312] Jacobsen had the Chicago FBI run the license plates of the 1970 Volvo Lynd drove with his family from Chicago – where they lived – to Gary for a CCC meeting.[313] He noted that "when observed on the night of 11-15-70, this vehicle was being driven by Staughton Lynd who was accompanied by his wife and children."[314] "I remember being really scared because of people following us home from meetings," Alice Lynd said later, "and scared because of knowing what had happened in Mississippi and other places where people were not popular."[315] Jacobsen reached out to law enforcement contacts across the country to find out information about the CCC organizers and Alinsky.[316] The Crime Commission's director also worried about the "many longhairs" involved with CCC and Lynd's involvement with "New Left parallel gov'ts," which Jacobson believed were trying "to undermine legal gov'ts."[317]

Ironically, CCC had believed it could work with the Crime Commission in both its investigations into local political corruption and local property tax inequities, going so far as to

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[311] Handwritten Notes, November 21, 1970, Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[312] "Meeting at St. Andrews," Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[313] "Staughton Lynd," November 23, 1970, Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[314] Typed Notes, Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[315] Author interview with Staughton and Alice Lynd, February 17, 2012
[316] Jacobsen to McHugh, September 25, 1970, Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN; Jacobsen to O'Grady, December 10, 1970, B 2, F 10, Elmer Jacobsen Collection (CRA-309), IUN; O'Grady to Jaconsen, and attached, December 16, 1970, B 2, F 10, Elmer Jacobsen Collection (CRA-309), IUN
[317] Handwritten Notes, August 26, 1970, Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN; Handwritten Notes, September 20, 1970, Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN

invite the NWICC to partner with CCC.[318] Whatever CCC's hopes, this partnership was dead on arrival. Not only did Jacobsen and other local leaders equate CCC's leaders with communism, but the very fact that CCC planned to investigate the informal tax breaks given to U.S. Steel and other major businesses in Lake County meant that CCC was promising to attack the pocketbooks of Crime Commission's funders. Indeed, local business leaders prompted much of Jacobsen's attention to CCC. The NWICC was "virtually bombarded with info about [CCC's] activities."[319] Jacobsen noted that he "was told by a prominent business man of liberal philosophy that we've got to do something about that CCC."[320] The extent of the NWICC's investigation into CCC, though, was likely unknown to its members. However, the fact that CCC was being monitored was widely known. Krupa's "fact sheet" noted that the Lake County "movements are being kept under strict surveillance."[321] Likewise, Sydney Garner, the GOP county council member, told the press that he was monitoring CCC. "We have people on the inside – on the very upper levels," he said. "It's kind of a dirty word but you could say we've infiltrated the organization."[322]

The conservative broadside against CCC gave the group a short-term boost. Writing to Alinsky, the IAF's Ed Chambers declared CCC's founding congress "very successful, principally thanks to the attacks of the last week by Democratic chairman of Lake County, Krupa." Those attacks, Chamber told Alinsky, had created a buzz around CCC that added, rather than detracted, from attendance at the convention.[323] CCC's leaders agreed. "Krupa's performance was the best thing that could have happened for us," Ken Tucker enthused. "Now

[318] Handwritten Notes, October 7, 1970, Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[319] Handwritten Notes, Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[320] Handwritten Notes, Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[321] "Notes on the Calumet Community Congress," Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
[322] George Crile, "Krupa Turns Fire on Community Congress," *Gary Post-Tribune* November 24, 1970
[323] Ed to Saul, December 6, 1970, IAF, B 46, F 652, UIC

everyone understands that we are important, that we do have strength and are on the verge of having power. He's afraid we're going to represent the little guy while he isn't."[324] The *Post-Tribune* reported that the Alert American protesters "seemed to be welcome[d] by most of CCC's leaders."[325] Optimism ran high following the convention. Jim Wright and Obadiah Simms met after the convention and "compared notes." Both declared CCC's founding a success – the first step towards real interracial, progressive political power. "This method of operation, working mostly with the white working class, is the logical outgrowth of the failure to find a solution in the ghetto alone," Wright explained. "The alienated working white has to be organized just as the black has to be organized. It can't be a one-way proposition." Simms agreed. "That's right. We are talking about a new model where people deal with each other from a position of strength and power. In the long run, if there's to be any hope for integration it will have to come when people develop a new kind of respect for each other," Simms said, before concluding with grand optimism. "We're writing the handbook for the nineteen-seventies right now."[326] Despite the opposition of local political and business leaders, many local residents defended CCC. Joseph Harkin – "a Republican who demands that his children keep their hair neatly trimmed and boasts of his patriotism" – told the *New York Times*, "I don't see any Commies in there – why, hell, what they're talking about in there is what I'm talking about – some control over my government; an end to corruption some answers on why we can't clean this place up; lower taxes; how to live a decent life."[327] For many Lake County residents, the salience of the issues raised by CCC overwhelmed any innuendoes about its leaders. "It may be that [attendees at CCC's founding convention] may feel the same as did the patriots at the Boston

[324] "Controversy on New Citizen Group," *Gary Post-Tribune*, November 17, 1970
[325] "Controversy on New Citizen Group," *Gary Post-Tribune*, November 17, 1970
[326] Bill Kovach, "Gary Groups Join to Fight Dirty Air," *New York Times*, December 7, 1970
[327] Bill Kovach, "Gary Groups Join to Fight Dirty Air," *New York Times*, December 7, 1970

Tea Party that they are the victims of 'taxation without representation,'" wrote one resident, who was skeptical of both CCC and Krupa, to the *Hammond Times*. "It is high time that the people of Lake County remember that our system of government with two parties is the best in the world, but it collapses when one party is in power for two long."[328] "The issue is not Wright or Barnes or Lynd or Alinsky or Balsley or Grutka or anyone else," another letter-writer argued. "The issue is pollution and fair taxation and crime and public transportation and jetports and recreation and quality education and public utility policies, etc."[329]

The attacks on CCC were not without negative consequences for the new group, however. In fact, the attacks prompted several changes in the organization that undermine CCC's potential for long-term viability. A few key CCC supporters began shying away from the group. Amid the controversy surrounding CCC, the leadership Calumet United Methodist Church – one of the founding religious denominations behind the Inner City Task Force – decided not to endorse or provide financial support to CCC. The church's leaders singled out the involvement of Lynd, Wright, and Barnes as the reason for withdrawing its support.[330] By December 1970, the Inner City Task force disbanded "voluntarily," though a new group called the Calumet United Ministries succeeded it.[331] Many other religious leaders continued to support CCC. "The CCC doesn't aim to overthrow the existing form of government, just to make it more effective," Catholic Bishop Andrew Grutka explained. Presbyterian Reverend Gerald Greg agreed. "It just doesn't make any sense to think that eight religious denominations and their executives who decided to back the CCC are subversive," he said. And Methodist Reverend Eugene Balsley put

[328] "Apathy," *Hammond Times*, November 29, 1970
[329] "Why CCC," *Hammond Times*, November 3, 1970
[330] "United Methodist Church Will Not Support Community Congress," *Lake County Star*, November 27, 1970; Nancy Banks, "Church 'Drops' CCC," *Hammond Times*, November 29, 1970
[331] "CCC Not Financially Backed by Presbyterians," *Gary Post-Tribune*, December 16, 1970

it bluntest: “The CCC is no more subversive than the Gospel.”[332] But other religious leaders stepped up their attacks on CCC and the onetime members of ICTF. Baptist Pastor Wesley Hunt scolded “men of God” who were “playing the role of social reformers, civil rights experts, or political persuaders.” “Some of us still believe the Bible, preach the Gospel, and believe that America is still the greatest and best country in the world,” Hunt wrote. “Other so-called ‘clergy’ obviously do not agree. Color me red, white, and blue…. [But] [t]he only Triple-C I belong to means: Christ Cleanses Completely.”[333] Amid the growing controversy following CCC’s founding convention, Vivian Myers, chair of CCC’s constitution committee, resigned. “It’s just a personal thing,” Myers told the *Post-Tribune*. “I’m just not satisfied with the background involved some of the people, like Staughton Lynd and Saul Alinsky.” Just a few days earlier, Myers had enthused, “The principled of the organization is magnificent, it’s beautiful.” But Myers said that having her name included in a *Hammond Times* article on CCC gave her pause. After the article was published, her house was flooded with phone calls and callers to a local radio talk show called her a communist. Myers said that having the words “power” and “action” associated with CCC disturbed her, and that Krupa’s attacks on CCC caused her to reconsider her association with the group. Reverend David Bonner, CCC’s acting chairman, said that he thought she resigned because Krupa put political pressure on Myers’s husband, a Glen Park Democratic precinct committeeman.[334] Myers said she quit after “sleepless nights.” The word “power” scared her. “There is not difference between black power and blue power,” Myers said, referencing the article, which called CCC a “blue collar power group.”[335] While CCC was being attacked from the right, unnamed individuals – possibly related to the Crime Commission or

[332] George Crile, “Area Church Leaders Rap Krupa Charges,” *Gary Post-Tribune*, November 25, 1970
[333] “Has His Own CCC,” *Gary Post-Tribune*, December 23, 1970
[334] George Crile, “Vivian Myers Resigns from Community Congress,” *Gary Post-Tribune*, Box 7, Folder 3, Elmer Jacobsen Collection (CRA-309), IUN
[335] “CCC Chief Quits Post,” *Hammond Times*, November 20, 1970

other CCC opponents – tried to sour the left on the group. Rumors swirled that Wright and Barnes were covert members of the John Birch Society.[336] And early in 1971, a counterfeit letter, supposedly from CCC, was sent to an unknown number of Lake County residents. The letter claimed that CCC's leaders thought black and Latino voters were too uneducated to think for themselves and that white ethnics were lazy.[337]

The biggest obstacle for CCC, in the view of many members and supporters, was Staughton Lynd's involvement. The *Post-Tribune's George* Crile called Lynd's background "the reason for the controversy" surround CCC, and it seemed even some of the group's leadership agreed.[338] Lynd attempted on numerous occasions to quell the controversy. "I will answer any questions about myself that anyone cares to ask tonight," Lynd told the clergy attending the "We Are Many" convention. "If you need me I am in the Chicago phone book." Lynd did not deny that he was a "radical," but questioned the specific assertions made by Krupa and other attackers. "I have been called a radical many times, but while I do not deny it, there are difference in radicals."[339] Following the November 15 CCC planning meeting, Lynd enduring an hour-and-a-half of questioning from reporters. He denied he was a communist, but did not reject the socialist label. "If you believe, by socialism, to make the government responsible to the needs of the people, then I am a socialist," Lynd responded.[340] He also made clear that he did not believe in violence.[341] But Krupa's continued attacks finally prompted Lynd to release a statement explaining that he would be "honored" to continue working part-time for CCC, but that he had

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336 Handwritten Notes, September 18, [1970?], Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
337 "CCC Seeks to Enter Vote Suit," *Gary Post-Tribune*, April 22, 1971
338 George Crile, "Power for People Aim of New Area Community Project," *Gary Post-Tribune*, November 15, 1970
339 Handwritten Notes, September 28, 1970, Box 7, Folder 4, Elmer Jacobsen Collection (CRA-309), IUN
340 "Right Wingers Attempt CCC Meeting Disruption," *Hammond Times*, November 16, 1970
341 Nancy Banks, "Krupa Blasted by CCC," *Hammond Times*, November 26, 1970; "Lynd Says He'll Stay if CCC Wants Him," *Gary Post-Tribune*, November 27, 1970

no interest in a full-time position with the group.[342] However, Lynd's ultimate withdrawal from CCC was less a product of choice than of necessity. Given the controversy surrounding Lynd, Wright and Barnes asked Lynd to step down following the convention, much to the chagrin of Lynd, who lamented that he had become "expendable as soon as…the CCC…was securely founded."[343] The effective dismissal of Lynd proved to be a serious blow to the group, given the Lynds centrality to the tax issue. Regarding the controversy surrounding Staughton Lynd's involvement with CCC, Alice Lynd wrote that Staughton's leaving CCC would do nothing to assuage critics, since they would still "assume he has control that he neither has nor wants" because he was "already linked with CCC in people's minds." Staughton's involvement, she argued, had also helped the organization. Specifically he "opened [the] door to Nader." Ultimately, Alice argued, there existed a "need for the right and left to work together on common issues," and Staughton's "motivation [was] to give all he has to work with other in creating a better place to live."[344] Making matters worse for the fledgling CCC, Wright would soon depart CCC to work for Geno Baroni in D.C., leaving Barnes the only original organizer left at CCC.[345] Lynd, however, remained involved with CCC throughout early 1971, at least when it came to the tax issues he had begun investigating with his Tax Research Group. When CCC decided to create its own Tax Committee, it turned to Lynd. "[S]ince nearly everyone who had expressed interest in working on tax problems was already in the Tax Research Group," the TRG at least temporarily combined with CCC's Tax Committee. John Smrekar, the head of the union at the DuPont plant in East Chicago, was elected by the CCC to serve as the Tax Committee chair, and

[342] Nancy Banks, "Krupa Blasted by CCC," *Hammond Times*, November 26, 1970; "Lynd Says He'll Stay if CCC Wants Him," *Gary Post-Tribune*, November 27, 1970
[343] Staughton Lynd, "RE: Calumet Community Congress," *Dissent*, September 1972; Author interview with Staughton and Alice Lynd, February 17, 2012
[344] Notes, Undated, Box 13, Folder 4, Lynd Papers, WHS
[345] Chambers and Harmon to Alinsky, February 10, 1971, IAF, B 129, F 1413, UIC; Godfrey Hogdson and George Crile, "Gary: Epitaph for a Model City," *Washington Post*, March 4, 1973

Lynd was unanimously elected by the Tax Committee as its Vice Chair. Despite his position, CCC leaders asked Lynd not to speak publicly for the Tax Committee and, eventually, given the continued attacks on CCC, they asked Lynd to step down from his position as Vice Chair.[346]

The tax philosophy of the Lynds and CCC echoed that of other left-distributionist activists. Tax activism, Staughton Lynd argued in an unpublished position paper, "raises fundamental questions about the distribution of national income…." While debates over income distribution were "hard to win" because of their abstract nature, taxes provided an issue with clear distributional implications. Lynd pointed to tax activism by the grassroots left in states from Massachusetts to Illinois to California as demonstrations of the left's ability to coalesce around clear demands, such as reducing or eliminating the sales tax, exempting low- and middle-income taxpayers from the property tax, and shifting the overall tax burden to corporations. "[T]he fiscal crisis…especially of public bodies responsible for education," Lynd noted, had created an opening for left-leaning tax reforms. He, however, cautioned left-leaning activists not advocate for policies that would simply freeze taxes, thereby starving schools and other institutions that needed their support. The challenge for left activist was to avoid calls to raise revenue without regard to distributive issues. Distributionism needed to trump fiscalism. "[T]he temptation for groups affected by the fiscal crisis most directly, like teachers' unions, is to support tax legislation which increases revenue but does not change the present regressive tax structure," Lynd wrote. "This is a short-sighted strategy for the teachers themselves, because it means that other working people who pay taxes will resent teacher's demands for higher wages and fail to support the teachers if they strike." Instead, tax activists on the left needed to advocate policies that redistributed the tax burden upward "making it possible to advocate both (a) higher

[346] "An Open Letter to the Steering Committee of the CCC," March 5, 1971, Box 13, Folder 4, Lynd Papers, WHS; "Why We Are Here," 1971, Box 13, Folder 1, Lynd Papers, WHS

wages for public services employees [and] (b) lower taxes for the working-class taxpayer." The left needed a message that would unite low- and middle-income taxpayers. "Teachers must be able to say to steelworkers: 'We don't want to take more money from you. We both need to get more money from those who have more than they should,'" Lynd wrote. Lynd proposed "good" but "relatively superficial" ways to "meet people" and "involve them," such as door-to-door petitions be combined with more "direct actions," such as tax strikes and protests. At the federal level, Lynd believed that the left needed to exploit the contrast between generous increases in business tax breaks and meager cuts for lower- and middle-income individuals enacted during the 1960s. For example, Lynd argued that the personal exemption was originally intended to "leave untaxed the income which an average family required for a decent standard of living" and that, therefore, "the left should demand that, in keeping with the original intent of federal tax laws, a family of four should receive an exemption of $10,000 and the exemption should be increased for each person to $2500."[347] "Tax is a felt issue, a potent issue, but extremely hard to work on," the Lynds concluded in another document. However, they argued, "CCC can turn academic type research…into good agit-prop through their own group of writers… [T]his is obviously the best way to speak to a community: through people who live and work there, and know their neighbors."[348] This tax activism, they believed, would work best as part of a comprehensive distributionist pocketbook program that also included activism around rising prices.[349]

The tax plank adopted at CCC's founded congress reflected this left-distributionist philosophy. The resolution "demanded that industry be taxed its fair share so that the burden of

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[347] Staughton Lynd, "Ideas for Action in Response to Nixon's Policies," 1971, Box 13, Folder 1, Lynd Papers, WHS
[348] Kleinhaas to OUTS [undated], Box 12, Folder 5, Lynd Papers, WHS
[349] Staughton Lynd, "Ideas for Action in Response to Nixon's Policies," 1971, Box 13, Folder 1, Lynd Papers, WHS

taxes for the small taxpayer could be relieved."[350] It quoted Nader's argument that "unprofessional assessments done by assessors subject to enormous political and economic pressures result in a system that favors large economic interests at the expense of the small homeowner and businessman" and cited Nader's estimate that property taxes could be reduced by 25 percent nationwide "if industry were fairly assessed." Turning to specific issues in the Calumet region, CCC's taxation resolution singled out Regulation 16 as a loophole benefitting large industrial corporations.[351] Regulation 16 allowed depreciation for property tax purposes at the same speed at federal depreciation.[352] CCC pledged to "take all appropriate action to see that accurate information is obtained from industries as to the value of their taxable property, and to eliminate loopholes in the regulations for assessment of industrial property, so that industry can be taxed its fair share and the burden of taxation on the small property owner can be eased."[353] Following Lynd's lead, CCC's leaders also strived to make clear that the groups tax complaints would not lead to scapegoating public employees. At the suggestion of the Gary teachers' union and other public employee groups, an amendment protecting public employees right to collective bargaining was presented at the CCC's founding convention. CCC also later adopted a resolution supporting the right of public employees to strike.[354] Extending its spending concerns to the poor, CCC passed a resolution initiated by Caseworkers for Community Action calling for "poor relief" welfare to be funding by state sources, rather tan local property taxes. "The mounting burden of poor relief has created a steady increase in local property taxes," CCC argued, and

[350] Untitled CCC Tax Paper, 1971, Box 13, Folder 4, Lynd Papers, WHS
[351] "Resolution on Taxing Industry Its Fair Share," 1970, CCC Collection (CRA-095), IUN
[352] Silverman to Babcock, "Prelimary Memo on Lake County Tax Crisis," 1971, Box 13, Folder 1, Lynd Papers, WHS; "Regulation #16," 1971, Box 13, Folder 1, Lynd Papers, WHS
[353] "Resolution on Taxing Industry Its Fair Share," 1970, CCC Collection (CRA-095), IUN
[354] "Resolution on the Rights of Public Employees," 1970, CCC Collection (CRA-095), IUN

moving welfare to the state level would not only lessen the burden on local property taxes, but would create “a more equitable and uniform” system.[355]

The CCC’s official taxation “position paper” expanded on the resolution passed at the founding convention. It called for the elimination of the sales tax on food and health care, which it termed “a tax on hunger and illness.” It also declared that homeowners should be able to “live in freedom from confiscatory taxation,” noting that homeowners could pay 100 percent of the purchase price of a home in property taxes by the time the mortgage is paid off and then might find themselves forced to sell the home in retirement because they cannot afford the tax. “This situation is shameful and must be corrected immediately,” CCC argued. “There is no reason, moral or economic, why a family should not be able to maintain an average home, free from the tax collector.” The group chastised the Indiana legislature’s “property tax relief” proposals, which they argued offered generous property tax cuts to businesses and small cuts to homeowners that would be more than offset by hikes in income and sales taxes. Instead, CCC argued that the average value of a “lower-middle-income” or “working-class” home should be exempt from taxation – a value the group placed at $25,000 – and that property taxes should apply only to the value above that exemption. With Indiana property taxes increasing at more than 11 percent a year, CCC called for shifting the burden away from individual homeowners. “An effective local action we can take to lighten the tax burden for the working person is a campaign to make industry pay its fair share of the local property tax,” CCC argued. The CCC noted that “industries in the Calumet region appear to be badly underassessed,” especially steel mills. “Ralph Nader has stated that if industry paid its fair share, the local property tax of the ordinary home owner might be as much as 25% lower,” CCC wrote. The group called the

[355] “Resolution on Poor Relief,” Box 13, Folder 5, Lynd Papers, WHS

income tax "an equitable way of taxation, provided it is a graduate tax, free from loopholes." Because of loopholes in the federal tax code, ordinary taxpayers "subsidize[d]" corporations, churches, and "the 56 individuals with incomes in excess of $1,000,000 last year that paid not one cent of income tax." The CCC called for increasing the personal exemption to $1,500, eliminating all deductions besides the standard deduction, and calculating federal income taxes based on gross, rather than net, income. The federal tax coded needed reformed, the CCC argued, "both to offset inflation and to encourage the government to live within its means." Specifically, the CCC argued that spending on the "military industrial complex" and the Vietnam War, in particular, should be cut. "[F]or every man woman and child in the United States, we are paying $150 per year for our policy in Vietnam," CCC wrote, adding that "there are other areas of federal spending, of course, that must be reduced." Ultimately, CCC wondered "why it is that whenever revenues are inadequate the most vital services are the first to be cut." Instead of cutting "the patronage worker or the political hack…it is always the schools that will be closed, or the public health agencies that will be curtailed, or mental health services to be stopped," because, CCC noted, "a little scare talk is the best way to raise taxes on a gullible public." Because of the flaws in the American fiscal system, "the middle-class American suffers from 'taxation without representation' as did the colonists in the pre-Revolutionary times," the CCC concluded grandly.[356]

Like CAP in Chicago, CCC began its attack on tax inequities in Gary by conducting its own property tax assessment study. The Lynds and their erstwhile Tax Research Group conducted "A People's Tax Assessment of Inland Steel."[357] The report, released in April 1971,

[356] CCC, "Position on Taxation" (Draft), April 1971, Box 12, Folder 7, Lynd Papers, WHS; CCC, "Position on Taxation," April 1971, Box 13, Folder 4, Lynd Papers, WHS
[357] Lynd to Shiras, April 2, 1971, Box 13, Folder 5, Lynd Papers, WHS

was the product of a two-month investigation.[358] CCC charged that Inland Steel's Indiana Harbor Works in East Chicago, Indiana, was under-assessed by $250 million, resulting in a $20 million-per-year tax break.[359] Using the company's own accounting methods and statements against it, CCC noted that the Harbor Works assessment decreased the same year the company's chairman bragged that it had made "a record high $148 million capital investments," most of which went into the Harbor Works. Four additions to the factory – a $125 million hot strip mill, a $125 million cold strip mill, a $70 million oxygen furnace, and a $32 million electric furnace – alone should have increased the company's assessment by $116 million, CCC charged.[360] CCC also drew on insurance industry capital-to-output estimate guidelines – used by *Fortune* magazine in computing company's net worth – and based its calculations on the most conservative figures available.[361] CCC's calculations arrived at an assessed valuation of $330 million after write-offs and depreciation, more than three times Inland's official $105 million assessment.[362] "Does Inland Steal?" CCC asked in a press release. "The Harbor Works of Inland Steel in East Chicago, Indiana, is one of the largest steel mills in the world…its annual production of raw steel is more than twice that of the United States Steel Works in South Chicago," CCC explained. During the 1960s, Inland made over $1 billion in new investments, and Harbor Works was its only plant. One new strip mill alone cost $125 million. Yet, the same year that Inland's chairman Philip D. Block boasted of a "record $148 million" in new investments, the company reported a $10 million decrease on its personal assessment, and North Township assessor John Pers accepted the

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[358] George Crile, "CCC, Inland Argue 'Tax Break' Charges," *Gary Post-Tribune*, April 28, 1971
[359] Charles Nicodemus, "Inland Steel Assessment Under Attack," *Chicago Daily News*, April 28, 1971; George Crile, "CCC Says Inland Plant Gets Tax Break," *Gary Post-Tribune*, April 28, 1971; William Clements, "Inland Steel Denies Its Tax Bill Is Too Low," *Chicago Daily News*, April 29, 1971; "Inland Rips CCC Charges," *Hammond Times*, April 29, 1971
[360] Charles Nicodemus, "Inland Steel Assessment Under Attack," *Chicago Daily News*, April 28, 1971
[361] George Crile, "CCC Says Inland Plant Gets Tax Break," *Gary Post-Tribune*, April 28, 1971
[362] George Crile, "CCC Says Inland Plant Gets Tax Break," *Gary Post-Tribune*, April 28, 1971

company's reduction. CCC charged that Inland "deliberately falsifies its tax returns" and that Pers shared the blame for the company's low assessments.[363] Pers, CCC argued, was too friendly with the company, including granting it a 30-day extension in 1971 to declare its self-assessment.[364] "The Inland Steel Harbor Works is the third largest steel plant in the world," a CCC release explained. From 1965 through 1970, Inland made more than $600 million in new investments. However, according to CCC's research, Inland's assessment in North Township, Indiana, went up less than $10 million during the same period.[365]

Like CAP's studies in Chicago, CCC's assessment of Inland Steel – which came just two weeks after the release of CAP's study of U.S. Steel's South Works – received wide press coverage in both Gary and Chicago papers.[366] However, CCC went beyond press releases. John Sargent, an Inland employee and the first president of its United Steelworkers local, served on the CCC Tax Committee. Using proxies, members of CCC – including the Lynds and Sargent – attended Inland's annual shareholders' meeting in Chicago to read its charges.[367] At the meeting, Sargent told Inland's stockholders that Inland needed to "pay as much tax as the law requires" because the money was needed "by the community for schools and hospitals and youth centers, as well as many other things."[368] "Citizens of the Calumet region, like working people all over the country, are heavily burdened by increasing taxes," Sargent explained. Property taxes, in particular, had doubled in the previous ten years. "The problem is getting worse, not better," Sargent said. Individual homeowners' share of the state tax burden was rising, while corporations' share was falling. Sargent charged that Inland, in particular, reported stagnant or

[363] "Does Inland Steal?" 1971, Box 13, Folder 5, Lynd Papers, WHS
[364] Tom Knightly, "CCC Raps Pers on Inland Taxes," *Gary Post-Tribune*, May 21, 917
[365] "Why This Assessment?" Box 13, Folder 5, Lynd Papers, WHS
[366] George Crile, "CCC, Inland Argue 'Tax Break' Charges," *Gary Post-Tribune*, April 28, 1971; William Clements, "Inland Steel Denies Its Tax Bill Is Too Low," *Chicago Daily News*, April 29, 1971
[367] George Crile, "CCC Says Inland Plant Gets Tax Break," *Gary Post-Tribune*, April 28, 1971
[368] William Clements, "Inland Steel Denies Its Tax Bill Is Too Low," *Chicago Daily News*, April 29, 1971

falling property values, even as the company invested hundreds of millions in new equipment. "When citizens in the Calumet area see that major industries, such as Inland Steel, pay only a little more in taxes despite enormous investments in new capital, they wonder why?" Sargent told Inland's stockholders. "They know that if they added another room to their house, or another bathroom, or converted the attic into an apartment, the assessment of their house would increase." Citing Ralph Nader's investigations of business favoritism in property tax assessment nationwide, Sargent explained that one of CCC's founding resolutions was to "take all appropriate action to see that accurate information is obtained from industries as to the value of their taxable property, and to eliminate loopholes in the regulations for assessment of industrial property, so that industry can be taxed its fair share and the burden of taxation en the small property owner can be eased." According to CCC's calculations, Inland's harbor Works was underassessed by 70 percent and owed an additional $20 million because the company "deliberately falsifies its returns." While Inland may justifiably cite its charitable expenditures in the community, "we are not asking for charity," Sargent explained. "We are asking…that you pay as much tax as the law requires." Letting Inland decide how to help the community through private charity – rather than through paying its fair share of taxes – was "paternalism," according to Sargent. "The paternalism of the company union ended in 1938," he concluded. "The paternalism of the company town must end now."[369] After the stockholders meeting, CCC took its arguments directly to Inland's workers, passing out 10,000 leaflets to steelworkers asking: "Are your taxes going up? You want to know something? Inland's are going down!" If Inland

[369] "Statement of the Calumet Community Congress at the Inland Steel Stockholder Meeting," April 28, 1971, Box 13, Folder 5, Lynd Papers, WHS

was assessed accurately, the leaflet argued, homeowners would pay less in property taxes, have better services, like schools, and food and drugs could even be exempted from sales taxes.[370]

Both Inland and the assessor strenuously denied CCC's claims. Inland president Philip Block told the assembled stockholders at he "categorically reject[ed]" CCC's charges, which he termed "grossly erroneous and naïve." Block argued that it made several errors, many of which revolved around tax deductions that he said CCC had not considered, such as "a 60 percent reduction in assessed value for new facilities in the initial year of operation" and federal income tax deductions.[371] Block acknowledged, however, that Inland had filed lawsuits to challenge higher assessments in 1968 and 1969. But he argued that it simply amounted to "differences of opinion over the proper interpretation and application of Indiana assessment laws and regulations."[372] Inland also fired back at CCC in the company's employee newspaper *The Steelmaker*. There it attacked CCC's "fictions." It argued that the company did open its books to assessors and went beyond defending its own tax assessment to defending corporations' tax payments, more broadly. "We could provide more facts about taxes in our community. But we believe you get the message," the article concluded. "That small band of vocal critics either ignores the facts about tax assessments and tax payments in our community, or else these folks are deliberately trying to mislead someone."[373] CCC responded to Block by outlining their calculations, which CCC said included the items Block claimed they ignored, and criticizing Block for failing to answer CCC's questions about Inland's assessment.[374] Staughton Lynd explained to the *Chicago Daily News* that Block's arguments did not actually refute CCC's

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[370] "CCC Tells Employees of Inland Tax," *Gary Post-Tribune*, May 6, 1971;
[371] George Crile, "CCC Says Inland Plant Gets Tax Break," *Gary Post-Tribune*, April 28, 1971; William Clements, "Inland Steel Denies Its Tax Bill Is Too Low," *Chicago Daily News*, April 29, 1971
[372] "Inland Rips CCC Charges," *Hammond Times*, April 29, 1971
[373] "Inland Refutes CCC Charge Regarding Tax," *Gary Post-Tribune*, May 15, 1971
[374] "We're Still Waiting for an Answer Mr. Block," 1971, Box 13, Folder 1, Lynd Papers, WHS

allegations. “We are saying that they have invested record amounts in capital expansion in the past few years that should have caused their assessment to have jumped substantially,” Lynd said. “The record shows, however, that their valuation actually decreased in 1970.” Inland had made $352 million in capital investments over the past eight years, CCC noted, yet the company’s assessment increased only $50 million during that period.[375] North Township Assessor John Pers placed the blame for Inland’s low assessment on the State Tax Board. “They have assumed the responsibility,” Pers told the *Post-Tribune*. “We’ve raised the mill’s assessments in the past, but they always finalize against our wishes.”[376] In an interview with Alice Lynd, Pers explained that, since factories could not be inspected “visually,” like houses, large corporations had to be assessed at least partly from their books – a task completed by the State Tax Board. So, Pers argued any errors in the assessments of the steel companies “is theirs [the board’s] and not mine.”[377]

Just weeks after CCC publicized its allegations against Inland at the board meeting and the factory gates, the city of Gary announced a $3.3 million budget shortfall. City Controller Jesse E. Bell Jr. warned that as many as 600 city workers could be laid off.[378] Just as the Chamber of Commerce had blamed Gary’s schools’ supposed reckless spending for its woes the year before, the Chamber now blamed city government’s profligacy for the city’s 1971 deficit.[379] Members of the Chamber – especially U.S. Steel – pushed Bell to cut the budget rather than raise taxes in response to the deficit.[380] In response, the Lynds penned an anonymous letter to the *Gary Post-Tribune* tying low taxes on U.S. Steel and other large companies to the city’s budget

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[375] William Clements, “Inland Steel Denies Its Tax Bill Is Too Low,” *Chicago Daily News*, April 29, 1971
[376] George Crile, “CCC, Inland Argue ‘Tax Break’ Charges,” *Gary Post-Tribune*, April 28, 1971; George Crile, “CCC Says Inland Plant Gets Tax Break,” *Gary Post-Tribune*, April 28, 1971
[377] “Report of Conversation with John Pers,” March 9, 1971, Box 13, Folder 4, Lynd Papers, WHS
[378] David C. Allen, “Spending Cuts Eyed for Gary,” *Gary Post-Tribune*, May 19, 1971
[379] David C. Allen, “Spending Cuts Eyed for Gary,” *Gary Post-Tribune*, May 19, 1971
[380] David C. Allen, “Spending Cuts Eyed for Gary,” *Gary Post-Tribune*, May 19, 1971

woes. “The way to solve the Gary school crisis is to tax U.S. Steel its fair share,” the Lynds wrote, pointing to the *Post-Tribune*’s own coverage of Nader’s tax efforts to reassess industrial property. “Every one knows that Gary Works is under-assessed. During the 1960s Gary Works constructed, among other things, two basic process oxygen shops, a high capacity continues slab casting unity, and an 84 [inch] hot strip mill. Yet the assessed valuation of personal business property of Gary Work rose only…4.7%. Meantime the assessed valuation of real estate in Calumet Township rose...25.9%,” the Lynds continued. “Clearly if U.S. Steel were taxes its fair share Gary’s tax revenue would increase by at least the $9.2 million needed to solve the school crisis.”[381]

While Inland’s underassessment had received little attention prior to CCC’s study, U.S. Steel’s Gary Works had long been rumored to benefit from dramatic underassessment. Randolph Bourne had written about the affects of U.S. Steel’s underassment on Gary’s schools at the turn of the 20th century, but few attempts had been made to remedy it.[382] At its root, Indiana law – like many states – ensured that neither local governments nor the public had the standing to challenge assessments in their community. Only the property owner or the assessor could legally appeal an assessment in Indiana, meaning that “if the property owner and the township assessor are satisfied with an assessment, it is almost unassailable,” even though other residents and their local governments had a material stake in the assessment of other property owners – particularly large property owners, like U.S. Steel – since everyone else’s taxes needed to go up or services needed to be cut if a major property owner was being underassessed.[383] But even measuring the accuracy of the assessments U.S. Steel’s property proved to be difficult, despite assessment rolls

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[381] “Labor Day, 1970,” Box 12, Folder 4, Lynd Papers, WHS
[382] Randolph Bourne, *The Gary Schools* (Houghton Mifflin, 1916), 7
[383] Carey and Mazo to Crile, January 4, 1970, Box 12, Folder 7, Lynd Papers, WHS; Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax* (Washington, 1963)

being open to the public. Large landowners like U.S. Steel had their properties listed in aggregate, rather than by parcel, making it impossible to compare a specific U.S. Steel buildings assessment to similar property.[384] Mayor Richard Hatcher hoped to become the first Gary mayor to successfully challenge U.S. Steel.[385] Part of Hatcher's campaign platform was to push for an increase in U.S. Steel's assessment and use the resulting money to both lower taxes on homeowners and fund better services.[386] Rather than address specific assessment numbers or percents, U.S. Steel simply argued that it was in compliance with the law and warned that any attempts to raise its assessment would make Indiana a less attractive plant location for the company than other states. "[If U.S. Steel] were forced to pay a greater share of taxes than others, then it would be put at an obvious competitive disadvantage," the *Post-Tribune* wrote, paraphrasing the company. "In time that could lead to cuts in the use of production facilities and consequent cuts in both tax base and jobs. In short, the Gary [Hatcher] administration could be preparing to cut off its nose to spite its face."[387] Most provocatively, the company's claim implied that companies like U.S. Steel were also receiving favorable assessments in the other cities where they had plants, such as Youngstown, Ohio.[388]

Despite these veiled relocation threats, Hatcher decided to move forward in challenging the company by citing a narrow law that required city controllers to "notify the treasurer of any

[384] Carey and Mazo to Crile, January 4, 1970, Box 12, Folder 7, Lynd Papers, WHS; Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax* (Washington, 1963)
[385] "Gary, Indiana, Property Assessments," 1971, Box 13, Folder 2, Lynd Papers, WHS
[386] Edward Greer, *Big Steel: Black Politics and Corporate Power in Gary, Indiana* (Monthly Review Press, 1979), 163
[387] Edward Greer, *Big Steel: Black Politics and Corporate Power in Gary, Indiana* (Monthly Review Press, 1979), 170
[388] Memo to Businessmen for the Public Interest, October 1968 Box 12, Folder 7, Lynd Papers, WHS; Baptiste to Jedenoff, July 9, 1958 Box 12, Folder 7, Lynd Papers, WHS; Baptiste and Reingold to Belt, September 9, 1968, Box 12, Folder 7, Lynd Papers, WHS

omitted property" in the community.[389] Based on the belief that some of U.S. Steel's property was, in fact, "omitted" from its assessment, Hatcher's Controller of the City of Gary, Maurice E. Baptiste, notified U.S. Steel in the summer of 1968 that he "had reason to believe that the possibility exists that some property may be omitted from your tax assessment" and asked U.S. Steel to find "a convenient time for our representatives to view your property and records." In response, U.S. Steel successfully sought an injunction to prevent the Hatcher administration reviewing their records.[390] In a fitting tribute to the corruption and dysfunction of the system, the judge that granted the injunction went on to represent Inland Steel in court when the company challenged its assessments.[391] Due to lack of staff, the controller's office did not pursue the matter further. Working outside official channels, Edward Greer, Hatcher's administrative assistant, attempted to form a Citizens Taxpayers Association in late-1968 because, as he put it, "it is clear that U.S. Steel Corp. is grossly underassessed," but Greer's movement foundered. (Greer eventually moved out of Gary, but wrote a book about the city, including its tax woes.)[392]

Outside activists attempted to aid the Hatcher administration in its efforts to raise U.S. Steel's assessment. In 1970, the Lawyers' Committee for Civil Rights Under Law offered to aid the Hatcher administration in challenging to U.S. Steel.[393] LCCR lawyers Sarah Carey and Judy Mazo began investigating U.S. Steel's assessments. They received help from Garyites, including *Tribune-Chronicle* reporter George Crile, Assistant Controller Arnold Reingold, and the Lynds.

[389] Carey and Mazo to Crile, January 4, 1970, Box 12, Folder 7, Lynd Papers, WHS; Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax* (Washington, 1963)
[390] Memo to Businessmen for the Public Interest, October 1968 Box 12, Folder 7, Lynd Papers, WHS; Baptiste to Jedenoff, July 9, 1958 Box 12, Folder 7, Lynd Papers, WHS; Baptiste and Reingold to Belt, September 9, 1968, Box 12, Folder 7, Lynd Papers, WHS
[391] Carey and Mazo to Crile, January 4, 1970, Box 12, Folder 7, Lynd Papers, WHS; Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax* (Washington, 1963)
[392] "Gary, Indiana, Property Assessments," 1971, Box 13, Folder 2, Lynd Papers, WHS; Edward Greer, *Big Steel: Black Politics and Corporate Power in Gary, Indiana* (Monthly Review Press, 1979)
[393] Mazo to Lynd, December 4, 1970, Box 12, Folder 5, Lynd Papers, WHS; Carey to Jaffe, December 4, 1970, Box 12, Folder 5, Lynd Papers, WHS

However, Mazo cautioned against mentioning CCC's cooperation, since some people "might be frightened by Staughton's name."[394] Carey and Mazo believed their investigation would lay the groundwork for a lawsuit challenging U.S. Steel's assessment. The study found, as Carey noted, "[I]t is generally felt that most taxpayers are assessed at around 20% and that U.S. Steel is assessed at around 8-10%."[395] According to LCCR, the county board largely "rubber stamp[ed]" the number offered by the local assessor responsible for U.S. Steel's Gary Works – Calumet Township assessor Thomas Fadell (who will be discussed later). The state board's oversight of Fadell proved to be little better. The board had raised assessments – including U.S. Steel's – in the past. But when challenged by the company, the board either dropped the increase or negotiate comprises, rather than fight to raise assessments in court. Even then, local assessors often nullified the board's hard-fought increases the following year, a practice LCCR called "outrageous." In Lake County, the five steel companies strenuously fought any increases ordered by the state board in court with "a battery of attorneys from Indianapolis, Chicago, New York, and Pittsburgh." Inland Steel even hired local elected officials, including a county judge and state senator, as attorneys. Only two staff attorneys from the state attorney general's office, on the other hand, represented the state board. State law made it easy for large landholders to challenge assessments. During the appeal period, companies needed only pay tax based on their earlier, lower assessment. If the higher assessment eventually prevailed, no interest or penalty accrued to the company.[396] Because of the discrepancy between the relative ease with which large property owners challenged assessments and the difficulties average homeowners faced doing the same, the LCCR argued that "fair taxation may be reserved for the rich" when it came to property taxes

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[394] Mazo to Kelty, May 19, 1971, Box 12, Folder 5, Lynd Papers, WHS
[395] Carey to Jaffe, December 4, 1970, Box 12, Folder 5, Lynd Papers, WHS
[396] Carey and Mazo to Crile, January 4, 1970, Box 12, Folder 7, Lynd Papers, WHS; Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax* (Washington, 1963)

in Indiana.[397] "If United States Steel is forced to pay its proper share of taxes in Gary, the citizens of Lake County will have a powerful ally in their further attempts to reach the other industrial underassessments – or to reform the system of local finance entirely…," Carey wrote. "The response to the widespread favoritism towards heavy industry is not to enshrine the illegality, but to correct the situation as to everybody."[398]

However, Jerome R. Hellerstein, a well-known tax lawyer and law professor advising LCCR, was not optimistic about the chances of winning the type of case Carey and Mazo envisioned against U.S. Steel, calling it a "Herculean venture." While Hellerstein believed that property taxes in Indiana and across the country were unfairly assessed, he questioned the viability of lawsuits to fix the problem.[399] The only path to victory would be establishing "intentional disregard [of uniform assessment] by the assessors."[400] In keeping with Hellerstein's criteria, Carey had concluded, "It appears that the assessment officers have virtually abdicated their authority over U.S. Steel's taxation, to the company itself."[401] But Hellerstein warned that both state and federal courts had a tendency to avoid hearing tax cases – even if couched in due process or equal protection claims – when they could argue that "administrative remedies," such as appeals to local assessors and state tax boards, had not been exhausted.[402] Nonetheless, even if it was unsuccessful in legal terms, Hellerstein viewed the type of lawsuit LCCR proposed "as an educational forum" to expose property tax inequities and lobby for legislative property tax reform.[403] Ultimately, however, Hatcher declined to pursue the lawsuit that LCCR suggested,

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[397] Carey and Mazo to Crile, January 4, 1970, Box 12, Folder 7, Lynd Papers, WHS; Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax* (Washington, 1963)
[398] Carey to Jaffe, December 4, 1970, Box 12, Folder 5, Lynd Papers, WHS
[399] Hellerstein to Carey and Mazo, February 9, 1971, Box 12, Folder 5, Lynd Papers, WHS
[400] Hellerstein to Carey and Mazo, February 9, 1971, Box 12, Folder 5, Lynd Papers, WHS
[401] Carey to Jaffe, December 4, 1970, Box 12, Folder 5, Lynd Papers, WHS
[402] Hellerstein to Carey and Mazo, February 9, 1971, Box 12, Folder 5, Lynd Papers, WHS
[403] Hellerstein to Carey and Mazo, February 9, 1971, Box 12, Folder 5, Lynd Papers, WHS

effectively ending LCCR's lawsuit campaign.[404] Still, Hatcher did not hesitate to make his views on the company's assessment public. "It is my feeling that U.S. Steel is not paying its fair share," Hatcher told the press. "Were it not for the fact that we've had some massive federal grants, we'd be in serious trouble financially."[405]

As the Hatcher administration and LCCR dropped their lawsuit and CCC and Nader began ramping up their grassroots efforts, outside pressure continued to mount on U.S. Steel. In late-1970, the *Chicago Free Press* published its own report on assessments in Gary. The paper explained how U.S. Steel had "maintained and in some cases reduced its property taxes, while Gary's steelworkers and small businessmen have seen theirs rise at an alarming rate." In Lake County in 1970, property taxes rose almost six percent. "With property taxes tripling in some cases and the inflationary spiral continuing…," the paper explained, "[rank-and-file steelworkers] find themselves once again the middlemen between uncontrolled inflation and undertaxed industries." Though the report uncovered little new, it proved to be a comprehensive recitation of the known issues with the assessment of U.S. Steel. "During the entire 10-year period since 1960, U.S. Steel's taxes have increased less than one-third while individual taxpayers have seen theirs triple," the paper reported. When it came to capital improvements, Gary had allowed U.S. Steel to effectively set its own property tax rate. Unlike homeowners, who needed to specify what was being constructed when applying for building permits, Gary had allowed U.S. Steel to pay a lump sum without outlining the construction it intended to undertake. Mayor Hatcher pledged to stop this process and returned U.S. Steel annual lump sum check when he took office. Generous depreciation allowances also wiped out taxes on capital

[404] "Gary, Indiana, Property Assessments," 1971, Box 13, Folder 2, Lynd Papers, WHS; Lynd to Simon, February 13, 1971, Box 12, Folder 5, Lynd Papers, WHS; Edward Greer, *Big Steel: Black Politics and Corporate Power in Gary, Indiana* (Monthly Review Press, 1979), 174-175

[405] Marco Trbovich, "Games Companies Play: A Taxing Look at U.S. Steel," *Chicago Free Press*, October 19, 1970, 26-28

improvements “in a couple of years,” and state tax law additionally allowed steel companies to predict the performance of a new piece of machinery and attach a value to that predicted output. If the new machine failed to perform at the predicted level, the company could write off 60 percent of the “disappointment.” Through generous initial estimates, companies like U.S. Steel could make new, more productive machinery seem like losses on paper. All the tax benefits available to companies like U.S. Steel stood in sharp contrast to the laws faced by average homeowners, the *Press* noted. “If a man builds a new addition on his home and it doesn’t turn out to his liking, there is no ‘disappointment’ write off available to him. He is saddled with an increase in taxes on his improved property,” the report remarked. “If a woman is suddenly widowed and her income drops appreciably, there is no adjustment provided in the regulations. If a steelworker retires after years of hard work in the mills, he must pay his personal property taxes without regard to the reduction in his annual income.” Like other participants in the “tax revolt,” Gary homeowners were reaching the breaking point. The *Press* related the story of a homeowner whose property taxes went from $400 in 1960 to more than $1,200 in 1969. “I’m looking for a place outside of Gary,” the homeowner told the paper.[406] The *Press* concluded its report by explaining that “a serious tax reform movement would appear to be the only viable answer to the problem at present.”[407] And that was just what CCC and Nader hoped to provide.

By the time of CCC’s founding, the congress and Nader were already planning their own attack on U.S. Steel. The consumer advocate quickly made good on his official promise at CCC’s founding convention to coordinate an investigation in to U.S. Steel’s assessments with CCC. Less than a week after speaking at CCC’s founding congress, Nader’s “Raider” John

[406] Marco Trbovich, “Games Companies Play: A Taxing Look at U.S. Steel,” *Chicago Free Press*, October 19, 1970, 26-28

[407] Marco Trbovich, “Games Companies Play: A Taxing Look at U.S. Steel,” *Chicago Free Press*, October 19, 1970, 26-28

Esposito reiterated the Tax Reform Research Group's charges that U.S. Steel's Gary Works was underassessed and guilty of pollution violations. Turning around the language of Al-Am and other CCC critics, Esposito quipped that it was U.S. Steel, not CCC, "who is operating outside the American system of law and U.S. Steel who is subverting traditional American Values." In contrast, Esposito said CCC was "trying to return to the fundamental American principles of fairness, full disclosure of information, and participation in the crucial decisions that affect their lives." The "Raider" suggested that U.S. Steel could show "good faith" by opening its books so that an independent review of its assessments could occur.[408] But, of course, the company had no intention of willingly giving up what it had gone to court to keep the Hatcher administration from accessing. Nader and CCC would have to conduct their study using publicly available documents and gumshoe detective work. Prior to CCC's founding, the Lynds had begun investigating the assessments not only of Inland but also Youngstown Sheet and Tube and U.S. Steel.[409] When the Lynds and CCC released their Inland study, they had noted, "Other steel companies don't pay their fair share of taxes, either. But it is easier to prove this in the case of Inland Steel, because the company has just one steel plant…."[410]

Now the Lynds and other CCC Tax Committee members worked with Raiders Sam Simon and Larry Silverman to conduct a more in-depth analysis of U.S. Steel's assessments. CCC and the Raiders also enlisted the help of reporter George Crile and the Chicago-based Businessmen for the Public Interest, founded by attorney Marshall Patner. The coalition's strategy was to frame its complaint as "kids vs. steel co[mpanie]s," arguing that "children are entitled to public educ[ation]" and the revenues the steel companies were denying the city were

[408] George Crile, "Nader Aide: Gary Works Should Come Inside Law," *Gary Post-Tribune*, December 10, 1970
[409] "Gary, Indiana, Property Assessments," 1971, Box 13, Folder 2, Lynd Papers, WHS
[410] "Why This Assessment?" Box 13, Folder 5, Lynd Papers, WHS

directly responsible for rising property taxes and school closings.[411] The CCC-Nader-Crile-BPI coalition's first task was figured out exactly how U.S. Steel's Gary Works' assessment compared with state law. The breakthrough on that front came in the form of a study by Leslie Singer, a University of Indiana economist and former advisor to Senator Paul Douglas. Singer's "extremely reliable" calculations, as Silverman put it, found that U.S. Steel's Gary Works' assessment rose only $8 million between 1961 and 1970, even as the company installed $1.2 billion in improvements.[412] Working from Singer's figures, it was possible to calculate that Gary Works was underassessed by more than $100 million, giving the plant an annual tax break of $16 million. Looking to reports filed by U.S. Steel Indiana's secretary of state, the coalition was able to independently calculate an annual $15 million break, which confirmed Singer's figures. A yearly $15-$16 million tax break, Crile later explained, "means that tax bills for the average Gary homeowner have been a full 25 per cent higher than they should have been."[413] Investigators also uncovered a 1968 audit of Calumet Township by the Indiana State Tax Board that found that 175 of 181 examined businesses were underassessed. [414]

With this information in hand, Nader and his Raiders began publicizing the coalition's findings. Silverman visited Gary in mid-1971 to "la[y] the groundwork for a possible crusade against tax assessments and pollution."[415] He told CCC members that the underassessment of business property was "the greatest scandal" that Nader planned to tackle[416] In Silverman's opinion "no better place could be selected than the Gary-East Chicago-Hammond area for an all-

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[411] "List of Memoranda," July 15, 1971, Box 13, Folder 4, Lynd Papers, WHS
[412] Silverman to Babcock, "Prelimary Memo on Lake County Tax Crisis," 1971, Box 13, Folder 1, Lynd Papers, WHS
[413] George Crile, "A Tax Assessor Has Many Friends," *Harpers* (November 1972)
[414] *Equal Educational Opportunity – 1971*, *Part 16B – Inequality in School Finance*, U.S. Senate Select Coommittee on Equal Educational Opportunity, September 28, 29, 30, October 5, 1971 (GPO 1971)
[415] Tom Knightly, "Nader Aide Hits Area Industry," *Gary Post-Tribune*, June 17, 1971
[416] Tom Knightly, "Nader Aide Hits Area Industry," *Gary Post-Tribune*, June 17, 1971

out campaign to rectify the tax system, pollution, and occupational health and safety issues."[417] While in Gary, Silverman announced to the press that had spoken to attorneys, accountants, and public officials about assessments in Lake County and all agreed that industry was underassessed.[418] According to Silverman, Nader's team found that the assessment situation in Lake County was mirrored across the country. The "Raider" argued that Gary could be a test case for tax reform. "If you can straighten out the tax structure and clean up some of the pollution in Gary, a whole nation of 200 million people are waiting for just such a victory to bolster their hopes," Silverman said.[419] In 1971 Congressional hearings on "Equal Educational Opportunity," Nader pointed to Gary as an example of "what is occurring all over the country" in terms of property tax favoritism. The city was in a "fiscal crisis," Nader noted, and facing the closing of its schools. Yet, the schools had been systematically denied revenue it was entitled to from the city's U.S. Steel plant. "United States Steel has been stronger than Gary's property tax," Nader noted, thanks to a "self-accommodating arrangement" with the assessor, which allowed the company to set its own assessment while illegally withholding any information that might allow the assessment to be challenged. "[T]he behavior of United States Steel in Gary, Indiana, almost bespeaks of 19th-century retrograde performances," Nader said. "I have never seen such raw repugnance and raw repudiation of local laws and the utterly futile attempt by local officials to enforce that law…. The corporate arrogance here has to be seen to be believed." Nader moved beyond the school crisis, pointing out that not only school children but the pocketbooks of average homeowners suffered because of the breaks afforded to companies like U.S. Steel. "I could call it very easily the number one political issue at the local level for middle-class America," Nader said. "There's no question about that in my mind at the present time. This is an

[417] Tom Knightly, "Nader Aide Hits Area Industry," *Gary Post-Tribune*, June 17, 1971
[418] Tom Knightly, "Nader Aide Hits Area Industry," *Gary Post-Tribune*, June 17, 1971
[419] Tom Knightly, "Nader Aide Hits Area Industry," *Gary Post-Tribune*, June 17, 1971

issue which because it doesn't have a national reflection doesn’t get very much national attention [in D.C.].” However, Nader challenged Congress to “look at the local papers” and “the wide-spread number of local taxpayer groups who have been striving for reform.” The consumer activist also struck a sympathetic tone for participants in the tax revolt. “[T]hese taxpayers have attacked local school budgets and rejected school bond issues in self-defense,” he said. Rather than continually raising taxes on homeowners, Nader argued that local governments needed to collect the $7 billion in tax revenues being lost to the underassessment of commercial and industrial property.[420]

CCC likewise used the assessment studies’ findings as organizing tools. Alice Lynd penned talking points for CCC speeches on taxes that began by declaring, “Citzens in the Calumet area are burdened and concerned by the doubling of their property taxes in the past ten years. When they see that the major industries in the area are paying hardly any more tax despite major investments in new capital, they wonder why.” Lynd added, “They know that if they had another room to their house…the assessment of their home increases because the entire value of the house is enhanced.”[421] CCC attempted to accentuate the differences between the taxation of homeowners and large businesses. “Have your taxes GONE DOWN in the last ten years?” CCC’s talking points asked Gary residents. “Do you keep one set of books for the bank and another for the Internal Revenue Service? If you aren’t earning all you are capable of, can you tell the assessor that your property tax should go down?... Is it true that the assessor never comes to look over your property, but just takes your work for what’s been changed and added?... If you were the Inland Steel Company you could answer every one of these questions YES.”[422] The

[420] *Equal Educational Opportunity – 1971*, *Part 16B – Inequality in School Finance*, U.S. Senate Select Coommittee on Equal Educational Opportunity, September 28, 29, 30, October 5, 1971 (GPO 1971)
[421] “Suggestions for General Statement,” 1971, Box 13, Folder 4, Lynd Papers, WHS
[422] Untitled, 1971, Box 13, Folder 5, Lynd Papers, WHS

goal of CCC's literature was to make clear to average residents that [roperty taxes in Lake County increased year after year homeowners precisely because they did not to the same for powerful businesses. "One reason taxes keep going up is that the steel mills are underassessed," CCC argued. Inland Steel, according to CCC's calculations, was being assessed less than one-sixth, instead of the required one-third, of its true value. "This means that Inland SHOULD PAY ABOUT TWICE AS MUCH AS IT DOES IN PROPERTY TAXES," CCC reported. If Inland alone paid its required share of taxes, "NO ONE ELSE'S TAXES WOULD HAVE TO GO UP." But, CCC noted, "the story is much the same with Youngstown and U.S. Steel," since these companies also "got away with murder when it came to taxes." Youngstown Sheet & Tube, according to CCC's calculations, was assessed at 23 percent, rather than 33 percent. "The case of U.S. Steel is the most dramatic of all," CCC wrote. Despite hundreds of millions in improvements in the Gary Works, U.S. Steel's assessment increased only $5 million between 1961 and 1968. This increase amounted to 4.7 percent of the company's 1961 assessment. During that same time, real estate assessments in Calumet Township went up over 25 percent. "Because of the underassessment of U.S. Steel the tax rise of the 1960's in Calumet Township was born almost entirely by the small property owner," CCC argued.[423]

Over and over, CCC made the link between tax breaks for large landholders, high taxes for homeowners, and insufficient revenue for public services. "It's important to reduce the amount of taxes paid by the working people who can least afford it," CCC wrote. "But it's also important to increase the amount of tax revenue so that people can have cleaner air and water, more parks, better-paid teachers and smaller classes. These are things which one person could not buy no matter how much money he had. They are things which people have to get by

[423] Untitled, Undated, CCC Collection (CRA-095), IUN

working together. So we need higher wages and lower prices and taxes, but we also need more tax revenue for 'public goods' like parks and better schools. If the steel companies paid their fair share of taxes, probably part of that revenue should be used to reduce the taxes of small property-owners and part of it should be used to increase the total tax revenue."[424] In attempting to recruit more participants in their movement, CCC's appeal was clear and direct. One CCC flyer for a 1971 meeting at St. Patrick's Catholic Church in East Chicago, Indiana, asked, "Are your taxes going UP? You want to know something: Inland's taxes are going Down! If Inland and other industry paid their fair share our property taxes would go down, the sales tax on food and drugs could be eliminated, [and] we could improve our schools and other public services." The flyer concluded, "It's time Inland and other industry starts carrying their fair share of the tax burden."[425] Another CCC handout explained "Why We Are Here" simply: "Ralph Nader says that if industry paid its fair share of local property taxes, the taxes of the small property owner might go down as much as 25 per cent." If U.S. Steel was assessed fairly, it stated, "there might not need to be a $10 million deficit in the public school budget." CCC's handout explained that public records showed that Inland Steel told stockholders that it had made $120 million in new investments in 1969, while it told the North Township assessor that its investment actually decreased. When it came to U.S. Steel, CCC argued that Calumet Township assessor Thomas Fadell was refusing to turn over assessment records and "appears…[to be] protecting U.S. Steel."[426] Privately, the leaders of CCC recognized that, ultimately, the type of reform it envisioned involved legislation at all levels of government and believed that national tax activism was needed to achieve sweeping reform. But on a more manageable, local level, CCC advocated "real property tax relief for the individual taxpayer" by waging a "campaign to make

[424] Untitled, Undated, CCC Collection (CRA-095), IUN
[425] "Are your taxes going UP?" 1971, Box 13, Folder 1, Lynd Papers, WHS
[426] "Why We Are Here," 1971, Box 13, Folder 1, Lynd Papers, WHS

industry pay its fair share, as advocated by Ralph Nader."[427] CCC's message found a welcome reception among many Lake County residents. When CCC activists took their tax pamphlet to a printer, the printer took one look at the graph showing U.S. Steel's falling burden and exclaimed, "My taxes didn't do that!"[428]

Like Inland Steel, U.S. Steel vigorously denied CCC and Nader's charges. Following Krupa's lead, the company resorted, at first, to redbaiting. Member of the CCC are "destroying the American way of life," Gary Steel Works superintendent J. David Carr charged, and "represent the ideology of such anti-American philosophies as the Trotskyite Socialist Workers Party, Marxism, and other Communist-front organizations."[429] Carr denied that the Gary Works of U.S. Steel paid less than its fair share in taxes, as Nader and CCC charged. "United States Steel's tax burden in Gary is the highest per ton payment of any steel producer in the Chicago area," Carr said, offering a less-than-ringing endorsement of Gary Work's tax load, given the charges of CAP, CCC, and Nader that all Chicago-Gary region steel facilities were underassessed.[430] The superintendent also scolded the local leaders who supported Nader and CCC, subtly warning that they would regret attacking the steel company. U.S. Steel was "the economic mainstay of this city" and gave money to charity, Carr reminded leaders. "It is incongruous that a coalition of religious, educational, labor, and ecological leaders would embrace outsider to promote unity of purpose locally when such a move might very well lead to divisiveness and polarization which in the end could only harm the potential for progress in the community."[431] Carr's attacks were echoed by U.S. Steel chair Edwin H. Gott, who slammed Nader and other critics of the company in a San Francisco speech. In a rousing defense of the

[427] "Implementation," Box 13, Folder 1, Lynd Papers, WHS
[428] Alice Lynd to Harris, April 15, 1973, Box 12, Folder 5, Lynd Papers, WHS
[429] "U.S. Steel Defends Its Tax, Pollution Record," *Gary Post-Tribune*, December 16, 1970
[430] "U.S. Steel Defends Its Tax, Pollution Record," *Gary Post-Tribune*, December 16, 1970
[431] "U.S. Steel Defends Its Tax, Pollution Record," *Gary Post-Tribune*, December 16, 1970

"free enterprise system," Gott claimed that Nader and other members of the "disloyal opposition" – which he said also included Democratic Senators Philip Hart, Fred Harris, and William Proxmire – were attempting "to convince the American public that private business is a sinister influence on our society." Though he did not address the Gary Works assessment, Gott argued that Nader's claim that U.S. Steel had avoided taxes in Harlan County, Kentucky, were false. "These self-styled saviors of society," Gott argued, "are more interested in capitalizing on our social, economic, and environmental problems than they are in helping to solve them." Gott defended the sanctity of profits from critics like Nader. "It's profits earned by American companies that provide our people with jobs and incomes," he concluded his speech by declaring, "and all of the products and the services they want and need." The *Wall Street Journal* called Gott's speech "remarkable for its harsh tone and naming of prominent persons."[432] But even as U.S. Steel defended itself against charges of underassessment in Gary, the steelmaker was suing the State Board of Tax Commissioners, charging that it actually had been *over*-assessed. It was the second such suit by U.S. Steel in as many years.[433]

Despite the local press's general deference to company, U.S. Steel received at least some pushback from its attack on Nader and CCC. The *Hammond Times* editorial board slammed U.S. Steel for brushing off CCC and Nader's charges, arguing that "Carr bemoans the failure of Nader and CCC to conceded Big Steel's cultural, monetary, and charitable contributions to the welfare and prosperity of Gary and Lake County." But attention also needed to be paid to "U.S. Steel's contribution to unpleasant living." Industry rarely made major sacrifices willingly, the paper noted. Instead, they needed to be "cajoled, pushed, shoved, dragged, and even bribed" to do the

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[432] "U.S. Steel's Gott Hits 3 Senators, Nader as Purveyors of Fraudelence on Business," *Wall Street Journal*, November 19, 1971; Edwin H. Gott, "Critics of Business Offer 'Fraudulent Bill of Goods,'" *Ward's Auto World* (December 1971)

[433] "U.S. Steel Files Suit on Taxes," *Gary Post-Tribune*, December 9, 1970

right thing.[434] The *Post-Tribune* paper, in contrast, took paints to echo the company's claim that U.S. Steel's Gary Works was taxed at a higher rate than other nearby steel makers. It also cautioned that the "popular" "soak the rich" idea had "drawbacks," namely that it could lead to "the graduate shifting of production to other locations."[435] Anticipating this objection, CCC directly addressed the steel companies' arguments that their tax breaks helped workers and that raising taxes on steel companies would hurt average Lake County residents. "Some people say, 'If the company paid its fair share of taxes, it would be harder for us to get a big wage increase.' Not true," CCC argued. "Wages are negotiated in Pittsburgh and Washington DC" and were not dependent upon local taxes. Instead, CCC argued, if the public knew that "steel companies are paying what they should be paying in taxes, it will make the public more likely to side with the union this summer."[436] Likewise, CCC debunked the companies' claim that higher taxes for businesses would also mean higher taxes for homeowners. "Just the reverse," CCC wrote. "Homeowners in Lake County are assessed at about 20 percent of true cash value. The mills are assessed at 5 to 10 percent…. When the mills' assessments go up, your tax bill goes down…. The quickest way to get real property tax relief is to make industry pay its fair share."[437]

The next step for the CCC-Nader-Crile-BPI coalition was determining how to proceed now that they knew U.S. Steel was underassessed. In April 1971, the Lynds met with BPI's Patner, who encouraged CCC to have local taxpayers continue sending letters to Calumet Township Assessor Thomas Fadell outlining their findings and asking Fadell to reassess U.S. Steel. The hope was that continually confronting Fadell would prove that they had "exhaust[ed]

[434] "Until Cleanup's Done," *Hammond Times*, December 15, 1970
[435] "A Gift that Could Please a Variety," *Gary Post-Tribune*, December 19, 1971; "Property Taxes and Steel," *Gary Post-Tribune*, December 19, 1971
[436] Untitled, 1971, Box 13, Folder 5, Lynd Papers, WHS
[437] Untitled, 1971, Box 13, Folder 5, Lynd Papers, WHS

our administrative remedies."[438] However, soon Fadell himself became the focus of the coalition's attention. During George Crile's investigation into assessments in Gary, he interviewed more than 100 people and uncovered a shocking pattern of corruption in Fadell's assessment office. For his investigation, Crile had the help not only of Oral Cole, an IRS agent who had began, and then abandoned, an investigation into Fadell in the early 1960s, but also a former staffer in Fadell's office.[439] In the end, Crile's investigation of Fadell "read like a law school exam in which the object is to identify the crimes committed," as Silverman put it.[440] Crile found an "unmistakable" pattern. "The assessments of numerous corporations had been mysteriously reduced in the years after Fadell became assessor in 1958," as Crile explained later. "Hundreds" of companies, it seemed clear, were receiving illegal tax breaks from Fadell.[441] When the Indiana State Board of Tax Commissioners audited Fadell's assessments in 1968, it found that the personal property of 176 of the 181 businesses examined was underassessed by a combined total of $32 million.[442] Many, perhaps most, of these underassessment were linked to kickbacks and bribes. Fadell's use of assessments to solicit bribes became brazen. According to Crile's reporting, Fadell told the general manager of the Gary Screw and Bolt Company to sell his scrap metal to a specific dealer at a reduced rate. When the Screw and Bolt manager refused, Fadell raised the company's assessment from $330,000 to $1,419,000.[443] "Fadell can deal with

[438] "Report on Conversation with Marshall Patner," April 1, 1971, Box 13, Folder 4, Lynd Papers, WHS. Locally, BPI's efforts were coordinated by Alexander Polikoff, who would eventually become well-known as the plantiff's lead attorney – opposed by Solicor General Robert Bork – in the *Gautreaux* public housing segregation case. Alexander Polikoff, "Gary Property Tax Situation," June 29, 1971, Box 12, Folder 8, Lynd Papers, WHS
[439] George Crile, "A Tax Assessor Has Many Friends," *Harpers* (November 1972)
[440] Silverman to Babcock, "Prelimary Memo on Lake County Tax Crisis," 1971, Box 13, Folder 1, Lynd Papers, WHS
[441] George Crile, "A Tax Assessor Has Many Friends," *Harpers* (November 1972)
[442] "Fadell Expose on the Way?" *Catalyst*, April 1, 1974
[443] Silverman to Babcock, "Prelimary Memo on Lake County Tax Crisis," 1971, Box 13, Folder 1, Lynd Papers, WHS

most of his enemies by selectively enforcing the law," Silverman summarized in a memo.[444] Even within property classes, Fadell made clear distinctions based on race and geography, among other variables. For example, Leslie Singer's study found that black businesses were assessed at higher rates than white business in Gary and businesses owned by out-of-town whites were assessed at higher rates than those owned by local whites.[445] Crile also discovered that Fadell used his payroll to dole out bribes before elections. Prior to the 1966 election, for example, Fadell's staff ballooned to 802 employees. After the election, 765 staffers were dropped.[446] This effectively amounted to a $37,500 public subsidy to Fadell's campaign, Crile calculated.[447] It was a pattern than Fadell had repeated in other elections.[448] In part, Fadell avoided censure for so long through strenuous efforts at destroying his paper trail. Faced at one time with the threat of a federal grand jury investigation, Fadell had a "truckload" of documents buried in the city dump.[449] Ironically, early in his career Fadell portrayed himself as the enemy of the type of corruption he now embodied.

By the late-1960s, the face of corruption in Gary was former Major George Chacharis. At the beginning of the 1960s, Chacharis controlled Gary's formidable Democratic machine. Chacharis had built his career largely on tax politics and had once portrayed himself as a tax reformer. The Greek-born Charcharis got his start in Gary politics through ethnic and social organizations, including Club SAR, which Chacharis founded with 21 friends. Chacharis engineered the successful 1946 campaigns of two social club friends – Peter Mandich and Steve

[444] Silverman to Babcock, "Prelimary Memo on Lake County Tax Crisis," 1971, Box 13, Folder 1, Lynd Papers, WHS
[445] Silverman to Babcock, "Prelimary Memo on Lake County Tax Crisis," 1971, Box 13, Folder 1, Lynd Papers, WHS
[446] Silverman to Babcock, "Prelimary Memo on Lake County Tax Crisis," 1971, Box 13, Folder 1, Lynd Papers, WHS
[447] George Crile, "A Tax Assessor Has Many Friends," *Harpers* (November 1972)
[448] George Crile, "A Tax Assessor Has Many Friends," *Harpers* (November 1972)
[449] Silverman to Babcock, "Prelimary Memo on Lake County Tax Crisis," 1971, Box 13, Folder 1, Lynd Papers, WHS

Gersack – for two patronage-rich offices, Calumet Township Trustee and Calumet Township Assessor. Once in office, the two WWII veterans benefitted from doling out the hundreds of jobs each office controlled, as well as the local "Red Scare" mentality, which undercut more left-leaning Democrats.[450] With a growing reputation in politics, Chacharis worked as an engineer at U.S. Steel before resigning to strike it big in the oil and coal business.[451] Much of that fortune came from the fact that the well-connected Chacharis's oil company secured lucrative government contracts making it the sole provider of fuel to local welfare recipients.[452] Expanding his political influence, Chacharis would then engineer the successful campaign of Pete Mandich for mayor, and Mandich would return the favor by appointing Chacharis as city controller.[453]

As controller, Chacharis used his knowledge of U.S. Steel from his time as an engineer at the plant to push for the reassessment of Gary Works, despite the objections of Gersack.[454] A 1956 investigation by Chacharis found that U.S. Steel was dramatically underassessed. "We deplore the low assessed evaluation in the City of Gary, which is one of the wealthiest per capita communities in the United States," Chacharis wrote to the Lake County Tax Board of Review. "The reason for this is that there are several large property owners who are enjoying special preferential treatment by having low assessed evaluations." Chacharis said that he was "appalled" by U.S. Steel's low assessment, in particular. According to the City Controller's office's calculations, U.S. Steel was being assessed at three percent of replacement value, while the average homeowner was being assessed at one-third of replacement value. In 1956, U.S.

[450] Al Renslow, "The Immigrants' Climb to Legitimacy: The Rise of George Chacharis, Gary's Immigrant Mayor," 1975, Box 1, Folder 1, George Chacharis Collection (CRA-018), IUN
[451] Al Renslow, "The Immigrants' Climb to Legitimacy: The Rise of George Chacharis, Gary's Immigrant Mayor," 1975, Box 1, Folder 1, George Chacharis Collection (CRA-018), IUN
[452] Norman Glubok, "Gary's Story – A Long Road to Corruption," *Chicago American*, December 3, 1962
[453] Al Renslow, "The Immigrants' Climb to Legitimacy: The Rise of George Chacharis, Gary's Immigrant Mayor," 1975, Box 1, Folder 1, George Chacharis Collection (CRA-018), IUN
[454] Al Renslow, "The Immigrants' Climb to Legitimacy: The Rise of George Chacharis, Gary's Immigrant Mayor," 1975, Box 1, Folder 1, George Chacharis Collection (CRA-018), IUN

Steel's properties were assessed at just under $65 million, while Chacharis said that, even by "cautious and extremely conservative" industry measures, the company's true assessment should have been $355 million. By influencing local assessors, Chacharis argued, steelmakers were able to generate artificially low average assessments, so that any individual steelmaker could successfully challenge an attempt to raise its assessment by arguing that a higher assessment would place it "in an unfair competitive position with his rivals." The only way to solve the underassessment problem for any individual steelmaker would be "to reassess all heavy industry in Calumet and North Townships to eliminate the perennial legal histrionics displayed by the major steel producers whenever their assed evaluation is attacked." Low assessments for the steel makers, in particular, were driving up tax rates for everyone else. "Unless the present ridiculously low assed valuation of U.S. Steel and other shirking large property owners in the community is raised, we will be faced with an unprecedented $9.00 tax rate in the city of Gary," Chacharis wrote.[455] Eventually, he state tax board granted Chacharis a 10 percent rise in U.S. Steel's assessment, far less than the discrepancy in assessment.[456] Riding this image as a reformer, Chacharis became mayor in 1958 when Mandich resigned to run for county sheriff. Chacharis won his own term in office the following year. Chacharis's colorful, picture-filled 1959 booklet – "A Mayor for ALL the People" – proclaimed, "Here is an account of labor exerted unsparingly for the people of our City by a great Mayor and a great man – George Chacharis." At its centerfold, "A Mayor for ALL" featured a two-page spread on taxes in Gary.

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455 "Lake County Tax Board of Review," July 11, 1956, Box 1, Folder 35, George Chacharis Collection (CRA-018), IUN

456 Al Renslow, "The Immigrants' Climb to Legitimacy: The Rise of George Chacharis, Gary's Immigrant Mayor," 1975, Box 1, Folder 1, George Chacharis Collection (CRA-018), IUN

"They Said It Couldn't Be Done…. But Mayor Chacharis Did It…Gary's Civil City Tax Rate Cut Again!" the two-page headline read in bold type.[457]

Chacharis's term as mayor would be brief, however. In February 1962, Chacharis and six others – Mandich, City Engineer Harold Zwei, head of the city's auto license bureaus John Diamond, retired policeman George Pavol, accountant Willmar Chulock, and the mayor's brother Peter Chacharis – were indicted on federal tax fraud charges.[458] Chacharis was indicted on eight counts for failing to report $226,696 in "payoffs."[459] U.S. attorney Jay Goldberg, a special aid to Attorney General Robert Kenney's rackets and crime division, led the grand jury that handed down the indictments.[460] The roots of the Justice Department investigation went back to 1958, when Robert Kennedy investigated Lake County as a special council for the Senate Rackets Investigation Committee.[461] Oral Cole, the IRS agent who later assisted Crile's investigation of Fadell, had helped uncover a pattern of corruption that brought Chacharis down. Chacharis initially defended himself by claiming that "Anglo-Saxon elements," whom he compared to anti-black racists, were behind his indictment.[462] According to the indictments, Chacharis and the other defendants made "demands upon contractors performing construction work in Lake County, Indiana…for the payment of substantial sums of money…in order for the contractors to obtains preferential treatment" from the government. The kickbacks were then

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[457] "A Mayor for ALL the People," Box 1, Folder 38, George Chacharis Collection (CRA-018), IUN
[458] "What Those Charged Are Saying," *Gary Post-Tribune*, February 22, 1962. Separately, five Hammond city council members – a bipartisan mix of two Democrats and three Republicans – were charged with failing to report $413,000 in payoffs from a company that operated a sand mine in Hammond. Untitled, Box 7, Folder 16, Elmer Jacobsen Collection (CRA-309), IUN
[459] "Background on Indictments Goes Back 2 Years to JFK Visit," *Gary Post-Tribune*, Undated, Box 7, Folder 16, Elmer Jacobsen Collection (CRA-309), IUN
[460] Guy Slaughter, "7 Separate Jury Trials Scheduled," *Gary Post-Tribune*, Undated, Box 7, Folder 16, Elmer Jacobsen Collection (CRA-309), IUN
[461] "No Hint Given on Extent of U.S. Probe," *Hammond Times*, February 23, 1962; "Background on Indictments Goes Back 2 Years to JFK Visit," *Gary Post-Tribune*, Undated, Box 7, Folder 16, Elmer Jacobsen Collection (CRA-309), IUN
[462] Edward S. Gilbreth, "12 Indicted in Indian Fight Back," *Chicago Daily News*, February 22, 1962

funneled through dummy corporations with names like "Haze Engineering" and "Universal Services Co." and the conspirators planned eventually to declare the payments as long-term capital gains.[463] When *Hammond Times* reporters approach citizens "at random" on the street following the indictments, they "got almost similar comments from each person." "Many of the citizens, complaining about high taxes and high cost of living, said they were pleased to see that the federal government stepped in to compel those in high public office to pay their taxes too," the paper reported. Thelma Kmetz, a press operator, told the *Times*, "We're hard working people and pay plenty of taxes and just because they're in high office doesn't give tem the right to evade paying taxes."[464]

The trial that followed proved to be as much a commentary on the dysfunction of the tax system as an investigation of political corruption. During the trial the jury was treated to testimony cataloging one shocking act after another. Chacharis was said to have received $8,787 in payoff money in exchange for one sand mining contract and $100,00 for another. A construction firm working on Indiana toll roads funneled $10,000 to the mayor. In exchange for a $208-a-day sewer-cleaning contract, a company kicked $20,750 back to Chacharis.[465] Moreover, the graft-ridden projects seemed doomed to failure. The roof of city hall leaked. The top floor of the city's newly constructed parking garage crumbled because the cement mix contained too much sand. The city's new two million dollar storm sewer did not deliver the drainage promised.[466] In a bizarre defense strategy, lawyers representing Chacharis and the other defendants argued that a whole range of federal tax deductions and exemptions, mainly for businesses, could be summed in such a way that Chacharis would not technically have been

[463] "Text of Federal Indictments Returned Against 12 Men," *Gary Post-Tribune*, Feruary 25, 1962
[464] "Indictments Cause Public Indignation," *Hammond Times*, Undated, Box 7, Folder 16, Elmer Jacobsen Collection (CRA-309), IUN
[465] Norman Glubok, "Gary's Story – A Long Road to Corruption," *Chicago American*, December 3, 1962
[466] Norman Glubok, "Gary's Story – A Long Road to Corruption," *Chicago American*, December 3, 1962

guilty of tax evasion on the income from kickbacks and bribes, since they would not have owed federal tax at all. Joseph Solon, one of the defendants' attorneys, argued in his opening statement that the case boiled down to "what is deductible and what is not deductible." Among other arguments, Chacharis's lawyers said that taxing the former mayor for money funneled through dummy corporations amounted to double taxation, since either the corporations or others who had received the income already paid taxes. If the defendants had not used dummy corporations and simply accepted the bribes directly, they would have paid fewer taxes. "I didn't know it was a crime to pay more taxes than you owe," Solon argued. "The government wants the taxes paid for a second time." The defense also argued that any bribes Chacharis plowed into the local Democratic Party counted as deductible political contributions.[467] Moreover, many in the public harbored a sneaking suspicion that – even if they were convicted – Chacharis and the other defendants would still get off easy when it came to taxes. Oral Cole told the jury how the defendants had continually failed to provide key documents to the IRS. Without these "elusive" records, a full accounting of the mayor and his co-conspirators' ill-gotten gains could not be made.[468] In a moment of poetic irony, the courtroom had to be cleared during trial of Chacharis and his co-conspirators because of the overwhelming stench from a nearby refinery.[469] In December 1962, Chacharis switched his plea to guilty and resigned as mayor.[470] Chacharis told a hushed courtroom that he was guilty of "some of the things" alleged by the Justice Department.[471] In sentencing Chacharis to three years in federal prison, Judge Robert A. Grant chastised the former mayor for betraying the public's trust. The real threat to the U.S. came not

[467] Dave Samuels and Guy Slaughter, "Testifies Chacharis Owes $107, 974 Tax," *Gary Post-Tribune*, December 7, 1962; "Chacharis Tax Trial," *Gary Post-Tribune*, November 15, 1962
[468] Guy Slaughter and Dave Samuels, "Defendant's Tax Records 'Elusive,' IRS Agent Says," *Gary Post-Tribune*, December 3, 2012
[469] Thomas Connor, "Judge Allows Gary Stock Deal Evidence," *Chicago Daily Tribune*, November 30, 1962
[470] "The Case Is Not Yet Ended," *Gary Post-Tribune*, May 1, 1963
[471] "Chacharis Quits, Pleads Guilty; 3 Other Freed," *Gary Post-Tribune*, December 12, 1962

from communism, Grant declared, but from officials that undermine the public's confidence in its government. Grant also criticized Chacharis for failing to pay his fair share of taxes. Average wage earners, Grant argued, could not avoid the taxes deducted from every paycheck. They pay their fair share even though they would rather keep the money. Chacharis, on the other hand, played by a different set of rules. "Just because taxes are heavy or unpleasant, it doesn't make the cheating any less of a violation," Grant said from the bench. "Cheating on taxes is the same as stealing." Chacharis's actions bred public cynicism and apathy. Grant told Chacharis that if it was legally possible to fine him more than the maximum $10,000, he would.[472]

From the beginning of his career, Fadell was tied to the Chacharis machine. In 1958, Fadell, a young lawyer and former marine, announced that he would challenge Gersack for assessor, and Chacharis backed him over longtime friend Gersack.[473] However, following Chacharis's conviction, Fadell attempted to cultivate an image as a maverick. In 1962, Fadell publicly announced his break from "all county factions" in the Democratic Party, including Chacharis. With this declaration, Fadell "shouldered his way into the battle for ultimate control of Gary and County Democratic politics," as one paper put it." Local Democratic leaders were surprised, given Chacharis's past support of Fadell. But the assessor claimed that, when other Democrats looked at his political team, they saw "an organization of champions, and they're scared."[474] When Fadell ran unsuccessfully for mayor in 1963, in the wake of Chacharis's inglorious fall, Fadell circulated campaign flyers attacking his opponent A. Martin Katz that depicted Katz in a crowd of local Democratic Party leaders, dubbed "The Collaborators,"

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[472] Dave Samuels, "Prison Term Starts Next Wednesday," *Gary Post-Tribune*, January 13, 1963; "Re: George Chacharis," January 18, 1962, Box 7, Folder 17, Elmer Jacobsen Collection (CRA-309), IUN

[473] Al Renslow, "The Immigrants' Climb to Legitimacy: The Rise of George Chacharis, Gary's Immigrant Mayor," 1975, Box 1, Folder 1, George Chacharis Collection (CRA-018), IUN

[474] "Fadell Renounces All Ties in Bid for top Power," Undated, Box 7, Folder 5, Elmer Jacobsen Collection (CRA-309), IUN; "Fadell: No Help From Machine," *Gary Post-Tribune*, May 10, 1962

including Chacharis, who – the flyer noted – was in federal prison for tax evasion. "Vote for a Chance to End Graft in Gary, Elect Tom Fadell Mayor," the flyer declared. "He Beat the Machine – His Hands are Clean!"[475]. Not surprisingly, though, Fadell had a hard time escaping his association with Chacharis. During the 1964 campaign, mysterious anti-Fadell flyers emerged featuring a photo of Fadell shaking hands with Chacharis in 1958 after Fadell's first victory. "Machine Victorious – Fadell Wins," the flyer read. "What machine did you beat Tom? Are your HANDS clean Tom?"[476]

Despite his attempts to portray himself as independent, charges of corruption dogged Fadell from the time he took office. Though nominally supervised, an assessor like Fadell was virtually a "one-man legislature," as ACIR put it in 1963. Like in many states, assessors in Indiana were not required to have any professional training or qualifications. For many Indiana assessors, the position was only part-time. Fadell ran his own business, which allegedly had contracts with U.S. Steel, on the side.[477] As noted earlier, IRS agent Cole had attempted to nab Fadell during his investigation into Chacharis, but had been forced to drop his inquiry into Fadell.[478] Still, corruption in Fadell's office was public knowledge. As early as 1962, for example, the *Gary Crusader*, a black weekly newspaper, accused Fadell of using his budget for political purposes and "padding" his payroll with well-connected individuals – including members of city council and their families, Chacharis's relatives, and Fadell's own family members – who performed no assessment work. Most Calumet Township residents had no knowledge of Fadell's payroll, the *Crusader* charged, because Fadell met the legal requirement

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475 "The Collaborators," 1963, Box 1, Folder 38, George Chacharis Collection (CRA-018), IUN
476 "Machine Victorious," Undated, Box 1, Folder 38, George Chacharis Collection (CRA-018), IUN
477 Carey and Mazo to Crile, January 4, 1970, Box 12, Folder 7, Lynd Papers, WHS
478 George Crile, "A Tax Assessor Has Many Friends," *Harpers* (November 1972)

to publish his payroll by submitting it to tiny, low-circulation, infrequently published publications in cities like Whiting and Hessville.[479]

By the mid-1960s, Fadell was so powerful that he made little attempt to distance himself from charges of corruption. Most ostentatiously, Fadell gave Chacharis a job at the assessor's office following Chacharis's release from prison. Even worse, Chacharis ran afoul of the IRS again following his prison term. This time, the IRS investigated Chacharis for potential "gifts" he received at a "testimonial picnic party" in 1967. During the inquiry, Fadell served as Chacharis's representative to the IRS, creating a somewhat incestuous employer-employee, representative-client dynamic between Fadell and the disgraced mayor.[480] Fadell also made no secret of his favoritism to businesses – at least the right ones. In 1966, Fadell distributed a letter to some local businesses announcing that his office would "look with favor" on companies' depreciation claims, which he said would be judged on the "merits" of the business's claims. This change, Fadell explained, was "to make our business and industrial assessments more favorable and to help a taxpayer reach a moral judgment to make full disclosure of his assessable property." Fadell claimed that his new guidelines were "within the assessing laws of Indians." However, he cautioned local business owners that "these 'Fadell Guidelines' obtain only in Gary, Griffith, and Calumet Township [Fadell's coverage area]" before signing the latter, "Your Friendly Assessor, Tom Fadell."[481]

With the emergence of CCC and the involvement of Nader, BPI, and Crile, however, it seemed that the "friendly assessor" would soon found himself in prison too. Given how much of Gary's tax dysfunction sprang from Fadell directly, "Raider" Silverman concluded, "[T]he first

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[479] "Iron Curtain Lowered Over Calumet Township Assessor," *Gary Crusader*, August 7, 1962
[480] Aughey to Fadell, October 2, 1970, Box 1, Folder 11, George Chacharis Collection (CRA-018), IUN
[481] Fadell, "1966 Special Instructions," Undated, Box 13, Folder 2, Lynd Papers, WHS

priority is to get Fadell removed from office, and the second to get him thrown in jail."[482] Not surprisingly, as it became clear that his assessments were the target of the CCC and Nader-led coalition, Fadell came out swinging. In a press release, Fadell called CCC "a Hatcher front organization used to aid him in his illegal registration drive in Gary."[483] Fadell's release went on to charge that CCC had "only a handful of persons," and that its supposed activities were actually directed by Hatcher, the *Post-Tribune*, and even the federal government.[484] But, with Crile's research in hand and their collective organizing and publicity muscle, the coalition had little concern that Fadell could stop them. Instead, the coalition's members saw taking down Fadell as only the first step in cleaning up taxes in Lake County. Following their attack on Fadell, the coalition could move on to broader property tax reforms. "There is widespread community support for an overhaul of the property tax structure in Lake County," Silverman wrote in a memo analyzing the situation in Gary, and Silverman believed that support for reform would grow as CCC and other grassroots groups continued to agitate for reform.[485]

However, as the CCC and Nader-headed coalition seemed poised to make sweeping progress in Lake County, the movement faltered. The coalition planned a "coordinated attack" on Fadell in late-1971.[486] The grassroots muscle of CCC was key to this attack. However, with both Wright and Lynd – who would soon enroll in law school and become a labor attorney – no longer associated with the group, the coalition was severely weakened. The already limping CCC completely collapsed during its 1971 convention. George Sullivan, a former Teamster with a criminal past – whom the IAF staff dubbed "a con man" and "no damn good" – narrowly won

[482] Silverman to Babcock, "Prelimary Memo on Lake County Tax Crisis," 1971, Box 13, Folder 1, Lynd Papers, WHS
[483] "For Release," March 17, [1971], Box 1, Folder 35, George Chacharis Collection (CRA-018), IUN
[484] "For Release," March 17, [1971], Box 1, Folder 35, George Chacharis Collection (CRA-018), IUN
[485] Silverman to Babcock, "Prelimary Memo on Lake County Tax Crisis," 1971, Box 13, Folder 1, Lynd Papers, WHS
[486] George Crile, "A Tax Assessor Has Many Friends," *Harpers* (November 1972)

the presidency of CCC, after packing the convention with sympathetic attendees.[487] Sullivan quickly moved to force former president Ken Tucker out of CCC as punishment for endorsing Sullivan's opponent.[488] He also tried to fire Mike Barnes, claiming that Barnes "lost his effectiveness as an organizer" by backing Sullivan's opponent, too.[489] "Unless the direction is changed and the wounds are healed, we'll be in a lot of trouble…," Tucker told the *Post-Tribune*. "We should be fighting government neglect and corruption, not each other."[490] However, the CCC senate voted 79 to 25 to keep Barnes, leading to Sullivan "threatening to kill people," as an IAF memo reported to Alinsky.[491] Eventually, Sullivan and his allies left CCC to form a rival organization. What was left, however, were two ineffective and weakened organizations that quickly petered out. Ultimately, then, the potent combination of the CCC's early bowing to Krupa's attacks and ousting Lynd, Father Baroni's poaching of Wright, and boilerplate factionalism led to CCC's downfall. Making matters worse for the coalition, the *Gary Post-Tribune* quashed George Crile's already-written series of article exposing Fadell's corruption, for which Crile had hoped Nader would write an introduction.[492] When local alternative newspaper *The Catalyst* published an article outlining Fadell's corruption based on Crile's as-yet-unpublished series – which had circulated among CCC and Nader activists – Ridder newspapers, the publisher of the *Post-Tribune,* fired Crile (who would later become a correspondent on CBS's *60 Minutes*).[493] With that, the coalition had crumbled, and the entire task of tackling taxes in Lake County fell to Nader. As we will see in the next chapter, though, Nader did not fail to follow through on the coalitions' early promise, and, thanks to that persistence, Fadell would

[487] Chamber to Alinsky, February 18, 1972, IAF, B 38, F Chambers Memos 1972, UIC
[488] "CCC President Candidate Cites Poor Political Focus," *Hammond Times*, October 14, 1971
[489] "CCC Axes Barnes for Picking Sides," *Hammond Times*, January 18, 1972
[490] "CCC Aide Suspended," *Gary Post-Tribune*, January 14, 1972
[491] Chamber to Alinsky, February 18, 1972, IAF, B 38, F Chambers Memos 1972, UIC
[492] George Crile, "A Tax Assessor Has Many Friends," *Harpers* (November 1972)
[493] George Crile, "A Tax Assessor Has Many Friends," *Harpers* (November 1972)

eventually see justice. Moreover, as discussed later in this chapter, the ideas that CCC embodied would affect not only the Democrats and activists who praised it upon its founding, but also the Nixon White House and the president himself.

Nixon's New Economic Policy and the Backlash Against It

After the 1970 midterms, the Nixon administration was determined to make a new start. On economic policy, it moved hastily to put inflation-fighting austerity in the rearview mirror and focus on a vigorous pursuit growth. Meeting November 19th, President Nixon, John Ehrlichman, and his economic advisers discussed why the economy was not growing the way they had earlier predicted. Herber Stein argued a seven percent growth in the money supply would not be enough to jump-start the economy and suggested a "more expansionary fiscal policy" in concert with monetary growth. Schultz and others agreed.[494] The CEA's second public "Inflation Alert," released in December 1970, made the transition clear. Despite the report's title, it made plain that growth, not inflation, was the administration's main concern. "The acceleration in the rate of inflation has been halted…. Nevertheless, the rate of inflation remains higher than had been expected at this stage…. At the same time there is considerable slack in the economy…," the report noted on the first page. "While general policies must be tempered by the need to avoid a speeding-up of inflation, it is appropriate that these policies should now aim more vigorously at expansion. We believe it is possible for the expansion of output and employment to proceed while the rate inflation continues to subside."[495] The recession that hampered the GOP in the midterms officially ended in November, though the

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[494] Meeting Minutes, November 20, 1970, WHCF, Special Files, Confidential Files, B 2, F [CF] BE Business/Economics [1969-1970], RNPL
[495] "Second Inflation Alert," December 1, 1970, WHCF-BE, B61, F EX BE 5-3 [6 of 8], RNPL

unemployment rate continued to rise.[496] If President Nixon had his way, the nation's voters would never again associate him with the pain of unemployment, or the staid Republican ideology of tight-fisted inflation fighting. But the lingering conservatism in Nixon's "New Economic Policy" would provide the administration political headaches in the form of challenges from Ralph Nader and other left-distributionist reformers. In the process, Nader and these reformers would strike a blow not only against Nixon's remaining tax conservatism, but also against the very idea of impartial, fiscalist tax expertise.

With a full docket of new spending programs – from Revenue Sharing to national health insurance – on the White House's agenda following the year-end meeting, the administration continued to push Arthur Burns and the Fed to comply with Nixon's new stimulus-focused mindset. Following the midterm debacle, even the slightest departure from a steady path of generous monetary growth was not only a cause of concern for the White House, but an event worthy of pushback against Burns by high-level advisers. "I should write Arthur a memorandum, indicating that it has been represented to us that the flattened money supply curve in the two months prior to the [1970 midterm] election resulted from a conviction that the General Motors strike would diminish the demand for money…," Ehrlichman wrote in a December memo. "I think we should call the Fed on this and indicate that we strongly disagree with the philosophy involved in order to keep the maximum pressure on Arthur in this area."[497] Privately, Burns promised the White House an "adequate but not excessive" growth in the money supply, as Ehrlichman relayed to Nixon in a March 1971 memo. But the Fed chair also advised White House pursue further fiscal stimulus to bolster growth.[498] It was advice Nixon was happy to

[496] FRED
[497] Ehrlichman to Flanigan, December 3, 1970, WHCF-BE, B61, F EX BE 5-3 [6 of 8], RNPL
[498] Ehrlichman to Nixon, March 17, 1971, PNWH-6

follow, but there proved to be one lingering impediment to full-throated "growth economics" – inflation.

The 1970 recession had halted inflation. However, inflation's decline proved to be less steep than White House advisers had hoped. After peaking at nearly 6.5 percent in February 1970, the CPI dropped gradually to 4.2 percent in April 1971, barely lower than where it stood when Nixon took office and far above the 1.5-to-3 percent range where inflation had stood prior to the late-60s uptick. Even worse, after reaching its low in April, the CPI again moved upward slightly, then plateaued throughout the summer of 1971.[499] The White House's continued focus on raising economic growth and lowering unemployment, even in the face of persistent inflation, demonstrated a decided shift from the moderate conservatism embodied in its earlier policy of "gradualism," which had been championed by Milton Friedman, among others. While Nixon and his "Friedman-esque" advisers, like Shultz, had paid keen attention to the University of Chicago economist's advice at earlier points in the president's term, the post-midterm shift towards growth was clearly out-of-step with the libertarian monetarist's views. In mid-1971, Friedman cautioned the administration that progress against inflation would stall if Burns continued to increase the money supply. He also argued that a wage-price freeze or controls would be "disastrous."[500] Yet, it was at that very moment that the White House was considering controls more seriously than ever before.

Any consideration of controls had long been fraught with politics – of both the inter- and intra-party varieties. Democrats had essentially been challenging Nixon to implement wage-price controls since granting the president authorization during the 1970 midterm campaign. On August 1st, 1971, the New York Democratic congressional delegation – led by left-liberal

[499] FRED
[500] Shultz to Nixon, June 28, 1971, WHCF-BE, B61, F EX BE 5-3 [6 of 8], RNPL

luminaries Bella Abzug and Shirley Chisholm, as well as Ed Koch, Hugh Carey, and Charles Rangel, among others – wrote to Nixon to "respectfully request the immediate application of necessary controls on wages and prices as were authorized by Congress in 1970." Given the suffering of "the consumers, the laborers, and the business leaders" because of inflation, the New York delegation argued, "there is no longer any reason or excuse for the failure to implement wage and price controls…."[501] But the idea of controls had been strenuously resisted by Nixon's formal and informal economic advisers, including, most vocally, Milton Friedman. There existed, however, one key dissenter within Nixon's inner circle when it came to wage-price policies – Arthur Burns.

Arthur Burns had long been one of Nixon's closest – and most loyal – economic advisers. When it came to combating inflation, though, the man appointed by Nixon just months earlier to head the Federal Reserve now parted company with the president. Beginning in May 1970, Burns publicly advocated for wage-price guidelines as part of the fight against rising prices.[502] Nonetheless, with the support of his other key economic advisers, Nixon continued to resist any form of "incomes policy." Into late-1970 CEA chair Paul McCracken encourage Nixon to resist any jawboning, wage-price guidelines, or controls. Instead, McCracken proposed that Nixon hit unions by suspending Davis-Bacon, among other maneuvers to lower wage increases. Moving towards guidelines, in McCracken's view, would make Nixon appear weak. "[S]ince the chairman of the FRB [Burns] proposed this in a highly publicized speech, the administration's moving in that direction would…be interpreted as the president being forced to capitulate on this issue," McCracken cautioned.[503]

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[501] NY Dems to Nixon, August 1, 1971, WHCF-BE, B60, F EX BE 5-2 [4 of 9], RNPL
[502] H. Erich Heinemann, "Wage Guide Urged by Burns in Break with Nixon Policy," *New York Times*, May 19, 1970; H. Erich Heinemann, "Burns's Incomes Policy," *New York Times*, May 20, 1970
[503] McCracken to Nixon, December 28, 1970, PNWH-6; Ehrlichman to Nixon, January 9, 1971, PNWH-6

Burns would not be deterred, however. Echoing the Democrats, who hammered the president for the "Nixonomics" of simultaneously high inflation and unemployment, Burns lamented in his private diary that "the sycophants around the White House…keep talking about the money supply and the excessive caution of the Fed," rather than recognizing the need to tackle inflation, too. "What the boys that swarm around the White House fail to see is that the country now faces an entirely new problem," Burns wrote in a November 1970 diary entry, "namely, a sizeable inflation in the midst of recession; that classical remedies for fighting inflation or recession will simply not do; that new medicine is needed for the new illness…and that…'income policy' is absolutely necessary…."[504] Burns increasingly sought to act on his conviction. In Congressional testimony, speeches, and Quadriad meetings at the White House, Burns continued to push Nixon to adopt some type of "incomes policy." In early-1971, Burns joined George Romney and other pro-jawboning and guidelines cabinet officials in secret meetings. Other members of the administration, including Nixon, Shultz, and Ehrlichman were "totally unaware" of the group's existence until word of it leaked in March.[505] Burns also repeatedly expressed his belief that traditional monetary and fiscal restraint would not be enough to break the "inflationary psychology" that gripped the country. "I don't think that our fiscal policy and our monetary policy are sufficient to control inflation," the Fed chair told the Senate in March. "Experience indicates that pretty clearly in our own country and even more dramatically in other countries, particularly in Canada and Great Britain. Therefore, I urge on the

[504] Arthur Burns Journals, November 23, 1970, Green Notebook, January 20, 1969 - August 12, 1971 (1)-(3), GFPL (http://www.fordlibrarymuseum.gov/library/document/0428/Burnstranscript1.pdf)
[505] Ehrlichman to Nixon, March 18, 1971, PNWH-6

administration and on the Congress an incomes policy."[506] Burns also led the Federal Reserve Board in a series of votes in support of a wage-and-price review board.[507]

Yet, throughout the spring and summer of 1971, the White House failed to act. In June, Burns sent Nixon a long letter firmly stating his oft-ignored position. "[I]t is doubtful whether we have made any progress in moderating the pace of inflation…," he warned Nixon. "I realize that more optimistic interpretations have been made…both within and outside the administration. I have tried to read the evidence their way; I find that I cannot do so." Just as Burns had recorded in diary, the Fed chair told Nixon that the country was facing "an entirely new economic problem….namely, an inflation feeding on itself at a time of substantial unemployment." Burns's explanation for this persistent inflation was decidedly conservative – labor unions, strong economic growth, and the welfare state, Burns argued, had made workers less fearful and therefore more willing to demand high wages. However, Burns solution recalled economic ideas usually proposed by Democrats and sharply opposed by conservatives and most Republicans. The Fed chair told Nixon to pursue "emphatic and pointed jawboning, followed by a wage and price review board...followed…by a six-month wage and price freeze."[508]

Nixon had long opposed wage-and-price controls, but after the 1970 midterms his opposition began to waiver. Nixon's personal resistance to controls dated to his experience working for the WWII-era Office of Price Administration, and in the first years of his administration the president had often linked his opposition to controls with his time at the OPA in discussion with advisers. But in an early post-midterms meeting with his closest domestic

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[506] Edward Nelson, "Milton Friedman and the Federal Reserve Chairs, 1951-1979," Federal Reserve (October 23, 2013) (http://eml.berkeley.edu/~webfac/cromer/Nelson.pdf); Edwin L. Dale, Jr.," Burns Hits Nixon Decision on Wage and Price Review," *New York Times*, July 1, 1971

[507] Allan H. Meltzer, *A History of the Federal Reserve, Volume 2, 1951-1969* (University of Chicago, 2010), 625-626

[508] Burns to Nixon, June 22, 1971, PNWH-6

policy advisers Nixon seemed to open the door to using wage-and-price controls to deal with inflation.[509] In January, Nixon broached the subject of a wage-price board and a wage-price freeze. McCracken predicted that a freeze would garner "much instant support, but a year later – 1972 – [it] would be clear it doesn't work." While many advisers supported the idea of taking a strong stand against unions, Nixon demurred. "Unions [are] not the major source of the trouble," Nixon said, before adding that they could "kick" the "locals that are irresponsible" at the same time that they kicked steel companies for raising prices.[510] Meeting with the Construction Industry Collective Bargaining Commission on January 18, Nixon made it clear that "the administration's position and mine personally" was to avoid blaming rank-and-file workers. "Can't blame union for asking [for] more wages when prices go up," Nixon explained. "National leaders of unions can't control pressures below," Nixon noted later. Yet, the president still felt that jawboning had problems and that a "freeze would create inequity, unfairness."[511] Moreover, several key economic advisers continued to strenuously oppose any form of "incomes policy." Most did so not because they were concerned about "unfairness" in the application of controls, but because they were philosophically opposed to government intervention in the economy. Peter Flanigan wrote a point-by-point rebuttal of Burns's letter for Nixon and reserved his strongest suggestion of controls.[512] Likewise, Milton Friedman soothed Nixon by noting that he had "made real progress against inflation." Its persistence, the monetarist argued, could be blamed on the Fed's "very large increases in the money supply over the past four months." Pursuing a wage-

[509] Meeting Minutes, November 20, 1970, WHCF, Special Files, Confidential Files, B 2, F [CF] BE Business/Economics [1969-1970], RNPL

[510] Ehrlichman Notes, January 13, 1971, WHSF, SMOF, Ehrlichman, B4, F JDE Notes 1/5/71-4/21/71 [1 of 6] RNPL; Ehrlichman Notes, January 15, 1971, WHSF, SMOF, Ehrlichman, B4, F JDE Notes 1/5/71-4/21/71 [1 of 6] RNPL

[511] Ehrlichman Notes, January 18, 1971, WHSF, SMOF, Ehrlichman, B4, F JDE Notes 1/5/71-4/21/71 [2 of 6] RNPL

[512] Flanigan to Nixon, June 28, 1971, WHCF-BE, B61, F EX BE 5-3 [6 of 8], RNPL

price freeze would be "disastrous," Friedman told Nixon.[513] The Chicago economist also took time to send Burns a "scathing" letter denouncing the Fed chair's support of an "incomes policy."[514]

Events outside the realm of technocratic policymaking, though, proved to be the most important factor in Nixon's ultimate decision. However strongly conservatives opposed them and whatever Nixon's own personal reluctance to pursue them, the political realities pointed towards the adoption of controls. More than 60 percent of Americans told pollsters that they supported wage-price controls in early-1970. In fact, surveys now showed, Nixon noted himself, that inflation – rather than unemployment – was now the top economic issue. Wage and price controls "have always polled 2:1 in favor," the president explained. "Inflation is a big issue…," Nixon said. "[We need to do] something every couple of months." Or, as Nixon put it a few days earlier, [We] must let people know we care about the problem – that's what it's all about."[515] For political success, then, Nixon needed not only to pursue unemployment-cutting growth, as he had planned, but also lower inflation – a tall task given the unprecedented condition of high unemployment and persistent inflation. Nixon's options were limited. The method of combating inflation preferred by Friedman and other economic conservatives – monetary and fiscal restraint – was a political nonstarter for Nixon. But, inadvertently, Friedman revealed the appeal of controls. The libertarian warned Nixon that controls "would lead to over stimulative polices, on the erroneous assumption that wages and prices are under control."[516] This defect of controls, at least in Friedman's view, was precisely what could make controls so attractive to Nixon. The

[513] Shultz to Nixon, June 28, 1971, WHCF-BE, B61, F EX BE 5-3 [6 of 8], RNPL
[514] Edward Nelson, "Milton Friedman and the Federal Reserve Chairs, 1951-1979," Federal Reserve (October 23, 2013) (http://eml.berkeley.edu/~webfac/cromer/Nelson.pdf);
[515] Ehrlichman Notes, January 13, 1971, WHSF, SMOF, Ehrlichman, B4, F JDE Notes 1/5/71-4/21/71 [1 of 6] RNPL; Ehrlichman Notes, January 15, 1971, WHSF, SMOF, Ehrlichman, B4, F JDE Notes 1/5/71-4/21/71 [1 of 6] RNPL; Flanigan to Nixon, June 24, 1971, PNWH-6; McCracken to Nixon, and attached, June 12, 1971, PNWH-6
[516] Shultz to Nixon, June 28, 1971, WHCF-BE, B61, F EX BE 5-3 [6 of 8], RNPL

president wanted the economy roaring during the election year of 1972. After the midterms, the administration's clear direction was towards more expansionary fiscal policies, and the White House's continued pressure on Burns for looser monetary policy – a development that Friedman lamented – made clear that Nixon wanted both the budget and the Fed to be working to ensure rapid growth and falling unemployment in his reelection year. But if both fiscal and monetary policy were to be expansionary, a new tool would be needed to hold prices in check. As Burns understood, if Nixon enacted controls, he would be free to focus the Fed on lowering unemployment – just as Nixon desired – rather than attempting to battle inflation at the same time.[517] But, though Burns grasped this economic reality, it was not yet clear if Nixon would reach the same conclusion.

As it happened, a larger economic crisis gave President Nixon the political cover to recant his longtime opposition to wage-price controls and enact them in August 1971. Nixon's newly appointed Treasury Secretary, John Connally, played a key role in this shift. The Texas Democrat was ideologically flexible, and his keen political instincts had earned Nixon's trust. As Connally assumed his post in early-1971, the U.S. was facing a crisis in its balance of payments and, therefore, its gold reserves. It was an international monetary crisis years in the making. Under the international Bretton Woods monetary system negotiated by delegates of 44 nations in 1944, the U.S. dollar became the de facto international currency, since other countries fixed their currencies to the dollar. Simultaneously, U.S. dollars could be converted into gold at a fixed rate of $35 per ounce, necessitating that the U.S. hold gold reserves for such conversions. Fluctuations in the United States' balance of payments and the international market price of gold, among other issues, ultimately made the system unstable. Beginning with President Eisenhower,

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[517] Burton A. Abrams, "How Richard Nixon Pressured Arthur Burns: Evidence from the Nixon Tapes," *Journal of Economic Perspectives* 20:4 (Fall 2006)

each successive American president had to deal with the United States' ballooning balance of payments deficit, attributable largely, though not wholly, to Cold War military excursions. President Johnson faced a run on gold sparked by a British devaluation of the pound. But the measures taken in 1968 to shore up the fracturing Bretton Woods system were only temporary solutions.[518]

President Nixon faced the same crumbling system when he took office, and by 1971 the U.S. was facing crisis once again. The outflow of the U.S. gold reserves had become unsustainable. Connally, Nixon, and Shultz developed a plan in near-complete secrecy to close the gold window, effectively suspending the convertibility of U.S. dollars into gold, among other measures. On August 13th, Nixon called all of his closest advisers, including Burns, to Camp David to debate the plans that had been drafted in secret, largely by Connally. For the most part, the debate was perfunctory. Connally already had Nixon's unflinching support. Arthur Burns strenuously argued against closing the gold window, but, ultimately, Nixon sided with Connally. The other elements of Nixon and Connally's plan were less hotly debated. Yet, they were no less controversial. Connally called for a 90-day freeze on wages and prices – an action Nixon could take unilaterally, thanks to the Democrats' previous approval of wage-price legislation. The Treasury Secretary also proposed several other measures, including a package of business tax

[518] Robert M. Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford 2000), 68-131; Allan Matusow, *Nixon's Economy: Booms, Busts, Dollars, and Votes* (University Press of Kansas, 1998), 149-181; Connally, Nixon, and Shultz Meeting, August 12, 1971, in Douglas Brinkley and Luke Nichter, eds., *The Nixon Tapes* (Houghton Mifflin Harcourt, 2014), 231-261; McCracken to Nixon, June 2, 1971, PNWH-6; Huntsman to Connally, June 8, 1971, PHWH-6; McCracken to Nixon, June 14, 1971, PNWH-6; Richard Nixon, "Address to the Nation Outlining a New Economic Policy," August 15, 1971, *Public Papers of the President*; Nigel Bowles, *Nixon's Business: Authority and Power in Presidential Politics* (Texas A&M, 2005), 162-195; Roger Lowenstein, "The Nixon Shock," *Business Week* (August 4, 2011); Hugh Sidey, "How the Nixon Team Touched Off the Economic Bombshell," *Life* (August 27, 1971); Leonard Silk, "Nixon's 'New Deal,'" *New York Times*, August 18, 1971; Warren Weaver, Jr., "Democrats Score Nixon's Program As Pro-Business," *New York Times*, August 22, 1971; Michael Bordo and Barry Eichengreen, "Bretton Woods and the Great Inflation," NBER Working Paper 14532 (December 2008); Allan H. Meltzer, "U.S. Policy in the Bretton Woods Era," *Federal Reserve Bank of St. Louis Review* (May/June 1981); Allan H. Meltzer, "Origins of the Great Inflation," *Federal Reserve Bank of St. Louis Review* (March/April 2005); Christina D. Romer, "Commentary," *Federal Reserve Bank of St. Louis Review* (March/April 2005).

cuts to stimulate the economy. Nixon announced this set of historic policies, which the president told Americans would usher in a "new prosperity," in a televised speech on the night of October 15th. Outside observers would dubbed it the "Nixon Shock," while the White House would christen it the "New Economic Policy" – a moniker that strangely recalled Vladimir Lennon's policies for Soviet Union. Though few would confuse it with Soviet communism, the NEP's elements – especially the wage-price freeze – nonetheless constituted an embrace of government interventionism out-of-step with Republican orthodoxy.[519] Still, organized labor and many Democrats denounced the "Nixon shock" immediately. Notably, George McGovern called the NEP's policies "economic madness."[520]

To curry favor for Nixon's New Economic Program, the White House – led by Colson – organized the ostensibly independent Citizens for a New Prosperity (CNP). Launched a few weeks after the NEP speech with a full-page ad in the *Washington Post*, the CNP was nominally concerned with encouraging "a nationwide spirit of self-sacrifice to hold the line on wages an prices," as the *Washington Post* put it. The CNP was chaired by Nixon friend Hobart Lewis, the president of *Reader's Digest*, and George Creel – famed director of the WWI-era Committee on Public Information – served as CNP's publicity director. Under Creel, the CRP circulated

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[519] Robert M. Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford 2000), 68-131; Allan Matusow, *Nixon's Economy: Booms, Busts, Dollars, and Votes* (University Press of Kansas, 1998), 149-181; Connally, Nixon, and Shultz Meeting, August 12, 1971, in Douglas Brinkley and Luke Nichter, eds., *The Nixon Tapes* (Houghton Mifflin Harcourt, 2014), 231-261; McCracken to Nixon, June 2, 1971, PNWH-6; Huntsman to Connally, June 8, 1971, PHWH-6; McCracken to Nixon, June 14, 1971, PNWH-6; Richard Nixon, "Address to the Nation Outlining a New Economic Policy," August 15, 1971, *Public Papers of the President*; Nigel Bowles, *Nixon's Business: Authority and Power in Presidential Politics* (Texas A&M, 2005), 162-195; Roger Lowenstein, "The Nixon Shock," *Business Week* (August 4, 2011); Hugh Sidey, "How the Nixon Team Touched Off the Economic Bombshell," *Life* (August 27, 1971); Leonard Silk, "Nixon's 'New Deal,'" *New York Times*, August 18, 1971; Warren Weaver, Jr., "Democrats Score Nixon's Program As Pro-Business," *New York Times*, August 22, 1971; Michael Bordo and Barry Eichengreen, "Bretton Woods and the Great Inflation," NBER Working Paper 14532 (December 2008); Allan H. Meltzer, "U.S. Policy in the Bretton Woods Era," *Federal Reserve Bank of St. Louis Review* (May/June 1981); Allan H. Meltzer, "Origins of the Great Inflation," *Federal Reserve Bank of St. Louis Review* (March/April 2005); Christina D. Romer, "Commentary," *Federal Reserve Bank of St. Louis Review* (March/April 2005).

[520] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 73

stickers, posters, and yardsticks, among other items, featuring slogans like "Follow the Yardstick to a New Prosperity" and "Stop Inflation: Prosperity Is a Job for Everyone." Keeping with the theme of a group concerned with voluntaristic, public-spirited anti-inflation efforts, Creel compared CNP's campaign with FDR's "Blue Eagle" campaign for the National Recovery Administration.[521]

Immediately, the CRP received criticism from prominent Democrats, including Oklahoma Senator and former DNC chair Fred Harris. Harris called the group's tax-exempt status "nothing short of a public outrage" and wrote in a public letter to the IRS commissioner that CRP's publicity campaign was little more than "an obvious effort to build support for President Nixon's reelection campaign." Harris's objections were well founded. Lewis denied rumors that the White House had orchestrated the group, and told the press that the idea for CNP occurred to him "almost spontaneously" during a conversation with Marriott chair J. Willard Marriott, though Lewis did admit that they had "full cooperation form the White House." Indeed, he White House held an October reception for 150 CRP members. In contrast to its public denials, private White House documents – and later public admissions – would reveal CRP was largely the orchestration of Charles Colson. Moreover, CNP's direct-mail campaign was

[521] Colson to Nixon, and attached, November 30, 1971, B WHCF-BE 13, F EX BE3 Economic Controls [35 of 65], RNPL; CNP Agenda, October 13, 1971, B WHCF-BE 11, F EX BE3 Economic Controls [25 of 65], RNPL; CNP Newsletter, October 11, 1971, B WHCF-BE 11, F EX BE3 Economic Controls [25 of 65], RNPL; CNP Fact Sheet, Undated [1971], B WHCF-BE 11, F EX BE3 Economic Controls [25 of 65], RNPL; CNP White House Reception, October 13, 1971, B WHCF-BE 11, F EX BE3 Economic Controls [25 of 65], RNPL; "Economic Group Held Tax-Exempt," *Washington Post*, November 21, 1971; George Lardner, Jr., "Merchandising the 'New Prosperity,'" *Washington Post*, November 15, 1971; CRP Advertisement, "Prosperity Is a Job for Everyone," *Washington Post*, September 27, 1971; Lou Cannon, "Colson May Leave White House Post," *Washington Post*, November 25, 1972; Timothy S. Robinson, "Colson Ties Kissinger to Smear Idea," *Washington Post*, July 4, 1974; Richard Reeves, *President Nixon: Alone in the White House* (Simon and Schuster, 2002), 382; George Lardner, Jr., "Business Asked to Promote Prosperity," *St. Petersburg Times*, November 18, 1971; Frank Lane, "Citizens for a New Prosperity Aim at Helping Nixon Economy," *Toledo Blade*, November 25, 1971

organized by H.R. Haldeman's former ad agency, J. Walter Thompson, as well as Nixon assistant Dwight Chapin and press secretary Ron Ziegler.[522]

The words and actions of the CNP reflected its partisan genesis. The full-page *Washington Post* advertisement announcing CNP contained effusive praise for Nixon's NEP. "On August 1, America set its course toward a new prosperity without inflation…," the ad declared. "Citizens for a New Prosperity is a group of Americans – non-partisan, nationwide – who believe that the far-reaching objectives of the President's new economic policy are in the interest of all Americans." While CNP touted its "well-balanced" membership roster, it counted precious few Democrats among its members, with LBJ's Treasury Secretary Henry Fowler the most notable. Instead, Republicans and business executives overwhelmingly populated CNP. Only three labor representatives joined the CNP – a serious weakness, for a president seeking the support of "hard hats" – and all three were from the Teamsters. Instead, most of CNP's members were familiar faces in the conservative movement, like Lewis, Marriott, and Dart Industries chair Justin Dart. In its action, too, the CNP created yet another, arguably unseemly, link between the Nixon White House and major American corporations. Immediately upon its founding, CNP sent letters to executives of Fortune 500 companies, as well as 2,000 other U.S. corporations,

[522] Colson to Nixon, and attached, November 30, 1971, B WHCF-BE 13, F EX BE3 Economic Controls [35 of 65], RNPL; CNP Agenda, October 13, 1971, B WHCF-BE 11, F EX BE3 Economic Controls [25 of 65], RNPL; CNP Newsletter, October 11, 1971, B WHCF-BE 11, F EX BE3 Economic Controls [25 of 65], RNPL; CNP Fact Sheet, Undated [1971], B WHCF-BE 11, F EX BE3 Economic Controls [25 of 65], RNPL; CNP White House Reception, October 13, 1971, B WHCF-BE 11, F EX BE3 Economic Controls [25 of 65], RNPL; "Economic Group Held Tax-Exempt," *Washington Post*, November 21, 1971; George Lardner, Jr., "Merchandising the 'New Prosperity,'" *Washington Post*, November 15, 1971; CRP Advertisement, "Prosperity Is a Job for Everyone," *Washington Post*, September 27, 1971; Lou Cannon, "Colson May Leave White House Post," *Washington Post*, November 25, 1972; Timothy S. Robinson, "Colson Ties Kissinger to Smear Idea," *Washington Post*, July 4, 1974; Richard Reeves, *President Nixon: Alone in the White House* (Simon and Schuster, 2002), 382; George Lardner, Jr., "Business Asked to Promote Prosperity," *St. Petersburg Times*, November 18, 1971; Frank Lane, "Citizens for a New Prosperity Aim at Helping Nixon Economy," *Toledo Blade*, November 25, 1971

soliciting tax-deductible donations, suggested to fall between $2,000 and $25,000 per company.[523]

The lingering, notably pro-business conservatism contained in the NEP would bring the Nixon White House into conflict with Democrats, labor, and the left. Eventually, the NEP itself would prove to be unpopular – largely because of its perceived pro-business slant. Immediately, Nixon's call for further business tax cuts in the NEP also raised the ire of those on the left, who were already stewing over Nixon's unilateral business-friendly changes to depreciation rules earlier in the year. In addition to speeding up the enactment of the already-passed $50 increase in the personal exemption, Nixon's NEP speech proposed a 10 percent "job development credit," which was really a cut for businesses who invested in new machinery or equipment.[524] The proposal was met with skepticism not only by Democrats, but also the political press. "Only two years ago [in the TRA69] Congress killed just such a credit, the less potent 7-percent investment credit, because it considered the tax benefit an engine of inflation," the Associated Press noted. Nixon's proposal to revive an even more generous version of the credit came quickly on the heels of Nixon's depreciation speedup, which the AP noted caused "many members of Congress [to] charg[e] that Nixon went too far in the same direction."[525] While the proposal for more

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523 Colson to Nixon, and attached, November 30, 1971, B WHCF-BE 13, F EX BE3 Economic Controls [35 of 65], RNPL; CNP Agenda, October 13, 1971, B WHCF-BE 11, F EX BE3 Economic Controls [25 of 65], RNPL; CNP Newsletter, October 11, 1971, B WHCF-BE 11, F EX BE3 Economic Controls [25 of 65], RNPL; CNP Fact Sheet, Undated [1971], B WHCF-BE 11, F EX BE3 Economic Controls [25 of 65], RNPL; CNP White House Reception, October 13, 1971, B WHCF-BE 11, F EX BE3 Economic Controls [25 of 65], RNPL; "Economic Group Held Tax-Exempt," *Washington Post*, November 21, 1971; George Lardner, Jr., "Merchandising the 'New Prosperity,'" *Washington Post*, November 15, 1971; CRP Advertisement, "Prosperity Is a Job for Everyone," *Washington Post*, September 27, 1971; Lou Cannon, "Colson May Leave White House Post," *Washington Post*, November 25, 1972; Timothy S. Robinson, "Colson Ties Kissinger to Smear Idea," *Washington Post*, July 4, 1974; Richard Reeves, *President Nixon: Alone in the White House* (Simon and Schuster, 2002), 382; George Lardner, Jr., "Business Asked to Promote Prosperity," *St. Petersburg Times*, November 18, 1971; Frank Lane, "Citizens for a New Prosperity Aim at Helping Nixon Economy," *Toledo Blade*, November 25, 1971

524 Richard Nixon, "Address to the Nation Outlining a New Economic Policy," August 15, 1971, *Public Papers of the President*; Joseph Thorndike, "Nixon's Great Tax Gimmick and the Politics of Illusion," *Washington Monthly*, August 11, 2011

525 Sterling F. Green, "Nixon's Plan Raises Doubts," *Eugene Register-Guard*, August 17, 1971;

business tax cuts was the only element of Nixon's NEP applauded by Milton Friedman, liberal economist John Kenneth Galbraith lambasted the proposed cuts as "very inefficient ways of expanding the economy because they put money in the hands of people who don't need it."[526] Making matters worse for Nixon, the debate over his earlier business tax cuts were still going on in Congress as he proposed the new tax initiatives in his NEP. At a time when the president was hoping to cast himself as a champion of blue-collar workers and the forgotten middle class, a lengthy debate over Nixon's business tax cuts was the last thing he wanted.

Nixon's initial business tax plans, announced in January 1971, were designed not only as a supply-size stimulus to spur growth, but as a piece of business-friendly tax policy to placate the conservatives who were unhappy with what they saw as the consumption-centric TRA69. To counter that consumption "bias," Nixon's Treasury Department devised a new accelerated depreciation system, dubbed "Asset Depreciation Range" (ADR). ADR provided a variety of benefits to business, but its most notable provision was shortening the depreciation period by 20 percent. The White House contended that ADR could be implemented without the approval of the legislature, which is exactly what Nixon did with his January executive order. Congress cried foul. But Nixon was unmoved. The president claimed that ADR would "help create jobs for the unemployed as well as young people joining the labor force" and "promote the economic growth, which is essential if this Nation is to meet its domestic and international responsibilities." He also justified the business-oriented nature of the cuts by reminding Americans of the sizable individual cuts in the TRA69 bill.[527] The White House knew the political risks of this favor to conservatives. In a letter to Nixon, Peter Flanigan listed the

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[526] "Economists Give Nixon Economic Plan Mixed Reviews," *Lawrence Journal-World*, August 12, 1971
[527] Richard Nixon, "Statement Announcing Changes in Administration of the Depreciation Provisions of the Tax Laws," *Public Papers of the President*, January 11, 1971; Department of the Tresury, *Asset Depreciation Range System* (GPO, July 1971); Citizens for Tax Justice, "The Hidden Entitlements" (http://www.ctj.org/hid_ent/part-2/part2-1.htm)

"positive effects of the proposed depreciation changes" as "stimulat[ing] the economy by encouraging capital investment," "encourag[ing] growth in productivity," and "improv[ing] corporate profit." The "negative effects," however, were headlined by both the corresponding revenue loss of such a tax cut and, especially, "opening the administration to the political charge of favoring big business by reducing corporate taxes."[528] But even Flanigan could not have anticipated the storm of controversy that the ADR executive order would unleash. The response from much of the press to the president's order was swift and critical. It was often portrayed not only as an executive overreach, but also as a furthering of existing tax "loopholes." An in-depth story on the proposal by the *Christian Science Monitor* featured a title that simply asked, "New Depreciation Allowance – A 'Tax Crime'?"[529] Privately, the administration bristled at this criticism, even drawing up talking points in response to the *Monitor* article, in particular.[530]

But the main opposition to ADR came from the newly empowered "tax justice" left. Immediately, Ralph Nader's Public Interest Research Group, Common Cause, Henry Reuss, and the United Auto Workers, among others, sued to stop ADR, arguing that it exceeded the president's power and thereby constituted and unconstitutional giveaway to big business. Announcing the lawsuit, Nader called ADR "an attempt at redistributing wealth" to large corporations and predicted that the revenue loss caused by ADR would be paid by average Americans "either through higher taxes or reduced services." PIRG's challenge to ADR was led by staffer Tom Stanton, a Harvard Law graduate, who called ADR "just a flagrant violation of the law." Stanton's success in garnering not only media attention, but also the notice of the Nixon administration, led Nader to place Stanton in charge of the newly created Tax Reform

[528] Flanigan to Nixon, December 15, 1970, B 62 WHCF-FI, F Ex FI Taxation/Income [11 of 26], RNPL
[529] David E. Francis, "New Depreciation Allowance – A 'Tax Crime'?" *Christian Science Monitor*, January 18, 1971
[530] Cohen to Flanigan, January 21, 1971, B WHCF-FI 66, F Ex FI 11-4 Taxation/Income [13 of 26], RNPL

Research Group (discussed earlier in this chapter). Numerous seasoned tax experts, among them Kennedy's CEA chair Walter Heller, agreed with the arguments of the public interest lawyers and unions. Yale tax law professor Boris I. Bittker went so far as to argue that, by the logic of the administration's ADR order, "the Treasury could announce that any taxpayer who thought his taxes were too high and wanted a 10% tax cut need only say so on his tax return." Taxation With Representation, another new "public interest taxpayers lobby," also declared its opposition to ADR, while George McGovern – having already announced his presidential candidacy a full year-and-a-half before the 1972 election – also spoke out against the ADR. Further casting a shadow on Nixon's ADR, Edmund Muskie released a confidential memorandum from Deputy Treasury Secretary John Nolan, which suggested that it was possibly illegal for the Treasury to implement ADR without congressional approval.[531] "The limits of our administrative authority in this area are very vague, and the limits outlined above are merely our judgment as to the extent we should go without legislation," Nolan wrote.[532] Indeed, the extent of Nixon's executive action was actually determined by how much revenue Nixon's economic advisers were willing to lose, rather than what the administration believed was legal.[533]

In response primarily to the PIRG-led lawsuit, the Nixon Treasury agreed to hold public hearings on the proposed changes, including allowing critics to testify. However, as the *Wall*

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[531] Boris I. Bittker and Kenneth M. Kaufman, "Taxes and Civil Rights: 'Constitutionalizing' the Internal Revenue Code," *Faculty Scholarship Series* 2319 (1972) (http://digitalcommons.law.yale.edu/fss_papers/2319); Robert C. Livesy, "Residential Property" William & Mary Annual Tax Conference 426 (1971) (http://scholarship.law.wm.edu/tax/426); David Bollier, Citizen Action and Other Big Ideas: A History of Ralph Nader and the Modern Consumer Movement (Center for Responsive Law, 1991), available online (https://blog.nader.org/history); "Power of the Purse," *New York Times*, July 14, 1971; "Suit to Bar Easing of Depreciation Guides Filed by Nader, Common Cause and Others," *Wall Street Journal*, July 8, 1971; "Treasury's Hearings on Easier Guidelines for Depreciation Begun," *Wall Street Journal*, May 4, 1971; Albert R. Hunt, "A 'Giveaway' or a 'Vital Step,'" *Wall Street Journal*, may 3, 1971; James L. Rowe, Jr., "Depreciation Reforms: The Opposition Mounts," *Washington Post*, April 11, 1971; "The Hidden Entitlements," *Citizens for Tax Justice* (http://www.ctj.org/hid_ent/part-2/part2-1.htm);

[532] Nolan to Flanigan, December 11, 1970, B 62 WHCF-FI, F Ex FI Taxation/Income [11 of 26],

[533] Meeting With Troika, February 23, 1971, B WHCF-FI, F Ex FI Finance [4 of 14], RNPL

Street Journal reported, the hearings were clearly stacked to cast the administration's proposals in a favorable light. Witnesses were questioned by IRS and administration officials, including Nolan and Assistant Treasury Secretary for Tax Policy Edwin S. Cohen.[534] While Nader, Nathaniel Goldfinger of the AFL-CIO, and the National Welfare Rights Organization George Wiley (who will be discussed later), among other left-distributionist voices, requested to testify at the hearings, they were far outnumbered by the parade of corporate representatives and lobbyists testifying.[535] Moreover, it was clear that witnesses from different sides of the ideological spectrum were not accorded the same respect. "The treatment afforded the witnesses differed sharply…," the *Journal* noted. "Critics of the administration proposals frequently were peppered with technical questions, particularly from Mr. Cohen and [IRS counsel] Mr. [K. Martin] Worthy. But advocates of the changes [including Norman Ture and C. Lowell Harris] often were praised for their 'definitive' analyses or for being 'recognized experts' on the subject and often were only asked to elaborate on the benefits of the liberalized depreciation guidelines." "[Officials were] conducting a cross-examination [of critics] rather than listening to the important contributions that were being brought out," Stanton complained. Likewise, Birch Bayh called the hearings "an elaborate charade," while Charles A. Vanik quipped, "We're just here to celebrate a hanging that's already been decided." The administration had a powerful ally. Before announcing ADR, the White House had sought advice from – and won the support of – House Ways and Means Chairman Wilbur Mills.[536]

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[534] "Treasury's Hearings on Easier Guidelines for Depreciation Begun," *Wall Street Journal*, May 4, 1971

[535] For a list of those testifying, see Agenda for Public Hearing, May 3, 4, and 5, 1971, GWP, B33, F21, WHS

[536] Boris I. Bittker and Kenneth M. Kaufman, "Taxes and Civil Rights: 'Constitutionalizing' the Internal Revenue Code," *Faculty Scholarship Series* 2319 (1972) (http://digitalcommons.law.yale.edu/fss_papers/2319); Robert C. Livesy, "Residential Property" William & Mary Annual Tax Conference 426 (1971) (http://scholarship.law.wm.edu/tax/426); David Bollier, Citizen Action and Other Big Ideas: A History of Ralph Nader and the Modern Consumer Movement (Center for Responsive Law, 1991), available online (https://blog.nader.org/history); "Power of the Purse," *New York Times*, July 14, 1971; "Suit to Bar Easing of Depreciation Guides Filed by Nader, Common Cause and Others," *Wall Street Journal*, July 8, 1971; "Treasury's

With the legal battle surrounding Nixon's executive order still unfolding, Mills and the Congress stepped in to, in effect, retroactively ratify the ADR provisions that Nixon had insisted he did not need congressional approval for in the first place.[537] The subsequent Ways and Means hearings saw a heightening of the ADR debates. The hearings also expanded to include the new "Nixon Shock" tax proposals, including the 10-percent investment tax credit and Domestic International Sales Corporations (DISCS), an entity for shielding export-related profits from U.S. corporate taxation.[538] To mitigate the likely unpopularity of the business-centered proposals, Nixon also requested increases in the personal exemption and standard deduction – changes that were not only popular with voters, but would provide a stimulative boost to the economy and, most importantly, potentially attract the support of otherwise-leery Democrats.[539]

Defense of Nixon's new tax business policies came, not surprisingly, from conservatives and business lobbyists. Representing the White House-tied CNP, Sumner Whittier appeared before the Senate Finance Committee to "heartily endors[e]" Nixon's proposals. The business tax breaks, the CNP argued, would "stimulate investment and consumption simultaneously."[540] National and state Chambers of Commerce, along with the National Association of Manufacturers, came out strongly in favor of ADR and DISC. George S. Koch, the finance chair of the Council of State Chambers of Commerce, argued that the provisions would help offset the

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Hearings on Easier Guidelines for Depreciation Begun," *Wall Street Journal*, May 4, 1971; Albert R. Hunt, "A 'Giveaway' or a 'Vital Step,'" *Wall Street Journal*, may 3, 1971; James L. Rowe, Jr., "Depreciation Reforms: The Opposition Mounts," *Washington Post*, April 11, 1971; "The Hidden Entitlements," *Citizens for Tax Justice* (http://www.ctj.org/hid_ent/part-2/part2-1.htm);

[537] Joint Committee on Taxation, *General Explanation of the Revenue Act of 1971* (GPO, December 15, 1972); Committee on Finance, U.S. Senate, *H.R. 10947 The Revenue Act of 1971* (U.S. GPO, November 9, 1971); "Nixon Tax Plan Enacted After Major Partisan Clash," *CQ Almanac* (1971).

[538] "Nixon Tax Plan Enacted After Major Partisan Clash," *CQ Almanac* (1971).

[539] Joint Committee on Taxation, *General Explanation of the Revenue Act of 1971* (GPO, December 15, 1972); Committee on Finance, U.S. Senate, *H.R. 10947 The Revenue Act of 1971* (U.S. GPO, November 9, 1971); "Nixon Tax Plan Enacted After Major Partisan Clash," *CQ Almanac* (1971).

[540] Committee on Finance, U.S. Senate, *The Revenue Act of 1971, Part 2 of 2* (October 7, 12, 13, 14, 15, and 18, 1971)

"tax bias against investment in the 1969 act." Representing the national Chamber of Commerce, taxation chair Walker Winter said the Chamber gave its "general support" for Nixon's proposals, but objected that they "do not go far enough." Tax incentives for business investment, Winter argued, would "reduce inflation." Business representatives said such tax cuts were fair since inflation itself was pushing up the cost of business equipment and machinery. NAM taxation chair Melvin C. Holm praised ADR and DISC as combating "the tax system's clear-cut bias against capital formation and productive investment." [541] Likewise, conservative economic consultant Norman Ture – a former adviser to Wilbur Mills and an early advocate of "supply-side" economics – praised the Nixon's proposed business tax provisions, such as ADR, which he said would encourage the "expansion of private capital formation."[542]

PIRG continued its fight against the bill and were joined by various left-leaning grassroots groups, tax reformers, and unions, as well as congressional Democrats. In a letter to the *New York Times* and congressional testimony, Ralph Nader and Tom Stanton charged that Nixon's proposed tax plan, even including the individual tax reductions, would simply "make the rich richer," since upper-income people received greater benefit from increases in the personal exemption, as well as the business tax incentives. They likened the DISC provision, in particular, to a legalized tax shelter for U.S. corporations. [543] In his Ways and Means testimony, Nader, accompanied by Stanton, stridently opposed ADR, DISC, the auto excise repeal, and other business-friendly tax breaks. Nader called the ADR regulations an "unauthorized and…unconscionable tax subsidy which will be of little value to stimulate the economy." Nader argued that the country faced "a cost-push inflation, not a demand-push inflation," meaning that

[541] Committee on Ways and Means, U.S. House of Representatives, *Tax Proposals Contained in the President's New Economic Policy, Part 2* (September 8, 9, 13, 14, 15, 16, and 17, 1971)
[542] "Nixon Tax Plan Enacted After Major Partisan Clash," *CQ Almanac* (1971).
[543] Committee on Finance, U.S. Senate, *The Revenue Act of 1971, Part 2 of 2* (October 7, 12, 13, 14, 15, and 18, 1971)

tax breaks designed to boost business investment would exacerbate the problem. Instead, Nader suggested, "I would prefer to generate the kind of [consumer] demand through tax cuts to lower income groups." This would ultimately trickle up to businesses, Nader added in a fiscalist flourish, because consumers' purchasing choices would ultimate generate profits for successful businesses and "generate the kind of production and investment that would occur through the marketplace" absent the creation of specific tax incentives written by Congress. Moreover, Nader charged that, by seeking to subsidize all businesses, rather than let Americans select economic winners with their purchasing dollars, conservatives were actually anti-consumer and anti-market. "It is really amazing to watch the transformation of conservative ideology, here," Nader said. "[N]ot only do they shift in this kind of fiscalism [away from touting the sanctity of consumer choice] but they don't any more consider what [the] marketplace can do with liberated consumer purchasing power to generate according to consumer preferences the kind of production and economic expansion that apparently is desired [by consumers]." The tilt away from consumers and towards business was driven not by economic logic, PIRG argued, but by the GOP's political, distributional considerations. "At the end of the 1969 Tax Reform Act we assume the Congress made some judgment as to the relative burdens on corporations and individuals," Stanton told the committee. "The president, through a combination of what we would contend is an unlawful ADR system and through the other proposed tax cuts, is now trying to undue that very balance."[544]

PIRG advocated not only redistributing tax benefits downward, but also the very political power that influenced U.S. tax policy. "Would the administration be willing to support individual tax cuts which would not provide primary benefits to the rich, in contrast to the present

[544] Committee on Ways and Means, U.S. House of Representatives, *Tax Proposals Contained in the President's New Economic Policy, Part 2* (September 8, 9, 13, 14, 15, 16, and 17, 1971)

administration proposals?" Nader and Stanton asked rhetorically. Instead of the president's package, they proposed a one-time tax refund of $50 or $100 to each taxpayer, rather than business tax breaks, if the economy needed stimulus. To prevent legislative over-emphasis on tax policies that benefitted elites, PIRG also proposed the creation of a Small Taxpayers Advisory Group within the Treasury Department to articulate the viewpoint of average taxpayers. "The economy cannot be allowed to become another Vietnam – where the public is told that the subject is so complex that only the executive branch can provide answers," Stanton told the Senate Finance Committee. Like Vietnam, in Stanton's view, a "credibility gap" was opening between the public and policymakers when it cam to tax policy. Citizens needed more input into tax policy, Stanton argued. "The Treasury could be made aware of the potential outrage of American taxpayers at having their taxes raised in order to fill the coffers of General Motors, United States Steel, and other powerful corporations who will gain so much from Revenue Act of 1971," Stanton said.[545]

The entrance of grassroots left-leaning tax groups to the policy arena in the early 1970s disrupted the cloistered "tax policy community" that had dominated tax policy throughout the post-WWII era. Members of this "community" could, like Norman Ture, move freely between government, think tanks, and lobbying organizations without having their expertise, or even neutrality, questioned. But the implicit ideological tilt – often couched in the terms of ostensibly apolitical fiscalism – was clear. Many of the community's experts already viewed organized labor's unapologetically populist left-distributionist tax lobbying with disdain, and now groups like PIRG were attempting to wrest policymaking away from the "tax policy community," in part by questioning the very existence of impartial technocratic expertise on inherently distributional

[545] Committee on Finance, U.S. Senate, *The Revenue Act of 1971, Part 2 of 2* (October 7, 12, 13, 14, 15, and 18, 1971)

issues like tax policy.[546] While the entirety of the Senate Finance Committee treated groups like NAM and lobbyists like Ture with respect, the committee's conservative members made their contempt for PIRG clear by questioning not only the substance of PIRG's positions, but its very legitimacy. Indeed, the dynamic of the Congressional hearings was a perfect mirror to that of the IRS hearings, as noted earlier by the *Wall Street Journal*. "I think it is worthless to ask some questions on such biased testimony," declared Arizona Republican Paul Fannin following Stanton's prepared statement to the Senate Finance Committee. Fannin charged that Stanton was not qualified to even question the views of the Nixon administration's economic advisers. "What is your background and experience in business and government?..," Fannin asked Stanton, cutting Stanton off before he could answer. "Still you are criticizing people with long experience in government affairs…." Utah Republican Wallace Bennett agreed. "I object," Bennett interjected when Stanton began to answer an earlier, apparently rhetorical, question posted by Fannin to Stanton about tax incentives. "I think this witness has had his time and he has indicated his bias, and I think we should go on to the next witness." Democrat Gaylord Nelson defended PIRG, arguing that Stanton had as much expertise as others testifying. "He sounds as qualified to me as most of the rest [witnesses] I heard here," Nelson retorted. As Stanton began to answer Fannin's earlier question, Bennett interjected again, saying, "How long are we going to have to listen to you?" In materials submitted to the committee following his appearance, Stanton noted Fannin and Bennett's hostility towards him. "The response of Senators Fannin and Bennett to my appearance give one insight to some of the causes of the ferment stirring in America today," Stanton wrote.[547] PIRG's reception from Republican Ways and Means members was little better.

[546] The rise of this elite "tax policy community" is discussed in Julian Zelizer, *Taxing America: Wilbur D. Mills, Congress, and the State, 1945-1975* (Cambridge 2000)
[547] Committee on Finance, U.S. Senate, *The Revenue Act of 1971, Part 2 of 2* (October 7, 12, 13, 14, 15, and 18, 1971)

There, Illinois Republican Harold Collier challenged not only the critiques of ADR and DISC offered by Nader, but also by mainstream liberal economists like James Tobin, whose work PIRG cited. "I wonder whether…[Nader and economists like Tobin] have ever operated a business or have ever had any experience in planning expansion and procuring machinery," Collier asked rhetorically, suggesting that only businesspersons were qualified to evaluate such proposals. [548]

Both left-leaning economists and organized labor sided with PIRG. Stanley Surrey called DISC called "a billion dollar loophole in the income tax, through permitting U.S. exporters – especially our largest corporations – to escape that tax." That the Nixon administration would try to pass DISC in the midst of a clear public and professional outcry for loophole-closing reform particularly galled Surrey. "It would be a cruel irony to have the first significant technical income tax legislation to pass the Congress after the 1969 Tax Reform Act...open up one of the largest tax escapes ever legislated by the Congress. Yet we find the Treasury Department being the moving force behind this attempt." While, in theory, DISC allowed only for the "deferral" of "export profits" from taxation, provided that the company used these profits for export activities, Surrey argued that "under the terms of the actual legislation, it turns out that the 'deferral' would in practice become exception." Moreover, Surrey noted, non-export profits could be shielded from taxation, too. Even more troubling, he continued, despite the fact DISC's were supposedly designed to boost exports by U.S. corporations they would be "in practice an inducement to form foreign subsidiaries and, moreover, to form them in tax-haven countries…."[549]

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[548] Committee on Ways and Means, U.S. House of Representatives, *Tax Proposals Contained in the President's New Economic Policy, Part 2* (September 8, 9, 13, 14, 15, 16, and 17, 1971)

[549] Stanley S. Surrey, "DISC: A Billion-Dollar Tax Loophole Hidden in New Economic Policy," in Committee on Ways and Means, U.S. House of Representatives, *Tax Proposals Contained in the President's New Economic Policy, Part 2* (September 8, 9, 13, 14, 15, 16, and 17, 1971)

AFL-CIO president George Meany likewise objected to the Nixon administration's proposed tax incentives, declaring full opposition to ADR and DISC on the grounds that they were aimed solely at businesses. Organized labor, Meany said, supported "job creating programs and economy-expanding programs" but only if they were "within an equitable and progressive tax structure." Nixon's proposals, Meany charged, would create very few jobs and very little growth, while making the tax system much less equitable. "What is proposed hear is a radical redistribution of the nation's income and wealth in favor of the rich and at the expense of the public interest," Meany said, echoing PIRG's earlier charges. "The proposal before you is a giant raid on the federal treasury that would transfer billion of dollars in public funds into the private treasuries of business. It is the 'trick down' economic theory of the 19th century: heap more wealth upon the rich and some benefit will filter down to the masses below. This is an economic falsehood. The whole history of the United States has proven time and again that they exact opposite is what is good for America." Making up for the lost revenue would be difficult, too, in Meany's view, and he made it clear that the AFL-CIO opposed tax hikes on average Americans, cuts to the public sector, or the delay of Nixon's promised welfare reforms and revenue sharing. "Every dollar of taxes given away to business and industry is a dollar more than must be paid by someone else, or a dollar's worth of public facilities and services that are foregone," Meany told the committee. "In the main, that 'someone else' is the American wage and salary earner – that broad spectrum of Americans that the president likes to call middle Americans. They are now paying more than their share of taxes as a result of an unfairly rigged tax system. Increasingly, they find it difficult to convince themselves that they are getting a fair shake from their government." Nixon's proposals, Meany suggested, would only increase public cynicism about the tax system by making it more "regressive" and more "loophole"-riddled. "In short, the president's program is loaded overwhelmingly in favor of big business and against workers, taxpayers, and the public interest," Meany concluded. "What America needs is tax justice, and this proposal is certainly not just. America needs to close tax loopholes – especially in the areas of capital gains, depreciation, depletion allowances, tax-exempt bonds, and the like. America still has far too many millionaires who pay no taxes at all." Provisions like ADR and DISC represented "tax injustice compounding the tax injustice already on this law." [550]

Thanks to the support of Wilbur Mills, the president's proposals moved successfully through the House, though not before the Ways and Means Committee – with the support not only of liberals like Henry Reuss, but Mills, too – added an increase in the low-income allowance, which the Nixon Treasury opposed. But the bill faced even fiercer opposition in the Senate, where it was wildly unpopular not only among left-distributionst Democrats, but also among the vast majority of Democrats. Though no one could confuse him with a progressive tax reformer, Russell Long proved to be highly critical of the bill passed by Mills and the House. Long's criticism of the bill, it seemed, stemmed from pressure from his left as well as the general tax reform mood of the Democratic caucus in the Senate. Perhaps serving as a measure of just how much the balance of power in the tax debate had shifted towards left-distributionist reformers, Long's stance on the Revenue Act of 1971 seemed markedly out-of-step with the opinions he had voiced during the TRA69 debates less than two years earlier. Beginning the Senate Finance Committee debates on the bill, Long provided a largely unfavorable summary of the bill, on the whole. While Nixon's Treasury officials pitched the RA71 as business-friendly legislation designed to counteract the alleged consumption bias of TRA69 – an analysis of TRA69 that Long had agreed with at the time – Long lambasted the House-passed version of

[550] Committee on Ways and Means, U.S. House of Representatives, *Tax Proposals Contained in the President's New Economic Policy, Part 2* (September 8, 9, 13, 14, 15, 16, and 17, 1971)

RA71 as “trickle down” economics. “In large measure, the personal income tax reductions under this bill are illusory – illusory in the sense that they involve nothing more substantial than a speed-up of the tax cuts already enacted by Congress. The increase in the low income allowance, which was not recommended by the President, is the lone exception,” Long declared. “In its present form, the bill appears to be too much of a ‘trickle down’ operation, with too little of it ever getting down.” Rather than praise the reinstatement of the investment tax credit as a supply-side inducement to inflation-fighting capital formation – a view to which Long had seemed in the past – Long now echoed the left, worrying aloud that the credit would set off “another round of undesirable interest rate hikes,” thereby “preventing hard-working American from finding the credit they need to buy houses, automobiles, and other costly items.” Long suggested decreasing the business tax benefits and increasing those for individuals. “We can make it a better bill and still be fiscally responsible in the Senate if we scale down the business tax benefits contained in the depreciation speed-ups and the investment tax credit,” he argued. “The revenue thus saved could be used to provide across-the-board personal tax cuts, possibly by increasing the personal exemption or by reducing tax rates.” Moving in that direction, Long said in a nod to the ascendance of the tax left within his party, would “make it [the bill] more responsive to what I perceive as the mood of the Senate.”[551] In the end, however, the Finance Committee bill differed little from the House version, and the committee passed it 12-2, with the committee two most left-distributionist members, Fred Harris and Gaylord Nelson, casting the only negative votes.

Much to the chagrin of conservatives, left-distributionist Democrats staged several attempts on the Senate floor to swap the ADR’s business stimulus for more progressive forms aimed at individual taxpayers, particularly low- and middle-income ones. Two attempts by

[551] Committee on Finance, U.S. Senate, *The Revenue Act of 1971, Part 1 of 2* (October 7, 12, and 13, 1971)

Indiana's Birch Bayh came close to making this substitution, only to be defeated by the near-unanimous opposition of Senate Republicans and the defection of a small number of business-friendly Democrats. Bayh's first amendment sought to replace the ADR's liberalized depreciation allowances with individual tax credits – a favorite instrument of left-distributionist tax experts, since, unlike increases in the personal exemption, it gave low- and upper-income taxpayers the same amount – of $25 for individuals and $50 for couples. "It all gets down to whether we feel we need to have an equitable economic stimulus or whether we need to go ahead with the economic stimulus provided by the Administration, which is very uneven in its impact as it greatly favors business over the consumer," Bayh said in proposing the amendment. Republicans strongly disagreed, arguing that prosperity and jobs come not from consumer expenditures, but from business investment. "It has been obvious all day," Bennett said, "that there are those in this body who have no thought of what it takes to provide a job and develop business which will keep jobs." The amendment failed by the narrowest of margins – 35 to 37 – with all but one member of the Senate's GOP caucus opposing the bill and Democrats supporting it by a 34 to 11 margin. Ultimately, those 11 Democratic defections were composed primarily of southern Democrats and fiscally conservative northern Democrats, like Connecticut's Abraham Ribicoff. Keeping with his newfound progressivism, Russell Long – who noted during debate that Bayh's amendment would save the Treasury $3.5 billion by 1975 – voted for Bayh's amendment.[552] Bayh revised the plan, proposing the same $25 credit, but this time reducing the ADR percentage from 5 to 20, rather than eliminating the ADR entirely. Once again, Bayh's

[552] "CQ Senate Votes 284-290," *CQ Almanac* (1971) 48-S; *Congressional Record* (November 12, 1971); "Nixon Tax Plan Enacted After Major Partisan Clash," *CQ Almanac* (1971).

amendment gained only one GOP vote. This time, Democrats favored the measure 38 to 6, but it was still not enough. The amendment failed by a single vote.[553]

The final legislation was, at once, a step backward for reform and a step forward for reformers. Ultimately, the conference report passed both the House and Senate by large bipartisan margins. In the House, 66 Democrats – mostly left-liberal stalwarts like Reuss, Augustus Hawkins, Shirley Chisholm, and Bella Abzug – opposed the bill, while only four Democrats – Galylord Nelson, most notably – bothered to oppose the conference report in the Senate. While tax reformers remained staunchly opposed to ADR and DISC, the support of powerful Democrats like Mills made the measures nearly a fait accompli.[554] That the RA71 represented a step back from the TRA69 was clear to all. "After taking a modest plunge into reform waters in the Tax Reform Act of 1969," Georgetown economist Gerard Brannon quipped, "in 1971 Congress enacted measures which suggest a congressional scrambling back to the more familiar dry ground of tax incentives." Though he did not believe it meant the end of tax reform, it was nonetheless clear that RA71 was not designed to reform the tax code by to address "a fundamental problem, real or imagined, in the tax system – the over-taxation of capital." Likewise, Boston College tax law professor Paul McDaniel wrote that the RA71 "produced for the cause of tax reform a number of wounds (some serious, some minor) a few small gifts, and some valuable lessons." The "most serious setbacks" were the restored investment tax credit and ADR. Likewise, the Nixon administration's justifications for the passage of the DISC provision – which McDaniel called "a pure windfall to corporate exporters" – "were so embarrassingly weak as to be humorous," according to McDaniel, though he found nothing funny in the fact that the DISC provisions meant that other taxpayers "either paid $170 million in additional taxes in

[553] "CQ Senate Votes 305-311," *CQ Almanac* (1971) 51-S
[554] "Nixon Tax Plan Enacted After Major Partisan Clash," *CQ Almanac* (1971).

1971 or had to forego government services that such funds would have otherwise provided."[555] Brannon took a dim view of the business incentives contained in RA71, specifically, arguing that they were based on "poor economic and tax analysis" and "arguments based on emotion" rather than evidence. He suggested that such bad legislation passed not only because the Treasury had requested it, but also because, "Congress contains a bloc of pro-business votes as well as a bloc of liberal votes and…an issue such as the investment credit is decided by a relatively small number of swing votes in the center." These swing votes, Brannon suggested, were evidently persuaded by the emotional argument that the tax code was too hard on investment. [556]

Yet, evidence of the tax left's new power could be seen throughout the TRA71 debate. In past years, Nixon's initial sweetening of the package with token increases in the personal exemption and standard deduction would have been enough to wring substantial Democratic support for the package. But, this time, those minor personal tax breaks were not enough, even for many moderate Democrats, which led to the addition of the low-income credit. The tax left also scored a victory in stripping an inflation-fighting hike in the Social Security tax that had also been proposed by Nixon. Perhaps most significantly, Russell Long's sudden interest in left-distributionist tax reform signaled the increasing popularity among the public of progressive reform, as well as the increasing power of groups like PIRG.[557]

If the predictably unpopular tax provisions of the New Economic Policy met with even less favor than the White House anticipated, the seemingly popular wage-and-price provisions fared just as poorly. Following the initial 90-day wage-and-price freeze, Phase I of the Nixon

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[555] Gerard M. Brannon, "The Revenue Act of 1971 – Do Tax Incentives Have New Life?" *Boston College Law Review* 14:5 (May 1, 1973); Paul R. McDaniel, "Tax Reform and the Revenue Act of 1971: Lesions, Lagniappes, and Lessons," *Boston College Law Review* 14:5 (May 1, 1973);

[556] Gerard M. Brannon, "The Revenue Act of 1971 – Do Tax Incentives Have New Life?" *Boston College Law Review* 14:5 (May 1, 1973); Paul R. McDaniel, "Tax Reform and the Revenue Act of 1971: Lesions, Lagniappes, and Lessons," *Boston College Law Review* 14:5 (May 1, 1973);

[557] "Nixon Tax Plan Enacted After Major Partisan Clash," *CQ Almanac* (1971).

controls began on November 13. The president argued that the 90-day freeze begun on August 15 had met its objectives of breaking the rise in wages and prices, of turning around the inflationary psychology that had gripped the nation, and of making it possible to establish the machinery for post-freeze stabilization."[558] Stabilization would take several phases beginning with Phase I of controls.[559] Most of the responsibility for the administration of controls fell to Donald Rumsfeld. As the director of Nixon's Cost of Living Council, Rumsfeld declared that the CLC's primary goal was to "reduce inflation to an annual rate of 2 to 3% by the end of 1972."[560] Rumsfeld was careful to explain that Phase I was "not a freeze." While the initial freeze was needed to set the stage for the controls that would follow, freezes were inherently "inequit[able]," Rumsfeld argued. Controls, in contrast, could be adjusted to individual circumstances and, unlike a freeze, did not prohibit all increases. "Prices and wages, in some instances, can go up," he explained, as long as such rises were consistent with the goal of two-to-three percent inflation by the end of 1972.[561] Yet, the public not only found the initial freeze to be "inequitable," but also the controls that followed, and what had initially been a popular idea quickly turned in a political liability for the White House.

Exemptions from controls of certain sectors of the economy, including agricultural goods, opened the White House to charges that the controls were unfair. Almost immediately, Democrats attacked the specifics of Nixon's controls. The DNC argued that the NEP "clearly favored corporate interests over those of the average American family." While Democrats supported the general idea of a wage and price freeze, they chafed at Nixon's leaving profits and dividends uncontrolled, which the party argued would "disriminat[e] heavily against salaried and

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558 Rumsfeld Press Conference, February 11, 1972, WHCF-BE, B60, F EX BE 5-2 [5 of 9], RNPL
559 The controls lasted until 1974. Roger Lowenstein, "The Nixon Shock," *Businessweek*, August 4, 2011
560 Rumsfeld Press Conference, February 11, 1972, WHCF-BE, B60, F EX BE 5-2 [5 of 9], RNPL
561 Rumsfeld Press Conference, February 11, 1972, WHCF-BE, B60, F EX BE 5-2 [5 of 9], RNPL

hourly workers."[562] As the freeze began, the AFL-CIO's George Meany – like most labor leaders, as well as rank-and-file workers – was harshly critical of Nixon's failure to control prices as effectively as wages as well the complete failure to control profits and other economic outputs. "If the freeze genuinely called for equality of sacrifice, we would give it full endorsement…," Meany said. "But the current program of the president does not call for equality. The controls and the sacrifice fall on the million of average America wage and salary earners and their families while corporate profits, dividends, interest rates, and many prices are not restrained by the executive order."[563] Meany argued that 35 percent of goods were not subject to price controls, meanwhile contractually negotiated raises were not being paid out because of the very effective controls on wages. If this imbalance was not bad enough, in the labor leader's view, the wage controls were artificially boosting companies' profits by letting them pay lower wages. "Million of dollars are going into the pockets of the corporation, who sat across from the union and bargained out a contract," Meany noted. "Under the president's [wage-and-price control] order, the president said that money can't be paid…."[564] "Where is that money [the difference between negotiated wages and the maximum allowable wages under the controls] going?" Meany asked rhetorically. "It is not going to the federal Treasury. It is not going to charity. It is going into the pocket of that employer."[565]

Study after study showed that the public viewed saw the controls as unfair – just like the DNC and organized labor. Most Americans said they were "dissatisfied" with the controls.[566]

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[562] Warren Weaver, Jr., "Democrats Score Nixon's Program As Pro-Business," *New York Times*, August 22, 1971
[563] Committee on Ways and Means, U.S. House of Representatives, *Tax Proposals Contained in the President's New Economic Policy, Part 2* (September 8, 9, 13, 14, 15, 16, and 17, 1971)
[564] Committee on Ways and Means, U.S. House of Representatives, *Tax Proposals Contained in the President's New Economic Policy, Part 2* (September 8, 9, 13, 14, 15, 16, and 17, 1971)
[565] Committee on Ways and Means, U.S. House of Representatives, *Tax Proposals Contained in the President's New Economic Policy, Part 2* (September 8, 9, 13, 14, 15, 16, and 17, 1971)
[566] Gallup Poll, January 7-10, 1972, Roper iPoll Database [USGALLUP.843.Q017A]

Thirty-seven percent of those "dissatisfied" said it was because the controls were "not fair," while an additional 21 percent complained that "wages [were] not equal to prices," 27 percent cited the fact that "prices [were] going up," and another 21 percent said simply that the controls were "not working."[567] Overall, half of Americans said the controls were not "fair and just."[568] Multiples polls found that nearly half of Americans thought "whole price-wage control program was thought up to help big business and not working people who suffer most from inflation," while less than one-third disagreed.[569] The group singled out most often by American as likely to be hurt by the controls was "union workers."[570] More than half of Americans said they wanted to "keep wage-price controls but change the way they apply," while only 12 percent wanted to end the controls.[571] More Americans wanted the controls to be made "more strict" than "less strict."[572] Nixon was viewed as personally responsible for these flaws in the controls. Only 25 percent of American rated Nixon as "pretty good" or "excellent" at "keeping effective controls on wages and prices," while 30 percent rated him as "only fair" and 40 percent said the president was doing a "poor" job.[573]

The polls showing public disapproval of the administrations' wage-price controls were a headache for the White House. The CAC struggled to explain why the public had been supportive of controls in the past, such as during WWII, and had clamored for controls throughout the early-1970s, but now viewed the administration's program so dimly. While the surveys made it clear that the "loopholes" in the controls were the root of their unpopularity, the

[567] Gallup Poll, January 7-10, 1972, Roper iPoll Database [USGALLUP.843.Q017BB]
[568] Gallup Poll, May 1972, Roper iPoll Database [USGALLUP.72POTC.Q24]
[569] Harris 1972 Economic Inflation Survey, June 1972, Odum Dataverse, Study #2215; Harris 1972 Economic Survey, December 1972, Odum Dataverse, Study #2252
[570] Roper Commercial Survey, October 18 - October 27, 1971, Roper iPoll Database [USROPER.524COM.R12]
[571] Gallup Poll, October 8-11, 1971, Roper iPoll Database [USGALLUP.838.Q008A]
[572] Gallup Poll, January 7-10, 1972, Roper iPoll Database [USGALLUP.843.Q017A]; Gallup Poll, November 19-22, 1971, Roper iPoll Database [USGALLUP.840.Q015]; Gallup Poll, March 24-27, 1972, Roper iPoll Database [USGALLUP.847.Q013A]; Gallup Poll, August 25-28, 1972, Roper iPoll Database [USGALLUP.857.Q008A]
[573] Harris 1972 Travel Survey, April 1972, Odum Dataverse, Study #2211

administration tried to explain away that clear conclusion. "There is a pretty high figure in the recent Gallup Poll, as to those who would like it stricter, as opposed to more lenient, and, of course, that is something that one has to recognize," Rumsfeld conceded. Nonetheless, he attempted to slough off suggestions calls for more comprehensive controls. "I don't think the kind of support that might be engendered by a more totally inclusive program would last very long," he said. Ultimately, the CAC head seemed to blame average Americans' ignorance of the complexity of controls for their dissatisfaction. "[I]t is very difficult for an individual citizen who goes into a store, buys a series of items – some of which are controlled, some of which are not [to understand the system]…," Rumsfeld argued.[574]

Indeed, average Americans' experiences at the store as the calendar turned over into the election year proved to be a key stumbling block for the controls. While Americans saw their raises cut, it did not seem that prices were receiving the same treatment. Rumsfeld and the White House faced pressure from the public and the press over rising food prices.[575] By March, internal Nixon polls showed that less than 40 percent of Americans would vote to reelect Nixon if the election "were being held today." The public's number one complaint was that the president was "not stopping inflation." Food prices, in general, and meat prices, specifically, were at the top of the public's price concerns. Colson advised Nixon that he needed to focus on prices and pocketbook issues, more broadly, if he hoped to secure reelection. "(1) we have to be very sensitive to this issue [inflation] and alert to price increases, food in particular, (2) public attitudes are very volatile today especially on a pocketbook issue like this," Colson advised the president, "and (3) political support for anyone in today's environment is fragile."[576] "Most of the recent rise in consumer prices is attributable to the food component, and most of the increase

[574] Rumsfeld Press Conference, February 11, 1972, WHCF-BE, B60, F EX BE 5-2 [5 of 9], RNPL
[575] Rumsfeld Press Conference, February 11, 1972, WHCF-BE, B60, F EX BE 5-2 [5 of 9], RNPL
[576] Colson to Nixon, April 11, 1972, WHCF-BE, B60, F EX BE 5-2 [5 of 9], RNPL

in food prices is attributable to beef and pork," the OMB's Arthur Laffer explained to OMB director Shultz in an April 1972 memo forwarded to Ehrlichman.[577] Rising food prices helped increase Nixon's popularity in farming areas, but they were "no help for the housewife," as the *Los Angeles Times* put it. "Caught in a political year squeeze between the farmer and the consumer over food prices," the *Milwaukee Journal* quipped, "President Nixon chose the former."[578]

The White House's attempts to spin rising food prices – and the CAC's struggles to control them – were tepid, at best. Talking points prepared by the Department of Agriculture for Ehrlichman argued that "<u>controls of food prices won't work</u>," since they could cause shortages, rationing, or lines, that "<u>food prices have come down</u>," despite the public's beliefs to the contrary, and that, even if food was expensive, it was "<u>really a bargain</u>" compared to the cost of food in some other countries.[579] In June, the White House relented. First, it suspended quotas on meat imports, in order to increase supply and, the administration hoped, drive down prices. Second, it applied controls to some previously exempted raw agricultural products, like fruit, eggs, and fish. However, the controls applied only to transactions after the first sale, meaning that they applied primarily to wholesalers and retailers. Moreover, the shift on controls did little to affect meat.[580] When prices resumed their downward trend – following a brief upward trend in the first months of 1972, after the 90-day freeze had expired – in mid-summer 1972, the White House was overjoyed. "The power of prayer, slightly assisted by seasonal adjustment, is revealed in the CPI for June," Stein quipped in a memo to Nixon. Together with strong growth

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[577] Laffer to Shultz, April 4, 1972, WHCF-BE, B60, F EX BE 5-2 [5 of 9], RNPL

[578] "No Help for the Housewife," *Los Angeles Times*, June 28, 1972; "Nixon Opts for the Farmers," *Milwaukee Journal*, June 27, 1972; See also, "Corn Belt Trend," *Hazelton Standard-Speaker*, June 24, 1972

[579] Lyng to Hullin, April 15, 1972, WHCF-BE, B60, F EX BE 5-2 [5 of 9], RNPL

[580] Colson to Nixon, June 24, 1972, WHCF-BE, B60, F EX BE 5-2 [5 of 9], RNPL; Bill Neikirk, "Nixon Orders Price Controls to Cover Varied Fresh Foods," *Kentucky New Era*, June 16, 1972

and falling unemployment, the falling CPI gave the administration "quite a story," as Stein put it, going into the fall election.[581]

The president, however, needed more than good economic news as he reelection campaign approached. He needed a new strategy to replace the "hard hat" one deployed in the 1970 midterms, and he needed to make progress on the key issue of the tax revolt. Increasingly, the president understood that the rise in regressive taxes at the state and local level was having a real effect on average American's pocketbooks. Indeed, they were even having an effect on Nixon's wage-price policies. Stein had reported to Nixon in February 1972 that continued increases in the price of services despite controls were "worrisome." "Increases in taxes, insurance, and public utility rates and public transportation were important here…," Stein explained. "It may be that we still have to go through a period of catch-up on the legislated and regulated taxes and rates which will increase the difficulty of squeezing down the overall inflation rate."[582] If even the White House was not immune from the effects of rising state and local taxes, it was no longer possible to deny the material reality of the tax revolt. Indeed, Nixon already had advocated one formerly Democratic policy designed to combat rising state and local taxes – revenue sharing – and the advice of advisers following the midterm debacle, as well as the events of the 1972 Democratic primaries, would pull him even further the left as the presidential election approached.

Nixon's Leftward Pivot

The task of wooing working- and middle-class voters away from the Democrats and to the GOP remained for Nixon after the failed "hard hat" strategy of the midterms. The day after

[581] Stein to Nixon, July 20, 1972, WHCF-BE, B60, F EX BE 5-2 [6 of 9], RNPL
[582] Stein to Nixon, February 22, 1972, WHCF-BE, B60, F EX BE 5-2 [4 of 9], RNPL

Christmas 1970, McCracken sent the president polling data that pointed to the issue at hand. For modest-income voters, pocketbook issues predominated, and their economic anxiety was making them pessimistic about the future. McCracken noted that the decline in consumer sentiment leading up the midterms "was heavily concentrated in the lower income groups." Pessimism was not evenly distributed. "Families with incomes over $10,000 are more optimist than those with lower incomes," McCracken told Nixon. "They [those above $10,000] expect to be better off financially in the years ahead."[583] Donald Rumsfeld – the former OEO head, elevated to a Cabinet-level "Counselor to the President" position, before eventually landing at CAC – advised Nixon in is counselor capacity to strike a new tone after the midterms. And a change in direction – and image – was just what Nixon needed when it came to pocketbook issues in the 1972 election. While Nixon would still pursue policies such as federal revenues sharing with states and localities under the banner of "New Federalism," he would increasingly give these existing policies a leftward spin. Moreover, he now also advocated new, more clearly left-distributionist policies, ones that the more conservative Nixon of 1968 or 1970 would have shunned. This shift was prompted both by popularity of the grassroots left, as exemplified by Nader's attacks on business tax preferences, and by the increasing success populist Democrats found in echoing the tone of left-distributionist activists.

First, Nixon needed a new slogan. Rumsfeld suggested that "A New Era of Opportunity" be advanced as the administration's theme in 1971 and 1972. Unlike the cultural "hard hat" approach pursued in the 1970 midterms or the vague, fiscalist "growth economics" message proposed by Safire, Rumsfeld's suggestion edged closer to a distributionist understanding of policy, even echoing critiques of both government and business offered by members of the New

[583] McCracken to Nixon, December 26, 1970, PNWH-6

Left, progressive unionists, and reformers like Ralph Nader. "It is difficult to find any area where our institutions have not grown enormous, slothful, and insensitive – government, business, labor, health, welfare, education – one could enumerate many more…," Rumsfeld wrote. "From an individual's vantage, opportunity means freedom, mobility and human dignity, and the change to secure the fundamental elements of a decent life without having to hurdle artificial barriers" – observations that Nixon underlined. Rumsfeld's language could easily apply to Nixon's "New Federalism," but framed the programs in a way that diverged from the language usually used by conservatives, which uncritically praised the private sector and localism. Even when sounding typical themes of "individual… responsibility," Rumsfeld applied it to the Family Assistance Plan – Nixon's guaranteed income/negative income tax-based welfare reform plan that had languished during Nixon's first two years – not to cutting welfare. "[The country envisioned by Nixon's policies should be] a land where government accepts the political responsibility of abolishing artificial barriers to opportunity (segregation) and is prepared to take part of the financial burden of mitigating substantive barriers to opportunity (poor education, bad housing, outdated welfare, inadequate health care, poor transportation, etc.)," Rumsfeld wrote.[584]

Instead of taking the pocketbook concerns of the "hard hats" for granted, the Nixon White House now sought not only to address them, but to understand how left-distributionist reformers had tapped into these concerns in an end-run around the White House's cultural appeals. President Nixon asked Geno Baroni – one of CCC's biggest supporters – to the White House in 1970 to hear his take on the white working class. Charles Colson told Nixon that Baroni was attracting "considerable publicity and has become a public symbol for the 40 million lower middle class white workers." Baroni, Colson told Nixon, was "understanding the

[584] Rumsfeld to Nixon, January 4, 1971, PNWH-6

motivations of Americans of European descent and devising ways for the church to prevent alienation of these groups as well as help them work in harmony with black communities." Colson noted that Baroni sought to overcome the "increasing alienation between white ethnics and the black community" by "identifying their common goals." The work of Baroni and the groups he supported, Colson added, "covered much of the same ground as the 'Rosow Blue Collar Worker' report prepared by the Labor Department."[585] "The non-white poor and working-class whites in particular have many socio-economic problems in common," Baroni had written to the president in a letter. "Indeed, they live in a symbiotic relationship where the fate of one is profoundly related to the destiny of the other." [586]

The Nixon administration's interest in the grassroots left's appeals to white workers was not limited to leaders like Baroni. Shortly after CCC's founding congress the White House also contacted Baroni to ask about the group.[587] Continuing the interest in CCC, the White House and the RNC conducted two confidential studies of CCC to analyze the group's appeal, as well as ascertain its threat to Nixon. "I have discussed with Chuck Colson and George Bell the extent of their ethnic-oriented operations and our concern about the Gardner-Baroni organizational effort [CCC]…," Tom Charles Huston wrote to Ehrlichman shortly after CCC's founding. "The thrust of my concern is that we are only hitting the surface of the ethnic problem – the cosmetics if you will – while Gardner, et. al. are mobilizing at the grass-roots." Huston suggested that the White House either "sabotage" CCC by attempting to divide its leaders or study and emulate the group's appeal to the working class.[588] The national party likewise worried about the strategy for the left that CCC represented. "From these reports [two CCC studies], and from the information

[585] Colson to Nixon, August 17, 1970, PHWH-6A
[586] Baroni to Nixon, June 29, 1970, PHWH-6A
[587] George Crile, "CCC Welcomed Nationally," *Gary Post-Tribune*, December 16, 1970
[588] Huston to Haldeman, December 12, 1970, Contested, B 6, F 82, RNPL

obtained by the Chairman of the Republican Nationalities Council of Indiana (Mr. Frank Mitan – who knows several of the organizers and key participants in the CCC), it is clear that this whole new ethnic movement represents a danger to the Republican Party and our chances in 1972," Lazlo Pasztor, the director of the RNC's "Heritage Groups (Nationalities) Division" wrote in an early-1971 memo to Chuck Colson and Harry Dent, among others. "It is not only motivated by, and used as a source of propaganda for, liberal democrats, but it is a very well organized and financed attempt to 'woo' the nationalities back to the Democratic Party."[589] To compete with the appeal represented by groups like CCC, Nixon needed to change.

By early-1971, the president began moving away from race-baiting elements of the "hard hat" strategy. In January 1971, Assistant Secretary of Labor Arthur Fletcher – the architect of the Philadelphia Plan, and one of the few African Americans in the Nixon administration – wrote to Nixon to urge him to drop the use of the term "forced integration," which Nixon had uttered in an early-January press conference. "This phrase is considered a '<u>code word</u>' in both black and white communities…," Fletcher noted. "To the blacks, it says the president will not enforce either the housing opportunity nor employment opportunity laws…. To whites, it says they will not be forced to face the problem of equal housing opportunity in the suburbs." Nixon needed to tack to the left of racial matters, Fletcher argued. "Local zooming laws – fostered and encouraged by FHA over the years – have institutionalized economic segregation of housing which has resulted in racial ghettos," he wrote. "Economic integration of housing sponsored or financed by federal funding is needed in the cities."[590] The best way to woo black voters was to make substantive policy proposals, according to Fletcher. "The greatest desire of the urban black trapped in the inner city is to first, have the economic ability to exercise a choice in his living

[589] Pasztor to Colson et al., January 6, 1971, Contested, B 45, F 32, RNPL. See also Bell to Colson, January 21, 1971, Contested, B 45, F 32, RNPL.
[590] Fletcher to Nixon, January 5, 1971, PNWH-6.

style, whether in the inner city or in the suburb…," he wrote.[591] Other administration officials suggested that any appearance of race-based appeals to whites should be abandoned. Rumsfeld advised Nixon in January 1971 to explain to key members of the press in a private conversation that "there is no southern strategy" and that Nixon had "a national focus" – two points Nixon underlined while reading the memo. Even though Rumsfeld argued that the White House had always had a national focus, he explained to Nixon that emphasizing this to the press "would – in the perception by the public – indicate a change in direction."[592] It seemed like this advice found some favor with Nixon, too. The president followed Fletcher's suggestion of dropping "forced integration" from his vocabulary. When asked in a February press conference about his past use of the term, Nixon distance himself from it, and indicated the administration's commitment to integration, while, in a sop to conservatives, simultaneously making it clear that Nixon had no plans for any new programs along those lines.[593]

Just as the president had vowed in the post-midterm strategy session, the second half of his first term would see the White House move towards making its most ambitious policy proposals a reality. After making little progress on either the Family Assistance Plan or his plan for federal revenue sharing with states and localities in his first two years, now these two policies moved to the top of Nixon's agenda. Increasingly, the president seemed open to stressing the material needs of working- and middle-class Americans, rather than simply deploying the cultural, race-bating rhetoric that had previously sufficed in the "hard hat" strategy. In January 1971, Nixon took copious notes on a *Chicago Tribune* article written by an electrician, Michael Schneider, titled "The White Worker: A Study in Frustration." While the piece contained a few brief recitations of the typical race-and-welfare complaints stressed by conservative members of

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[591] Fletcher to Nixon, January 5, 1971, PNWH-6.
[592] Rumsfeld to Nixon, January 4, 1971, PNWH-6
[593] "The President's News Conference," *Public Papers of the President*, February 17, 1971

the administration, the majority of the article was dedicated to white workers' economic anxiety – both in terms of their own pocketbooks and related to fears that their children were not receiving the same educational and career opportunities and the kids of the rich. "It's a Money Problem," a subtitle of the article declared. "A good proportion of the frustration of the white worker relates to rising prices and taxes," Schneider wrote. "He gets a dollar raise and 70 cents of it goes to inflation." Rather than turning to Colson and members of the conservative Middle America Committee, Nixon forwarded the piece to Rosow and asked, "What is your comment on this?"[594] Indeed, the article seemed to confirm the exact points made by Rosow in his report to the president the previous year. Tending to the pocketbook anxieties of Americans would increasingly consume Nixon during the run-up to the 1972 presidential election, even if this tending meant a turn to the left when it came to domestic policy. Indeed, Nixon publicly signaled his leftward turn in economics by telling ABC's Howard K. Smith in January 1971, "I am now a Keysian in economics" – a comment Smith said was like a Christian saying, "All things considered, I think Mohammad was right." Smith also predicted a conservative backlash to Nixon's proclamation, noting that Calvin Coolidge would "turn over in his grave" if he heard a Republican president declaring his allegiance Keynesian economics.[595]

Indeed, indications that Nixon would be moving to the left following the midterm debacle alarmed conservatives. In early-1971, Buchanan warned the president of "trouble on the right." Notable conservative movement leaders and groups like the American Conservative Union and the Young Americans for Freedom believed Nixon was "adopting a liberal Democratic domestic program, indistinguishable from what an Ed Muskie or Ed Kennedy would propose." These

[594] Michael Schneider, "The White Worker: A Study in Frustration," *Chicago Tribune*, January 17, 1971, with Nixon notes, PNWH-6
[595] "Nixon Reportedly Said He Is Now a Keynesian," *New York Times*, January 7, 1971; Leonard Silk, "Nixon's Program – 'I am Now a Keynesian,'" *New York Times*, January 10, 1971

conservatives resented things like FAP, Nixon's national health insurance proposal, and the administration's "actively pursuing a 'full employment budget,' which will deliberately produce deficits that violate the First Article of GOP Dogma ('balanced budget') for forty years," Buchanan told Nixon. With Arthur Burns now out of the White House and at the Fed, conservatives felt they had no policy voices inside the administration, since people like Ehrlichman and Shultz were viewed as unreliable by the right. "There is serious talk heard now among conservatives to urge Governor Reagan to begin to become a focal point of public opposition to the President's domestic initiatives," Buchanan warned Nixon.[596] Indeed, in time, Reagan would not hesitate to make his opposition to FAP well known.[597] But, in the short term, even Nixon's seemingly innocuous "Keynesian" quote caused a stir among conservatives. Ohio Republican John Ashbrook penned a long *New York Times* editorial denouncing Nixon's comment, along with the president's budget deficits and "guaranteed income scheme," among other policies. "[M]aybe, though I doubt it, that is what the American people want," Ashbrook wrote. "But it certainly isn't what I voted for [at the Republican National Convention] in Miami Beach in August, 1968, nor is it the platform that Richard Nixon ran on that year…." If Nixon had run in 1968 on a platform of "domestic spending programs…, defense deterioration, and… a guaranteed income. Or if candidate Nixon had said, 'I am now a Keynesian'…," Ashbrook predicted, "I feel the voters would have stuck with the party with real expertise in those areas, the Democratic Party." Nixon won, in his view, because the public wanted conservatism, and now Nixon was giving them liberalism. This development was "agonizing for conservatives"

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[596] Buchanan to Nixon (and attached articles), January 4, 1971, PNWH-6
[597] Marisa Chappell, *The War on Welfare: Family, Poverty, and Politics in Modern America* (University of Pennsylvania, 2010) 201; Lou Cannon, *Governor Reagan: His Rise to Power* (Public Affairs, 2005), 352-353;

like Ashbook who attempted to convince conservatives to pick Nixon, rather than Wallace, in 1968. "This is why there is a genuine rumbling on the American right," Ashbrook concluded.[598]

This conservative backlash against the Nixon administration was covered in the press by Evans and Novak, David Broder, and Stewart Alsop, among other national commentators and reporters.[599] Alsop quipped that Nixon was "to the left of himself," with Keynesianism and his proposals for federal revenue sharing and "establ[ishing] a floor under the income of every American family," as Nixon had put it when proposing FAP.[600] Evans and Novak devoted several columns to a "darkening Republican mood" when it came to Nixon, as well as litany of complaints from conservatives, elected and unelected, named and anonymous, including the recently defeated Claude Kirk's $100-bet backed prediction that a conservative Republican would challenge Nixon for the 1972 nomination and win.[601] Buchanan believed that, "given the nature of our new domestic program," many conservatives would never return to the administration. At the very least, Buchanan suggested, the administration needed to focus on rhetorically framing domestic policies as conservative and emphasizing foreign policy with conservatives more often, given the liberal direction of Nixon's domestic policy.[602]

As Kirk hinted, one of conservatives' key threats was the possibility that someone would challenge Nixon from the right, placing him in the type of three-way race that nearly cost him the presidency in 1968. This threat, in part, animated Nixon's race-based appeals in the 1970 midterms. But it no longer held as much sway over the president following the midterm results – a fact that Buchanan lamented in another long January memo delivered to Haldeman and passed on to the president. The conservative speechwriter specifically slammed "the 'changes' in

[598] John M. Ashbrook, "Those Rumblings on Mr. Nixon's Right," *New York Times*, December 16, 1971
[599] Buchanan to Nixon (and attached articles), January 4, 1971, PNWH-6
[600] Stewart Alsop, "Nixon to the Left of Himself," *Newsweek*, January 11, 1971
[601] Rowland Evans and Robert Novak, "Darkening Republican Mood," *Washington Post*, December 17, 1970
[602] Buchanan to Nixon (and attached articles), January 4, 1971, PNWH-6

emphasis and goals and purpose of 1971, from [those of] 1970." Witnessing Nixon's leftward turn, Buchanan sought both to defend the "hard hat" strategy and to reignite Nixon's fear of a threat from the right. "The impression among sophisticated conservatives – now being conveyed to the rank-and-file – is that the president, subsequent to the harsh (and unjust) criticism of his 1970 campaign, has moved leftward in force to cover his exposed plank," Buchanan wrote. "The 'full employment budget,' the open embrace of an 'expansionary deficit;'… the admission 'I am a Keynesian now;' the enthusiasm for both FAP and for the forthcoming FHIP [national health care] – these are part of a pattern left and right both recognized."[603]

Buchanan suggested that, while "an electoral cost accountant could argue that Nixon must move leftward to win moderate and liberals from Muskie," such a maneuver assumed that Wallace would not run again as an independent and that Ronald Reagan would not challenge Nixon for the nomination in 1972. Those outcomes could not be assumed, Buchanan wrote, given the level of dissatisfaction with Nixon among conservatives, not simply because of Nixon's new tone, but because of the substance of his policies. "Over the course of two years, but especially in the last month, the president has conspicuously abandoned many of the <u>sustaining traditions</u> of the Republican Party…," he wrote. "Two brief examples. In both 'reducing the size of the federal government' and 'balancing the federal budget,' the president has swept these traditions aside with an ease and facility that must have astonished millions of Republicans who have held them as articles of faith for forty years." Nixon was courting a conservative revolt, Buchanan warned, by abandoning "<u>the conservative political traditions of the GOP</u>." "Can one seriously imagine in 1972 those little old ladies in tennis shoes ringing doorbells in Muncie for 'FAP,' 'FHIP,' and the 'full employment budget'[?]…" Buchanan asked

[603] Buchanan to Haldeman, January 14, 1971, PNWH-6

rhetorically, referencing the “little old ladies in tennis shoes” variously referred to as the backbone of the John Birch Society and Barry Goldwater’s 1964 campaign. “The president’ recent moves…have taken him further to the left in a month than the average Republican travels in a lifetime…. [I]n openly appealing to moderates and liberals, in adopting programs and policies warmly endorsed by American liberalism, we are becoming the administration of more of the same.” This shift, Buchanan argued, opened a “political vacuum” on the right that “will not go unfulfilled.” “Either Mr. Wallace or Mr. Reagan can apply for the vacancy,” Buchanan warned darkly.[604]

Nixon read Buchanan’s memo closely, underlining numerous passages. In a note to Ehrlichman and Conally recommending that they read it, Nixon called Buchanan’s memo a “brilliant analysis.” But substantively, Nixon seemed to have little desire to turn back to the right.[605] Indeed, some administration conservatives saw not only Nixon’s move to the left – but also the right’s resulting indignation – as a political boon to Nixon. Looking towards the 1972 strategy in the days following the midterm defeat, the reliable conservative William Safire wrote to Nixon suggesting that they “begin twisting arms and publicly fighting for the Family Assistance package,” as well as a “big health[care] proposal” and economic appeals to the “workingman.” “Controversy on the right” resulting from Nixon’s left-leaning domestic programs, Safire argued, “will position us firmly in the center.”[606]

Rather than shift directions on economic policy to the right, Nixon sought to assuage conservatives by having the White House frame its centrist and left-leaning policies as fundamentally conservative. The administration’s handing of one of the most controversially Keynesian elements of the administration’s new economic philosophy demonstrated this new

[604] Buchanan to Haldeman, January 14, 1971, PNWH-6
[605] Buchanan to Haldeman, January 14, 1971, PNWH-6
[606] Safire to Nixon, November 11, 1970, PHWH-6A

spin-doctoring strategy in action. Facing mounting budget deficits – and eager to justify fiscal stimulus – the president and his economic advisers adopted the fiscal yardstick of a "full employment budget." The concept of declaring the budget balanced if it would create a surplus were the economy operating at full employment was associated in the minds of many Republicans with Kennedy-Johnson Democrats, given that the idea was justified and defended at length in the 1962 *Annual Report of the Council of Economic Advisers* as a "somewhat unfamiliar but highly useful" tool for analyzing the budget and used by Democratic administrations thereafter.[607]

Given continued resistance to this idea by small-government conservatives, administration economist Herbert Stein went on the offensive, casting the "full employment budget" as a fundamentally conservative idea, despite its association with liberal Democrats. "[T]he idea of a budget that would be balanced when the economy is operating at full employment and have a deficit when the economy is operating below that has a long, conservative, Republican pedigree," Stein wrote in a *New York Times* editorial, tracing the idea to the proposals by the Committee for Economic Development, which Stein characterized as "a group of businessmen and bankers, overwhelmingly Republican," in 1947.[608] Not coincidentally, Stein was the CED's economist at the time the proposal was crafted.[609] Just a year later, Stein noted, Milton Friedman had endorsed the idea in an article. "The Nixon administration did not have to search the files left by their [Democratic] predecessors to find the full-employment

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[607] *Economic Report of the President Together With the Annual Report of the Council of Economic Advisers* (GPO January 1962). See also Arthur Okum and Nancy Teeter, "The Full Employment Surplus Revisited," *Brookings Papers on Economic Activity* 1:1 (1970); Daryl A. Dixon, "The Full Employment Budget Surplus Concept as a Tool of Fiscal Analysis in the United States," *Staff Papers (International Monetary Fund)* 20:1 (March 1973)
[608] Herbert Stein, "The Nixon Economy: I," *New York Times*, January 20, 1971
[609] Stein fleshes out the history of the "full employment budget" more fully in Herbert Stein, "The Fiscal Revolution in America, Part II: 1964-1994," in *Funding the Modern American State, 1941-1945*, W. Elliott Brownlee, ed. (Cambridge, 1996), 194-288. Stein is not the only one to trace the idea to the CED, though. For example, see: Arthur m. Okun and Nancy H. Teeters, "The Full Employment Surplus Revisited," *Brookings Papers on Economic Activity* 1:1 (February 1970), 77-116.

balance idea and they did not have to abandon any deep Republican convictions to use it," Stein concluded.[610] Nixon loved the editorial. "Excellent," Nixon noted. "H[alderman] – get this to our Republican conservatives…[and] [h]ave it widely circulated to our speakers on this subject…"[611] Speaking before the Ways and Means Committee, Stein used fiscalist terms to defend the idea of targeting a budget that would be balanced "by the receipts that would be yielded by the existing tax system at full employment," rather than a budget balanced by the current economic conditions and resulting revenue. "First, it would exert an automatic and stabilizing influence on the economy," Stein explained. "If the economy fell below full employment, deficits would automatically occur…. If the economy rose in an inflationary boom…surpluses would automatically occur."[612]

An even more difficult sales job faced the White House when it came to its most controversial domestic proposal – the Family Assistance Plan. In 1969, Nixon called for a "basic income" of $1,600 for a family of four, with work incentives and, in some cases, requirements. Nixon noted that his plan was aimed at the "working poor," as well as current welfare recipients.[613] The impetus for welfare reform was twofold. First, a variety of economic, social, and political forces led to the expansion of the welfare rolls during the 1960s.[614] These forces included migration to urban centers, industrial dislocation, suburbanization, and employment discrimination. At the same time, social welfare activists – exemplified by the National Welfare Rights Organization – assisted Americans eligible for public assistance in registering for

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[610] Herbert Stein, "The Nixon Economy: I," *New York Times*, January 20, 1971
[611] Stein to Nixon, January 20, 1971, PNWH-6
[612] Ways and Means, U.S. House of Representatives, *Administration Request for Increase in Public Debt Ceiling*, June 5 and 6, 1972 (GPO, 1972)
[613] Richard Nixon, "Special Message to the Congress on Reform of the Nation's Welfare System," *Public Papers of the President*, August 11, 1969
[614] On expanding welfare rolls, see Appendix A, in *Indicators of Welfare Dependence: Annual Report to Congress, 2004*, Department of Health and Human Services (http://aspe.hhs.gov/hsp/indicators04/apa-tanf.htm)

services. The NWRO also lobbied for more generous benefits. Activists like those in NWRO, along with many academic and policymakers, believed that the rapid growth of the rolls in the United States' patchwork, state-driven welfare system would eventually lead to a federal takeover of the system and the institution of some form of guaranteed minimum income.[615]

Nixon's proposals followed a long-line of "guaranteed income" and "negative income tax" studies and proposals throughout the 1960s.[616] The consensus view of LBJ's President's Commission on Income Maintenance Programs, as his Assistant Secretary for Tax Policy Stanley Surrey later summarized, was that a system of cash grants – "income oriented plans," as Surrey put it – was desirable. Two categories of such plans existed. The first, broadly viewed as a "negative income tax," would vary with income. The second, which would be universal, could be "identified as *social dividends*, *demogrants*, *family allowances*, *children allowances*, and so forth," as Surrey put it. The difference between the two categories narrowed – even disappeared – however, when considering the fact that portions of the latter would be taxed away thanks to progressive tax rates. Moreover, the relationship between the tax distribution and these minimum income proposals was clear to the commission. "As respects tax equity, the taxes that the poor must pay contribute to their income deficiency," Surrey explained. "The burdens of state and local property and sales taxes and the burden of federal Social Security taxes are particularly

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[615] Marisa Chappell, *The War on Welfare: Family, Poverty, and Politics in Modern America* (University of Pennsylvania, 2010); Brian Steensland, *The Failed Welfare Revolution: America's Struggle over Guaranteed Income Policy* (Princeton University, 2011); Michael B. Katz, *The Underserving Poor: From the War on Poverty to the War on Welfare* (Pantheon 1990); Frances Fox Piven, *Regulating the Poor: The Function of Public Welfare* (Knopf 2012); Felicia Ann Kornbluh, *The Battle for Welfare Rights: Politics and Poverty in Modern America* (University of Pennsylvania, 2007); Premila Nadasen, *Welfare Warriors: The Welfare Rights Movement in the United States* (Routledge, 2004); Annelise Orleck, *Storming Caesar's Palace: How Black Mothers Fought Their Own War on Poverty* (Beacon, 2006); Nick Kotz and Mary Kotz, *A Passion for Equality: George Wiley and the Movement* (W.W. Norton, 1977); Guida West, *The National Welfare Rights Movement: The Social Protest of Poor Women* (Praeger, 1981); Andrea Jule Sachs, The Politics of Poverty: Race, Class, Motherhood, And the National Welfare Rights Organization, 1965-1975 (PhD Dissertation, University of Minnesota, 2001)
[616] Brian Steensland, *The Failed Welfare Revolution: America's Struggle over Guaranteed Income Policy* (Princeton University, 2011);

hard on the poor." Relieving low-income Americans of these regressive taxes was the first, but the only, step in removing them from poverty. The some variant of a guaranteed income would take that first step and, perhaps, go beyond it.[617] Such plans' anti-bureaucratic simplicity, indeed, attracted praise not only from many on the left, but also libertarian-leaning Republicans, which is how the FAP ended up on Nixon's domestic agenda.

Nixon's welfare reform proposals went nowhere in the first two years of his presidency, thanks to disagreements between liberal and conservative lawmakers – including Russell Long, who, despite his occasional willingness to embrace tax reform, strenuously opposed guaranteed income plans from the right.[618] Nixon called the failure of FAP and the Kent State and Jackson State killings as his "greatest disappointments" from his first two years.[619] However, Nixon's commitment to the FAP began to waiver following the difficulty it faced in the 91st Congress. As Nixon planned for the second half of his first term, he worried that the FAP could be "questionable politically" without "more emphasis on the work requirement."[620] Nixon and his advisers even debated whether they should "sink FAP."[621] However, considering that Nixon had proposed it to much fanfare just a few years earlier, abandoning it completely seemed unlikely. Plus, welfare reform had other attractions beyond helping the poor and the working poor. Talking to Senators Michael J. Mansfield, Hugh Scott, Wallace F. Bennett, and Russell B. Long on December 30, 1970, Nixon pushed hard for both Revenue Sharing and FAP as way to aid the

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617 Stanley S. Surrey, "Income Maintenance Programs," *Tax Law Review* 24 (1968-1969), 305-335
618 "Welfare Reform: Disappointment for the Administration," *CQ Almanac* (1970)
619 "Welfare Reform: Disappointment for the Administration," *CQ Almanac* (1970); Buchanan to Haldeman, January 14, 1971, PNWH-6
620 Ehrlichman to Nixon, October 21, 1970, PHWH-6A
621 Ehrlichman Notes, November 7, 1970, WHSF, SMOF, Ehrlichman, B4, F JDE Notes 7/1/70-12/31/70 [4 of 8], RNPL

states. "Major states are broke," Nixon noted. "[There is] a crisis in government…. School finance [is] in trouble. [We] must have welfare reform and revenue sharing next year."[622]

Nixon's appeals on behalf of FAP did little to aid its fortunes during the 92nd Congress, however. The combination of liberal Democrats and left-leaning activists' calls for a more expansive guaranteed income and conservative Republicans' intransigent opposition to almost any such plan made it nearly impossible for Congress to find common ground on a bill. Even the key Finance Committee senators Nixon had lobbied to approve FAP did not budge. Rather than back the president's position, Bennett lamented that conservative interest groups were not fighting FAP more strongly. During Finance Committee hearings, Bennett slammed the National Association of Manufacturer's leadership for failing to attack FAP vigorously. "I am going to say a harsh thing," Bennett told NAM representatives. "You live in an ivory tower. You have made no attempt to find out what we are doing on this thing." Bennett lambasted NAM's "weakness" and critiqued NAM for not contacting him as an inside source of information on the welfare reform proposal.[623] Likewise, Russell Long remained adamantly opposed to a guaranteed income in any form. In Senate hearings, the Louisiana Democrat offered an almost conspiratorial explanation for the existence of the FAP. "The whole scheme was thought up before Richard Nixon ever became president of the United States. They took it down there to the White House and the Democratic president [Johnson] said 'If I recommend that kind of thing to the Democratic Congress they would run me out of town,'" Long quipped, without specifying who "they" were. "Then they proceed to tell Nixon this is something that could only become law with a Republican in the White House. He did not understand what that meant. If you could get a Republican president to recommend this fool thing the public would think it was something

[622] Ehrlichman Notes, January 1, 1971, WHSF, SMOF, Ehrlichman, B4, F JDE Notes 1/5/71-4/21/71 [1 of 6] RNPL
[623] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)

different than what it was."[624] As with most pieces of economic policy, failing to have the support of both Mills and Long made passing FAP an uphill battle for its supporters.

Supporters of a guaranteed income program not only pushed for a more generous plan than FAP, but also tried to eliminate the "taxpayer"/"tax eater" dichotomy by stressing the that any guaranteed income plan would not only constitute a benefit to the poor, but also a tax cut for many working- and middle-class Americans. Perhaps most significant activist group pushing a guaranteed income was the National Welfare Rights Organization. The NWRO's head was George Wiley, a former chemistry professor and Congress of Racial Equality leader.[625] Wiley would eventually found a new tax-centered organization aimed at uniting poor, working-, and middle-class families (as will be discussed in the next chapter). However, even while head of the NWRO – criticized by critics as representatives of the "tax eaters," rather than taxpayers – Wiley was concerned with matters of tax justice. Wiley testified on behalf of NWRO during the May 1971 IRS hearings on Nixon's ADR change. "The proposed $3 billion tax giveaway [ADR]…is welfare for the wealthy," Wiley charged. "It is a deliberate and calculated attempt by the government to steal from the poor and give to the rich." ADR, Wiley argued, showed that Nixon was only concerned with "increasing the power and profits of the powerful and rich at the expense of the poor and the middle income taxpayer."[626] In a NWRO press release, Wiley wrote,

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[624] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)

[625] For more on Wiley, NWRO, and FAP, see Marisa Chappell, *The War on Welfare: Family, Poverty, and Politics in Modern America* (University of Pennsylvania, 2010); Brian Steensland, *The Failed Welfare Revolution: America's Struggle over Guaranteed Income Policy* (Princeton University, 2011); Felicia Ann Kornbluh, *The Battle for Welfare Rights: Politics and Poverty in Modern America* (University of Pennsylvania, 2007); Premila Nadasen, *Welfare Warriors: The Welfare Rights Movement in the United States* (Routledge, 2004); Annelise Orleck, *Storming Caesar's Palace: How Black Mothers Fought Their Own War on Poverty* (Beacon, 2006); Nick Kotz and Mary Kotz, *A Passion for Equality: George Wiley and the Movement* (W.W. Norton, 1977); Guida West, *The National Welfare Rights Movement: The Social Protest of Poor Women* (Praeger, 1981); Andrea Jule Sachs, The Politics of Poverty: Race, Class, Motherhood, And the National Welfare Rights Organization, 1965-1975 (PhD Dissertation, University of Minnesota, 2001)

[626] Wiley Testimony, May 4, 1971, GWP, B33, F21, WHS

"We need to close tax loopholes which benefit the rich – not open them wider." ADR would do little to stimulate the economy, Wiley argued. Instead, the NWRO leader wrote, Nixon should focus on spending and tax programs that would benefit the "$5 to $15,000 wage earners." NWRO's proposal for a minimum income would do just that, Wiley suggested, by providing not only badly needed income for "working in non-working poor," but also "tax relief for most families under $15,000."[627]

Opposition to ADR was part of NRWO's long-standing focus on revenue lost to the government in the form of "tax expenditures" and loopholes. The NWRO sought to place the country's expenditures on welfare in contrast to expenditures on loopholes that benefitted corporations and upper-income individuals. NWRO's release – titled "Welfare for the Poor – Poverty for the Rich" – outlined seven loopholes, including oil depletion and the capital gains exemption, totaling more than $51 billion per year.[628] That total was more than ten times total AFDC expenditures on both the federal and state levels.[629] "Every American could have an adequate income fro that same amount [$50 billion]," the NWRO flyer concluded. "NWRO's $5,500 Adequate Income Plan would cost $50 billion."[630] NWRO's plan was based on the BLS "lower standard" family budget, which called for a $5,915 for a family of four in 1967.[631] Actually, the NWRO's 1969 proposal initially came in below this standard, especially

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[627] NWRO Release, April 7, 1971, GWP, B33, F21, WHS

[628] Welfare for the Rich, Poverty for the Poor, July 16, 1970, GWP, B33, F21, WHS. For the federal government's later estimates of the cost of tax expenditures, see *Estimates of Federal Tax Expenditures*, Treasury Department and Joint Committee on Taxation, JCS-28-72 (GPO October 4, 1972); *Estimates of Federal Tax Expenditures*, Treasury Department and Joint Committee on Taxation, JCS-20-73 (GPO June 1, 1973);

[629] Table TANF 4, Appendix A, in *Indicators of Welfare Dependence: Annual Report to Congress, 2004*, Department of Health and Human Services (http://aspe.hhs.gov/hsp/indicators04/apa-tanf.htm)

[630] Welfare for the Rich, Poverty for the Poor, July 16, 1970, GWP, B33, F21, WHS. For the federal government's later estimates of the cost of tax expenditures, see *Estimates of Federal Tax Expenditures*, Treasury Department and Joint Committee on Taxation, JCS-28-72 (GPO October 4, 1972); *Estimates of Federal Tax Expenditures*, Treasury Department and Joint Committee on Taxation, JCS-20-73 (GPO June 1, 1973);

[631] *Three Standards of Living for an Urban Fmaily of Four Persons, Spring 1967*, U.S. Department of Labor, Bulletin #1570-5 (GPO 1967)

considering inflation. It called for $1,900 for an individual and $5,500 for a family of four, with the grant reduced by two-thirds of the recipient's earnings, thereby providing a work incentive by allowing the recipient to keep 1/3 of the earnings until the initial grant was phased out.[632] By 1971, NWRO called for $6,500 for a family of four, rather than $5,500, in order to reflect the increasing cost of living.[633] Once again, NWRO called for funding the minimum income plan by closing tax loopholes. The NWRO also stressed that working- and middle-income taxpayers would be better off under their system, too, since, even as the grant phased out, it would essentially become a tax cut for families above the poverty line. For example, a family of four making $10,000 in 1973 would have an after-tax income of $9,833 under NWRO's plan, compared to $8,445 under existing tax law. The break-even point for NWRO's plan was just under $11,500, though other calculations pegged it as closer to $9,500.[634] Wiley understood the political realities of the tax revolt, even as he was pushing for the most generous welfare benefits possible for NWRO's members. "We feel that there ought to be relief for the local taxpayers and we feel that the system which uses property taxes and sales taxes as the base for subsidizing public assistance is really a very regressive tax system," Wiley told Congress, "[Instead] the federal tax…should be used and it should be even more progressive and more heavily distributed on the corporations than it is at the present time."[635]

Other guaranteed income supporters noted that – beyond the direct federal tax benefits – the federalization of welfare would help to lower regressive local taxes. Milwaukee Mayor

[632] "What Is NWRO's Guaranteed Adequate Income?" Undated, GWP, B34, F12, WHS. For a description of the bill as initially introduced by Eugene McCarthy in 1970 and endorsed by Louis Stokes, among others, see *Congressional Record* (July 20, 1970), 25102-25103
[633] "Why $6,500?" February 8, 1971, GWP, B22, F5, WHS
[634] $6,500 Now! Pamphlet, [1971], GWP, B22, F5, WHS; Okner to Kaufman, March 20, 1970, GWP, B22, F4, WHS
[635] *Social Security and Welfare Proposals, Part 3 of 7*, U.S. House Ways and Means Committee, September 15, 16, 21, 22, 26, 24, 27, 28, 30, 31, November 3, 4, 5, 6, 7, 10, 12, and 13, 1969 (GOP 1969).

Henry Maier, representing the U.S. Conference of Mayors, told the House that mayors across the country wanted to see the federal government assume more of the costs of public assistance. Doing so, Maier pointed out, would help alleviate not only the "fiscal crisis" of states and localities, but also the rising property tax burden on citizens. "[I]t is folly to expect a tax that was designed for the simple functions of fire and garbage and sewage, the property tax, to carry the burdens and the problems of poverty and health and crime and education," Maier said. "And this is the load that the property tax is being expected to carry in most of the central cities of America."[636] Likewise, William G. Coleman, ACIR's executive director, explained to the Ways and Means Committee that the ACIR recommended the federal "assumption of [the] full financial responsibility for public assistance." The ACIR viewed FAP as an important step towards that goal. Part of the end result, Coleman explained, would be a lessening of both the fiscal crisis and the roots of the tax revolt. "Federal assumption would free up nearly $5 billion of state and local revenue," he explained. "It would (a) benefit most those states and cities where the poor have tended to congregate, (b) reduce tax differentials between the distressed central cities and their most affluent suburbs, and (c) diminish pressure on the regressive local property tax."[637] This widespread support for FAP, or a similar federal assumption of welfare responsibility, did not prevent conservatives – led by Russell Long, who almost singlehandedly prevented FAP's passage in both 1971 and 1972 – from repeatedly scuttling FAP prior to the 1972 elections.[638]

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[636] *Social Security and Welfare Proposals, Part 5 of 7*, U.S. House Ways and Means Committee, September 15, 16, 21, 22, 26, 24, 27, 28, 30, 31, November 3, 4, 5, 6, 7, 10, 12, and 13, 1969 (GOP 1969).
[637] *Social Security and Welfare Proposals, Part 2 of 7*, U.S. House Ways and Means Committee, September 15, 16, 21, 22, 26, 24, 27, 28, 30, 31, November 3, 4, 5, 6, 7, 10, 12, and 13, 1969 (GOP 1969).
[638] "House Passes Welfare Reform, Senate Delays Action," *CQ Almanac* (1971); "Welfare Reform Deleted from Social Security Bill," *CQ Almanac* (1972)

The debates surrounding FAP would reemerge during the 1972 presidential campaign. However, in the meantime, with FAP stalled in Congress, those looking to address the "tax revolt" would turn to the debates surrounding another piece of Nixon legislation with a long lineage on the left – federal revenue sharing with states and localities.

Revenue Sharing as Progressive Tax Reform

By the time Richard Nixon made federal revenue sharing with states and localities the centerpiece of his "New Federalism" – a phrase devised by William Safire and Richard Nathan – in his 1971 State of the Union Address, revenue sharing had a long and winding history. At various times over the previous decades, revenue sharing had been proposed by conservatives and liberals, Democrats and Republicans, albeit often for different reasons. As the *Washington Post* wryly observed, "Few programs in recent years have been advocated as a remedy for so many diverse and conflicting ills as revenue sharing."[639] For Nixon, perhaps the best reason to push the enactment of sharing prior to the 1972 elections was its political popularity. By late-1970, revenue sharing enjoyed the support of 70 percent of Americans, regardless of party.[640] But exactly what about revenue sharing made it so popular was hotly contested. The meaning of revenue sharing not only affected which party should view it as a political victory, but also what form it should take and what elements of the legislation should be emphasized for maximum political effect. Indeed, just as the tax revolt was itself a contested term, so was the very idea of revenue sharing. For Nixon and Democrats, alike, the debate surrounding revenue sharing shifted – both before and after its enactment – uniformly towards a more left-distributionist

[639] Robert Reischauer, "Revenue Sharing: Matching the Money and the Needs," *Washington Post*, May 11, 1972
[640] ACIR, *Revenue Sharing: An Idea Whose Time Has Come* (GPO, December 1970)

understanding not only of revenue sharing itself, but also of the tax revolt and the relationship between the two.

The idea of revenue sharing had a long lineage before Richard Milhous Nixon finally embraced it. In 1805, Thomas Jefferson suggested in his second inaugural address that excess federal revenue be distributed "by a just repartition among the states."[641] Nearly two decades later, Henry Clay proposed the idea of sending federal revenue to the states as part of the Whig's philosophy of federalism in the "American System."[642] The idea of the federal government sharing revenue with the states continued to gain traction until Congress passed the Distribution Act of 1836, which was signed into law by Andrew Jackson, even though Jackson had vetoed a different revenue sharing bill just three years earlier and had long argued that the federal government sharing money with the states would promote fiscal irresponsibility.[643] In his 1833 veto message, Jackson had argued that "it is neither wise nor safe to release the members of their local legislatures from the responsibility of levying the taxes necessary to support their state governments and vest it in Congress…."[644]

Democrat Andrew Jackson's reasons for opposing revenue sharing, in fact, prefigured the anti-RS arguments of Arthur Burns's and other conservatives in the 1960s and 1970s. Jackson's first objection to revenue sharing was that it was unconstitutional. Jackson argued that letting one level of government spend revenue that another had raised would lead to profligate spending,

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641 Thomas Jefferson, "Second Inaugural Address, March 4, 1805," in Nobel E. Cunningham, ed. *The Inaugural Addresses of President Thomas Jefferson* (University of Missouri, 2001). 77; Bruce A Wallin, *From Revenue Sharing to Deficit Sharing: General Revenue Sharing and the Cities* (Georgetown, 1998), 33-34.

642 Daniel Walker Howe, *The Political Culture of the American Whigs* (University of Chicago, 1984), 137; Barry D. Riccio, "The Conservative as Liberal?" in Leon Friedman and William F. Levantrosser, eds. *Watergate and Afterward: The Legacy of Richard M. Nixon* (Greenwood, 1992); Thomas R. Swartz and John E. Peck, "Six Profiles of the Changing Face of Fiscal Federalism: An Overview," in Thomas R. Swartz and John E. Peck, eds. *The Changing Face of Fiscal Federalism* (M.E. Sharpe, 1990); A. James Reichley, *Conservatives in an Age of Change: The Nixon and Ford Administrations* (Brookings, 1981), 154-155

643 James A. Maxwell, "The Fiscal Impact of Federalism in the United States" (1947), reprinted in *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism*, Joint Economic Committee (GPO 1967)

644 Andrew Jackson, "Veto Message," *Public Papers of the Presidents*, December 4, 1833

soaring taxes, and, possibly, a tax revolt. “All will admit that the simplicity and economy of the state governments mainly depend on the fact that money has to be supplied to support them by the same men, or their agents, who vote it away in appropriations. Hence when there are extravagant and wasteful appropriations there must be a corresponding increase of taxes, and the people, becoming awakened, will necessarily scrutinize the character of measures which thus increase their burdens….,” Jackson explained in his 1836 SOTU address. “But if the necessity of levying the taxes be taken from those who make the appropriations and thrown upon a more distant and less responsible set of public agents, who have power to approach the people by an indirect and stealthy taxation, there is reason to fear that…[t]he state legislatures, instead of studying to restrict their State expenditures to the smallest possible sum, will claim credit for their profusion, and harass the General Government for increased supplies.”[645] Proponents like Clay eventually secured the reluctant Jackson’s support by labeling the funds dispersed by the Distribution Act as loans that the federal government could call in should it find itself in deficit. “It was an open secret that all of this was a false front, and yet President Jackson glossed over his reluctance to sign the bill by pretending that the deposits were genuine…,” as a 1946 history put it. All told, $28 million was distributed in 1837 by the federal government to the states according to their representation. An additional $9 million in payments scheduled for distribution was suspended due to the deep recession following the Panic of 1837.[646] But after this brief flirtation with revenue sharing in the 1830s, the issue would remain dormant for over a century.

Eventually, states would institute their own version of revenue sharing. In the 1930s, many states began sharing revenues with localities in substantial amounts. At the turn of the century state revenues had made up just over six percent of local governments’ revenue. But by

[645] Andrew Jackson, “Eighth Annual Message,” *Public Papers of the Presidents*, December 5, 1836
[646] James A. Maxwell, “The Fiscal Impact of Federalism in the United States” (1947), reprinted in *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism*, Joint Economic Committee (GPO 1967)

the late-1920s, that percent had topped 10 percent. A decade later, state aid made up nearly 25 percent of local revenue. However, the percentage of state sharing with localities largely flatlined between the late-1940s and early-1960s, remaining at just under 30 percent of local revenue. By the 1950s and 1960s, many states faced their own budget crises and, consequently, localities could no longer count on larger and larger shares of their budgets being provided by the state. Much of this state intergovernmental revenue sharing went to education and welfare. State revenue made up nearly three quarters of local "public welfare" expenditures by the 1960s. In contrast, state aid composed far less than half of local expenditures on education. For education, which was modernizing and expanding in the post-WWII era, flat state expenditures proved to be a significant problem.[647] The budget issues facing states and localities by the 1960s proved to be both complex and inherently structural, which called into question the entire edifice of U.S. "fiscal federalism."

Throughout the postwar era, both state and, especially, local governments' abilities to pay for services were tested. "[S]ince the end of WWII, the state and local expenditure growth rate has far outpaced both that of the federal government and the private sector," the ACIR noted. "While the national government's share of GNP (purchases of goods and services) crept up between 1946 and 1966 [from 8.3 to 10.4 percent of GNP], the state and local government share more than doubled – from 4.7 percent of GNP in 1946 to 10.4 percent in 1966." Thus, even with the growth of Cold War expenditures and federal safety net programs in the postwar era, expansion of state and local governments dwarfed federal expenditures. The pattern in taxes proved to be the same. "The growth in in state and local tax collections has likely far outpaced

[647] James A. Maxwell, "Development of the Federal System" (1947), in *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism*, Joint Economic Committee (GPO 1967); George F. Break, "Intergovernmental Fiscal Relations," in *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism*, Joint Economic Committee (GPO, 1967).

growth in federal tax collections since the end of WWII," the commission noted. "To achieve this result, states and their political subdivisions enacted new taxes and increased existing taxes." Indeed, while federal taxes had hovered around 19 percent of GDP for the twenty years following the end of WWII, state and local taxes had climbed from less than six percent to more than nine percent of GDP. But this increase in tax revenue still was not enough to finance state and local government growth. Instead, states and localities took on an enormous amount of debt. Between 1948 and 1966, federal debt rose 26 percent, while state and local government debt increased more than 400 percent.[648]

Reasons for the steep post-WWII increase in state and local expenditures – and taxes – were multifaceted. Some, such as population growth and urbanization were simple. Others were more nuanced. Rising living standards – as both longtime Bureau of the Budget economist William H. Robinson and the ACIR noted, writing 20 years apart – drove by the public's demand for new and better services, which, in turn, necessitated higher expenditures. [649] Yet, localities, in particular, often lacked the revenue opportunities meet the public's rising demand for new and better services. And, even when those tax sources were available, convincing the public to approve higher taxes proved to be difficult. As Robinson noted, the incentives were mismatched when it came to the costs and benefits of some public goods. The cost of education, for example, was "borne fully by the local community while the 'benefits' may be lost when trained people leave the area." Education, then, like many resources, were better provided by higher levels of

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[648] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 47-55

[649] William H. Robinson, "The Fiscal Impact of Federalism in the United States" (1947), in *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism*, Joint Economic Committee (GPO 1967); ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 46-47

government, Robinson argued.[650] As economists Selma J. Mushkin and Robert F. Adams concluded in 1966, summarizing a widespread public finance conclusion, "where there are large geographic spillovers, the taxpayers rationally decide in favor of lower expenditures…and bring about an underallocation of resources for those services…."[651] Making matters worse, studies found that demand for services did not increase proportionately with population. Instead, it increased almost exponentially because, as the ACIR put it, "in an increasingly urbanized environment their needs take on new dimension and as they become more affluent, their demands for public services become more sophisticated and still more insistent." Because of the service-oriented, labor-intensive nature of government activity, this lead to a rapid increase in costs – and taxes.[652]

Throughout much of the post-New Deal era, the federal government complicated matters by instituting programs with joint federal-state and federal-local financing systems, including Aid to Dependent Children and the Federal Highway Act, among others. Such program structures not only necessitated more state and local revenues, but also complicated the budgetary process for states and localities, since the federal portions of this aid usually came with strings attached. As the ACIR put it, "most of the major grant programs require some matching on the part of the state… [and] this portion can represent a significant element in a state budget."[653] Indeed, grants-in-aid assumed a larger and larger role in the system of fiscal federalism throughout the 20th century, particularly during and after the Great Depression. As ACIR noted in 1967, "categorical grants have grown steadily in terms of programs affected,

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650 William H. Robinson, "The Fiscal Impact of Federalism in the United States" (1947), in *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism*, Joint Economic Committee (GPO 1967)
651 Selma J. Mushkin and Robert F Adams, "Emerging Patterns of Federalism," *National Tax Journal* 19:3 (September 1966)
652 ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 46-47
653 ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 244

expenditures, and the proportion of the national budget." These categorical grants became "the predominant type of federal intergovernmental transfer."[654] Between 1947 and 1968, grants-in-aid rose from less than 5 percent to nearly 10 percent of total federal expenditures. Likewise, federal grant-in-aid expenditures rose from approximately 12 percent to approximately 18 percent of state and local revenue in the same period.[655]

Additionally, the regressivity of both state and, especially, local taxes ensured that low- and middle-income taxpayers were squeezed, while those with better ability to pay were taxed lightly for services like public safety, education, infrastructure, and social welfare. Some taxes faced more public resistance than others. But, throughout the 1950s and early-1960s, while the federal government enjoyed the relatively well-tolerated and highly elastic graduated federal income tax, localities were stuck with unpopular property taxes, and states mostly relied on regressive consumer taxes. "The revenue side of fiscal federalism resembles more closely the 'layer cake,' dominated by federal income [taxes], state consumer [taxes], and local property taxes," the ACIR noted in 1967. In 1966, the federal government collected nearly 93 percent of all income taxes, the state governments collected more than 50 percent of the nation's consumption taxes (with the federal government accounting for more than 43 percent), while local government collected 97 percent of all property taxes. These distributions had remained roughly unchanged since the 1920s, with the exception of sales taxes. Over the period, states had effectively claimed consumption from the federal government, which had once collected nearly 70 percent of all consumption levies.[656] "[T]here is no question that the unremitting pressure for additional revenue poses a clear-cut challenge to a decentralized system of government," the commission noted. "Political influence and control, of necessity, gravitate to that level of

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[654] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 137-145
[655] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 145-148
[656] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 101-105

government that experiences the least political difficulty in raising revenues. It is this fact that has given the revenue-sharing issue its sharp political and fiscal focus."[657]

As fiscal federalism became more and more complex, policymakers on all levels of government increasingly returned to the idea of federal revenue sharing as a solution to the fiscal woes of states and localities. In 1947, the Council of State Governments created the Joint Conference on Federal-State Tax Relations. Attended by 15 governors, 10 House members, and 6 senators, the conference produced a series of recommendations, including that "the States should avoid encroachment upon tax fields which are peculiarly adaptable to Federal use."[658] But that same year, a Senate Subcommittee to Study Intergovernmental Relations recommended "improv[ing] the equity and administrative efficiency of the country's overall tax structure" as a goal for U.S. fiscal federalism.[659] Likewise, the "Hoover Commission," appointed by Harry Truman in 1947 and headed by Herbert Hoover, was tasked with studying Federal-State relations. In its final report, the commission made a strong case for the artificiality of the barriers between the levels of government. "There is no past in which these governments were completely separate entities," the commission argued. "There is no future in which completely separated, strong governments may exist." The Hoover commission endorsed increased federal grants to the states, arguing for something in between narrow grants-in-aid and broad, no-strings-attached distribution of federal revenue to the states. Grants should be made "on a broad functional basis," the commission argued. In other words, the federal government could provide grants in general spending areas to the state, while allowing the states wide leeway in how they

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[657] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 47

[658] Richard F. Kaufman, "Recommendations of the Advisory Commission on Intergovernmental Relations and Earlier Government Commissions" in *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism*, Joint Economic Committee (GPO 1967)

[659] Richard F. Kaufman, "Recommendations of the Advisory Commission on Intergovernmental Relations and Earlier Government Commissions" in *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism*, Joint Economic Committee (GPO 1967)

were spent. In terms of the tax mix, however, the Hoover Commission was very traditional. It argued that "the national government relinquish to the states the field of retail sales and excise taxation" and that the state government's cease "encroach[ing] on sources more properly federal, such as the income tax…."[660]

In 1953, Congress established yet another commission to study "intergovernmental fiscal relations" dubbed the "Kestnbaum Commission," after chair Meyer Kestnbaum, a business executive who was appointed by Eisenhower. From the start, the Kestnbaum Commission was torn between conservatives who saw it as a vehicle for attacking New Deal-era expansion of the federal government and liberals who sought to defend those programs. Its largely-ignored final report, rife with dissents on specific points and a disappointment for both sides, read like a "middle-of-the-road" hymn to federalism. It called vaguely for "[L]eav[ing] to private initiative all the functions that citizens can perform privately; us[ing] the level of government closest to the community for all public functions it can handle…[and] reserve[ing] national action for residual participation where state and local governments are not fully adequate…" When it came to taxes, the commission called for restraint in spending and revenue-raising at all levels of government. For localities, the "solution" to their "revenue problems" was "strengthening the property tax and in greater assistance from state revenues," though at least one member called for local income taxes. The commission came out strongly against general sharing of revenue by the federal government with states and localities. "The federal government does not and should not attempt to equalize fully State fiscal capacities…," the report declared. "The commission believes that, whenever possible, decisions to spend and decisions to tax should be made at the

[660] *Federal-State Relations by the Council of State Governments*, Commission on Organization of the Executive Branch of the Government (GPO 1949); Richard F. Kaufman, "Recommendations of the Advisory Commission on Intergovernmental Relations and Earlier Government Commissions" in *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism*, Joint Economic Committee (GPO 1967)

same governmental level, thus encouraging financial responsibility."[661] After an intervening series of additional commissions and hearings – including a "Second Hoover Commission," crafted by conservatives to propose downsizing government and "eliminating" government competition with "private enterprise" – Congress created what would be the longest-running and most influential repository for analyzing fiscal federalism in 1959 with the inauguration of the Advisory Commission on Intergovernmental Relations.

The ACIR became a permanent commission composed of three U.S. senators, three U.S. congressional representatives, four governors, three state legislators, three county officials, four mayors, and three citizens. (Three representatives of the executive branch would be added later.) While its primary concern was increasing the fiscal health of states and localities, the ACIR, at least initially, fell short of recommending no-strings-attached revenue sharing between. Instead, much of the ACIR's efforts revolved around devising reforms to help states and localities make "more effective use of their own taxing powers." Yet, the ACIR also argued for an increased federal role in equalizing revenue between states and localities for specific program areas. Even more boldly, ACIR called for a federal tax credit for state income tax payments, a policy that the ACIR believed would encourage states, via a "mild inducement," to enact income taxes, which the commission – with some controversy – saw as the best form of taxation.[662] Though the potential encouragement of state income taxes would prove to be one of the most contested issues in discussing federal revenue sharing, especially for conservatives, a conservative

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[661] *The Commission on Intergovernmental Relations: A Report to the President* (GPO, June 1955); Peter Edson, "Group Study of Government Took Realistic Approach," *Fort Scott Tribune*, July 26, 1955; Thomas Stokes, "Little Comfort in Report for States' Righters," *Lewiston Morning Tribune*, July 1, 1955; Doris Fleeson, "In Like a Dinosaur, Out Like a Lamb," *St. Petersburg Times*, July 1, 1955;

[662] Richard F. Kaufman, "Recommendations of the Advisory Commission on Intergovernmental Relations and Earlier Government Commissions" in *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism*, Joint Economic Committee (GPO 1967); Archive of ACIR hompage (http://www.library.unt.edu/gpo/acir/Default.html)

Republican was one of the most vocal advocates of revenue sharing in the 1950s.

As revenue sharing become a viable policy option in the 1960s, many observers pointed to congressional representative Melvin Laird, a Wisconsin Republican, as the one of the earliest proponents of modern revenue sharing. "Laird has been pushing this idea since 1958," *Business Week* quipped in the mid-1960s.[663] Laird's fondness for revenue sharing grew out of his time as a state senator, where he helped devise a plan that sent 50 cents of each state tax dollar back to the locality and 10 cents to the county, with the state keeping the remaining 40 cents. When Laird attempted to gain support for his federal bill, introduced in 1958, it gained few supporters. Most federal legislators were not thrilled with the prospect of handing states and localities tax monies that federal policymakers felt entitled to spend themselves. But Laird, like many conservatives, viewed it as a small-government measure designed to shrink the federal government and return power to the local level. Year after year Laird continued introducing revenue sharing bills and delivering speeches touting revenue sharing's virtues to no avail.[664] Crucially, however, Laird's vision of revenue sharing differed in one significant way from subsequent, more left-leaning, proposals. Laird envisioned the program as a replacement for existing federal grants-in-aid, rather than as an additional source of revenue.[665] The explicit goal of revenue sharing, in the view of Laird and other conservatives, was to shrink government, overall, and dismantle much of the federal welfare state. As a result, the early conservative revenue sharing proposals gained little traction outside of the political right. Indeed, the most significant liberal proponents of revenue sharing had a very different purpose in mind.

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[663] "GOP Congressmen Get Early Start on '69," *Business Week*, September 2, 1967, quoted in Dale Van Atta, *With Honor: Melvin Laird in War, Peace, and Politics* (University of Wisconsin, 2008), 544

[664] Dale Van Atta, *With Honor: Melvin Laird in War, Peace, and Politics* (University of Wisconsin, 2008), 70-71; Timothy Conlan, *From New Federalism to Devolution: Twenty-Five Years of Intergovernmental Reform* (Brookings 1998), 28

[665] Paul R. Dommel, *The Politics of Revenue Sharing* (Indiana, 1974); Dale Van Atta, *The Laird Legacy: A Biography of Melvin R. Laird* (Marshfield, 2008), 137.

Liberal Democratic economists revived the idea of revenue sharing during the heady economic days of Kennedy-Johnson era as an alternative to the federal tax-cutting model of "growth liberalism." The 1962 and 1964 tax cut packages were criticized by many left-leaning economists for several reasons. Some, such as John Kenneth Galbraith, said that the revenue lost in the tax cuts would have had a more simulative effect if spent on public infrastructure and services. Other economists were more supportive of tax cuts, but argued that the JFK-LBJ packages should have been focused more on lower- and middle-income taxpayers, rather than giving so many benefits to businesses and upper-income taxpayers. Left-labor economists derisively dubbed this emphasis on business incentives and across-the-board individual cuts "commercial or domesticated" Keynesianism.[666] Though these critics failed to alter the Kennedy-Johnson cuts, their arguments did not fall on deaf ears. Though he was perhaps the main architect of the Kennedy-Johnson tax cuts, JFK's CEA chair Walter Heller joined with tax economist Joseph Pechman to become the prime Democratic advocate for revenue sharing, which was conceived by Heller and Pechman as an alternative to further federal income tax cuts. Heller, Pechman, and other policy experts on the left saw revenue sharing proposals as a solution to what had become an undeniable set of interlocking problems: the fiscal crises of state and local governments and the burgeoning revolt against rising state and local taxes, especially property taxes. "If state and local treasuries could be buttressed with general purpose financial aid they would be freer to shape responsive remedies to their particular local needs," the ACIR summarized of Heller's proposal. "To the extent that federal taxes collected through the progressive income tax could be substituted for further increases in state and local collections from regressive sales and property taxes, the fairness of the overall American tax system would

[666] Allen Matusow, *The Unraveling of America: A History of Liberalism in the 1960s* (Harper & Row, 1984), 30-59; Irving Bernstein, *Promises Kept: John F. Kennedy's New Frontier* (Oxford, 1991), 118-159; James Hurtgen, *The Divided Mind of American Liberalism* (Lexington, 2002), 56-72.

be improved."[667] Heller's own attention to the struggles of states and localities and the prospects of sharing revenues between the levels of government was informed by his work as an adviser to the governor of Minnesota.[668]

The contrast between confident exuberance of the "commercial" or "domesticated" Keynesian tax-cutting of the Johnson-Kennedy White House and the struggles of states and localities during the same period was marked. "While Federal officials have worried alternately about inflation and the drag on tie economy imposed by rapidly rising federal tax revenues, state and local governments have struggled, frequently with only indifferent success, to provide the wide variety of services their citizens are increasingly demanding," Berkeley economist George Break noted in 1967. "All too often in the governmental sector, the money is not where the needs are: or if it is there, the means for mobilizing it are far from obvious."[669] In that way, "commercial Keynesianism" and the fiscal crises of states and localities were inextricably intertwined. The federal government's coffers were overflowing while those of state and local governments' were empty for much the same reason. Rising federal revenues, spurred by both growth and inflation, financed the Kennedy-Johnson tax cut of 1964. Growth swelled tax rolls because it enlarged the economy, while inflation pushed taxpayers into higher income tax brackets, since the brackets were not indexed to the cost-of-living. For states and localities, dependent primarily on regressive or flat taxes, neither growth nor inflation generated the same rapid rise in tax collections as occurred from the federal income tax. In contrast, Keynesian policymakers in D.C. actually saw these rising revenues as a problem. They created what

[667] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 67

[668] Otto G. Stolz, "Revenue Sharing – New American Revolution or Trojan Horse?" *Minnesota Law Review* 58:1 (1973), 6-7

[669] George F. Break, "Intergovernmental Fiscal Relations," in *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism*, Joint Economic Committee (GPO, 1967). On "commercial" or "domesticated" Keynesianism, see Herbert Stein, "The Fiscal Revolution in America, Part II: 1964-1994," in *Funding the Modern American State, 1941-1945*, W. Elliott Brownlee, ed. (Cambridge, 1996), 194-288.

economists dubbed a "fiscal drag," since the federal government was siphoning off a larger and larger share of consumers' purchasing power with each point of increase in the national income or the CPI. Usually only two options were considered for combatting this "fiscal drag": increasing spending on new federal programs or cutting federal income taxes. But a third option existed, proponents of revenue sharing argued. Instead of either creating new federal programs or pursuing "further tax cuts," the federal government could dispose of its excess revenue in the form of "unrestricted grants to the states," as the ACIR explained in 1965.[670]

Experts with an eye toward the entire edifice of fiscal federalism – not just the federal budget – saw the "fiscal crisis" facing states and localities as a solution to the federal "fiscal drag" problem, and vice versa. "Those troubled with the fiscal constraints with which the state and local governments contend as they strive to respond to the people's burgeoning needs are understandably attracted to suggestions that the federal government deploy more of its resources to their needs," the ACIR noted in 1967. "They received strong encouragement at the time of the 1964-65 federal tax reduction, when much public discussion inside and outside the federal government focused on the striking revenue growth potential of the federal tax structure…." Many observers argued that at least some of "excess" federal revenue should be used to relieve the fiscal pressure on states and localities – allowing them to increase spending and reduce the use of regressive property and sales taxes – rather than to cut federal income taxes.[671] The ACIR predicted that either an "unconditional grant approach" or a "conditional grant approach" to revenue sharing would be the most politically saleable to conservatives and liberals. To some degree, the ACIR noted, both approaches would equalize states' revenues, and both would either leave the overall tax burden unaffected or make it slightly more progressive. The commission

[670] Advisory Commission on Intergovernmental Relations, *Federal-State Coordination of Personal Income Taxes* (GPO, October 1965), 47
[671] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 67

also held out the possibility that a "tax credit option approach" could win the approval of Congress. The ACIR's tentative proposal called for giving federal taxpayers the option of either itemizing their states and local taxes as a deduction or receiving a tax credit for state and local tax payments above a certain percentage of income – the latter of which would have great appeal to low- and middle-income taxpayers. Though this plan offered "no significant" equalizing effects between states, it would be a progressive reform, since – given state and local taxes' regressively – "low and middle income tax bracket taxpayers [would] receive larger write-offs" under the plan. The plan would also increase progressivity, ACIR predicted, by encouraging states to increase income taxes – a goal embraced by distribution-minded Democrats.[672]

Walter Heller developed his proposal for a left-leaning iteration revenue sharing system in cooperation Joseph Pechman, who chaired a revenue sharing task force in the Johnson administration.[673] Rather than replacing existing federal aid, as conservatives like Laird envisioned, Heller and Pechman believed that existing federal grants-in-aid "should remain the basic method of providing assistance," with revenue sharing providing a supplement of "no strings attached" funds to states and localities.[674] The Heller-Pechman plan called for two percent of the federal income tax base to be set aside for sharing with states and localities. Given that federal income tax revenues had risen to nearly $50 billion in 1964, Heller and Pechman were effectively proposing a $1 billion no-strings-attached program of revenue sharing in addition to existing grants-in-aid.[675] However, both Heller and Pechman considered the two percent suggestion to be "illustrative." Depending on the needs of states and localities and the condition

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[672] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 313-314

[673] Murray Weidenbaum, "Revenue Sharing and the New Federalism," *Review of Applied Urban Research* 2:1 (January 1974)

[674] Heller quotes in Otto G. Stolz, "Revenue Sharing – New American Revolution or Trojan Horse?" *Minnesota Law Review* 58:1 (1973), 6-7

[675] "Historical Amount of Revenue By Source," Tax Policy Center (http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=203)

of the federal government, the percent could be lower or higher.[676] Under the Heller-Pechman plan, revenue was to be allocated on the basis of population, tax effort, and per capita income.[677] Thus Heller's proposal for revenue sharing served as an alternative solution to the "fiscal drag," predicted to reach as high as $6 billion per year, as growth and inflation pushed tax revenues beyond federal needs. [678] Rather than continuing to cut federal income taxes and returning federal revenues to individual Americans – and disproportionately to upper-income taxpayers, as many critics noted – revenue sharing would return the federal revenue to states and localities which could, in turn, also return the money to the public, but in the form of cuts to largely regressive taxes. [679]

The Johnson administration clearly understood the fiscal dire straights facing states and localities. "Since World War II, state and local expenditures have been growing far more rapidly than federal outlays," the 1967 *Economic Report of the President* noted. [680] Indeed, the Johnson White House justified many of the Great Society's most ambitious attempts at localism financed by federal dollars – like Model Cities and the Community Action Program – in terms of states and localities constrained ability to address pressing social and economic issues. "The cost of dealing with the overwhelming problems of poverty, housing, physical and human renewal exceeds the revenue potential of many cities," the 1967 *Economic Report of the President* concluded. "If each city were required to achieve a financial balance within its own borders, it would be forced to neglect some of the most pressing social problems of our time. There is no

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[676] Joseph A. Pechman, "Revenue Sharing Revisited," in *Financing State and Local Governments* (Federal Reserve Bank of Boston, 1970)

[677] Otto G. Stolz, "Revenue Sharing – New American Revolution or Trojan Horse?" *Minnesota Law Review* 58:1 (1973), 8

[678] Otto G. Stolz, "Revenue Sharing – New American Revolution or Trojan Horse?" *Minnesota Law Review* 58:1 (1973), 3-4; *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism*, Joint Economic Committee (GPO 1967)

[679] Murray Weidenbaum, "Revenue Sharing and the New Federalism," *Review of Applied Urban Research* 2:1 (January 1974)

[680] *Economic Report of the President* (GPO, January 1967)

escape from the conclusion that the Federal Government must continue to provide a share of the resources cities need to remain engines of economic and social progress." The fiscal imbalance in the federal system, the report explained, could be explained by a disconnect between service delivery and revenue raising. "To finance their budgets, these governments have increased tax rates and assessments frequently; yet state and local debt has increased sevenfold," the report noted. "Over the same period, federal receipts have generally kept pace with expenditures in peacetime, despite reductions in tax rates…." While the federal government's revenue-raising abilities were substantial, those of states and localities were decidedly limited.[681]

Johnson' economic advisers linked the poverty of states and localities in the midst of the federal government's budgetary plenty to the distribution of their respective tax burdens. The administration distilled the essence of the studies of American "fiscal federalism" undertaken since WWII. By mid-1960s, the LBJ economic team explained, the federal government enjoyed a near-monopoly on progressive income taxes. "Partly by historical accident, the federal Government has developed the best source of revenue, namely the income tax…," the Johnson economic team declared. "Despite its imperfections, the federal individual income tax is one of the best taxes ever devised. By taxing larger incomes at higher rates, it squares with the American notion of equity. Its revenue yield rises strongly as the economy grows. It serves as a built-in stabilizer by varying with economic fluctuations. By comparison with other taxes, it interferes least with job choices and expenditure decisions." While the federal government relied on individual income taxes for more than 40 percent of its revenue, it supplied less than six percent of states and localities revenue. Instead, states and localities received over 20 percent of their revenue from sales taxes and more than 30 percent from property taxes. This system was

[681] *Economic Report of the President* (GPO, January 1967)

flawed for several reasons, according to the Johnson White House. “Sales and property taxes are regressive. A poor family pays a substantial sales tax in most states even if it owes nothing under the efderal income tax. Sales taxes also discriminate among taxpayers in similar economic circumstances. Families with the same incomes but different patterns of consumption may pay different amounts; and large families may bear a relatively heavier burden than small families,” the ERP noted. “Moreover, the yield of sales taxes is less responsive than that of income taxes to economic growth. Property taxes, which are the major source of financing for education, are especially objectionable to homeowners who have no children and cause hardships for those who own their own homes but have relatively low current incomes. They can also discourage private efforts to rehabilitate and upgrade declining neighborhoods.” Yet, several historical factors had created a situation by the 1960s whereby many of the services for which the public’s demand had increased most were the province of states and localities. “[I]ncreasing urbanization and other factors have swelled the demand for public services which are regarded as primarily the responsibility of State and local governments – both by tradition and by the preference of the American people for keeping government as close to home as possible…,” the ERP noted. “The States and localities have not been idle in the face of mounting demands for public services. Since 1959, for example, the 50 States have enacted about 200 increases in the rates of their major taxes, and imposed 15 new taxes, including 8 new retail sales taxes.”[682] This pattern was unsustainable.

While the Johnson economic team hoped that the “financial pressures on states and localities” would “moderate somewhat” in the coming years, it predicted that “the financial problems of state and local governments will persist” even if demands for increased state and

[682] *Economic Report of the President* (GPO, January 1967)

local services slowed. Its proposed solution was increased federal aid to states and localities. This proposed aid took two forms: categorical "grants-in-aid," which would be tied to specific types of spending, and "no strings attached" "general support" grants, which states and localities could use as they saw fit.[683] The "grant-in-aid" model had a long history, including public assistance programs in the 1930s, highway funds in the 1950s, and several of Johnson's own Great Society initiatives.[684] "General support" grants, on the other hand, had few precedents. They also garnered objections from across the ideological spectrum. "Critics of general support grants have questioned whether state governments would spend the added revenues wisely, whether they would maintain their own revenue efforts, and whether they would provide adequately for their own cities….," the ERP noted. "Also, if States had a claim on a share of federal revenues, they might oppose federal tax reduction even when needed to combat recession." Other suggestions to provide states and localities with federal aid included "a credit against federal personal income tax liability be given for up to 40 percent of state income taxes paid." This "powerful incentive" would encourage the 17 states without personal income taxes to add them. But such measures would do little for localities and would favor rich states over poor ones. Nonetheless, such measures were viewed by the Johnson economic team as a more efficient way of aiding states and localities than the existing federal tax exemption for state and local bond interest, which provided only minor assistance to states and localities and did so at the expense of the federal tax code's progressivity.[685] Lending support to the idea of no-strings-attached revenue sharing, Johnson's budget director, Charles Schultze, told Congress in 1967

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[683] *Economic Report of the President* (GPO, January 1967). For a longer history of grants-in-aid, see Selma J. Muskin, "Barriers to a System of Federal Grants-in-Aid," *National Tax Journal* 13:3 (September 1960); "Federal Aid to State and Local Governments," U.S. Bureau of the Budget (1968) in *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism*, Joint Economic Committee (GPO 1967)
[684] *Economic Report of the President* (GPO, January 1967)
[685] *Economic Report of the President* (GPO, January 1967)

that federal aid was "being provided through, too many narrow categorical grant and loan programs." The grants-in-aid system, he argued, was "overly complex." [686]

Despite the Johnson administration's seeming openness to federal intervention in the state and local fiscal crisis, revenue sharing went nowhere while Johnson was in office.[687] Following his initial interest in revenue sharing, Johnson dropped the idea late in the 1964 campaign, at least in part to criticism of widespread leaks of the still-in-progress Heller-Pechman proposals.[688] Though advisers would attempt to revive the plans several times during Johnson's tenure, rising expenditures on Vietnam helped sour the president on revenue sharing. However, a variety of other RS proposal gained supporters in the mid-1960s. During his 1964 presidential campaign, GOP candidate Barry Goldwater proposed returning to states and localities "a share of [federal] taxes collected from them." But Goldwater's support for revenue sharing came with a crucial caveat. Like Laird, he envisioned these "grants without strings," as he put it, "gradually replac[ing] the present system of grants with strings, which the federal government uses to control more than $10 bullion of spending at the local level."[689] The "replacement" emphasis became the official GOP party line in the mid-1960s. In 1966, the Republic Coordinating Committee proposed replacing the grant-in-aid system with revenue sharing comprised of 10 percent of federal individual and corporate income tax revenues. These funds would be allocated based 50 percent on the revenue's state of origin and 50 percent on population. The population percentage, however, would be partly contingent upon a vague tax effort standard, which required states to contribute "a fair proportion of their per capital incomes to the cost of their

686 Quoted in William H. Robinson, "The Fiscal Impact of Federalism in the United States" (1947), in *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism*, Joint Economic Committee (GPO 1967)
687 Murray Weidenbaum, "Revenue Sharing and the New Federalism," *Review of Applied Urban Research* 2:1 (January 1974)
688 Heller quotes in Otto G. Stolz, "Revenue Sharing – New American Revolution or Trojan Horse?" *Minnesota Law Review* 58:1 (1973), 6-7
689 Goldwater quoted in Paul R. Dommel, *The Politics of Revenue Sharing* (Indiana, 1974), 45

own state and local services."[690] By the late-1960s, revenue sharing gained traction in both parties. The 89th Congress (1965-1967) saw the introduction of 51 revenue sharing bills with 57 sponsors and cosponsors, while the first session of the 90th Congress alone saw the introducing of 90 separate bills with 110 members as sponsors or cosponsors. Some of these proposals were left-leaning, others leaned right, but, overall, revenue sharing proposals remained more popular among Republicans. Contrary the left-liberal vision of these funds being used for not only for increased spending but also for the reduction of regressive taxes, some Republican bills explicitly forbade the use of federal revenue for local property tax relief. In contrast, proposals that included a "tax effort" measurement – to ensure that funds flowed primarily to fiscally strapped areas that had already exhausted their tax resources, rather than areas that simply refused to use available taxes, like the state income tax – began to attract notable Democratic support.[691]

Thus, Nixon stepped into a political culture acutely aware of the possibilities of revenue sharing. Keeping with RS's general popularity among Republicans, the 1968 GOP platform called opaquely for "federal revenue sharing" to "help provide the resources" for "human development" programs like education, health care, and crime reduction.[692] On the campaign trail, Nixon spoke only of a "streamlined federal system with a return to the states, cities, and communities of decision-making powers rightfully theirs."[693] When Nixon outlined his domestic policy vision to Congress in April 1969, just three months after taking office, he justified his RS

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[690] RCC quoted in Otto G. Stolz, "Revenue Sharing – New American Revolution or Trojan Horse?" *Minnesota Law Review* 58:1 (1973), 6-7

[691] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 67-69, Table B-2

[692] *Republican Party Platform of 1968*, August 5, 1968, American Presidency Project (http://www.presidency.ucsb.edu/ws/?pid=25841). Though Weidenbaum claims that "both party platforms contained specific revenue sharing proposals."

[693] Quote in Murray Weidenbaum, "Revenue Sharing and the New Federalism," *Review of Applied Urban Research* 2:1 (January 1974). Full speech: Richard Nixon, "Campaign Speech on the Nature of the Presidency," September 19, 1968, in *The Power of the Presidency*, Robert S. Hirschfield, ed. (Transaction, 1982)

proposals in less lofty and ideological terms. In fact, Nixon did not explicitly endorse the small-government vision of RS pushed by Laird and other conservatives. Rather, the president pointed to the practical issues of local tax politics. Nixon requested "a start on sharing the revenues of the Federal government, so that other levels of government where revenue increases lag behind will not be caught in a constant fiscal crisis."[694] This contrast – conservative small government rhetoric justifying a program that would have the ultimate effect of reducing reliance on local regressive taxes and increasing reliance on the progressive federal income tax – proved to be an ongoing feature of the revenue sharing debates within the GOP during the Nixon years and, perhaps, an essential irony necessary in securing both liberal and conservative support for the program. This juxtaposition was not lost on the Nixon team. "You will note a duality of justifications which continues to this day: the political science concern with the decentralization of government power and the closely related concern of the economist over the adequacy of the financial base for state and local government," Weidenbaum would note in 1974. And, indeed, despite his role as economist, the conservative Weidenbaum would often stress what he dubbed the "political science concern" addressed by RS, rather than the "economic" one.[695]

In July 1969, Nixon summoned a collection of Democratic and Republican governors, mayors, and county officials to the White House to discuss the outlines of a revenue sharing proposal that could secure bipartisan support from officials at all levels of government. The basic agreement arrived at involved the use of a clear formula to fairly distribute a specific amount of federal tax revenue each year to both state and local governments with no strings attached. The specification that some revenue would be sent directly to localities was a key feature, according

[694] Richard Nixon, "Special Message to the Congress on Forthcoming Legislative Proposals Concerning Domestic Programs," April 14, 1969, *Public Papers of the President*
[695] Murray Weidenbaum, "Revenue Sharing and the New Federalism," *Review of Applied Urban Research* 2:1 (January 1974).

to Weidenbaum, because it secured the support of mayors and city council members who were skeptical of plans allotting money to governors with no guarantee that it would actually find its way to the cities.[696] In September 1969, Howard Baker, with 32 cosponsors in the Senate, and Jackson Betts, with and 75 cosponsors in the House, introduced the administration's first revenue sharing bill. The legislation went nowhere, but the appeal of revenue sharing not only persisted, but grew in the years that followed.[697]

In December 1970, the ACIR – featuring the likes of Edmund Muskie, George Romney, Raymond Shafer, and Ronald Reagan as members – declared revenue sharing "an idea whose time has come." The commission not only endorsed revenue sharing, it also endorsed the "assumption by the federal government of all costs of public welfare and Medicaid," the assumption by states of "substantially all local costs of elementary and secondary education," and the "encouragement of a high-quality, high-yield state tax system through a federal income tax credit for state income taxes paid," among other reforms.[698] "A well-financed Federal revenue sharing plan is needed to ease a growing fiscal squeeze at the State and local levels," the ACIR noted. "On the revenue side, these governments, already hobbled by fears of intergovernmental tax competition, are meeting increasing taxpayer resistance as they push property, sales, and income tax rates ever higher. On the expenditure side, the unremitting demand for safer streets, better schools, a cleaner environment, and rapid urban transit, all combine to place massive expenditure pressures on these jurisdictions."[699] The ACIR dismissed complaints that "divorcing tax and spending authority" would lead to "wasteful" spending, as

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[696] Murray Weidenbaum, "Revenue Sharing and the New Federalism," *Review of Applied Urban Research* 2:1 (January 1974).
[697] Murray Weidenbaum, "Revenue Sharing and the New Federalism," *Review of Applied Urban Research* 2:1 (January 1974).
[698] ACIR, *Revenue Sharing: An Idea Whose Time Has Come* (GPO, December 1970)
[699] ACIR, *Revenue Sharing: An Idea Whose Time Has Come* (GPO, December 1970)

well as arguments that revenue sharing should not go forward given the Vietnam-driving federal budget woes. Domestic state and local needs, the ACIR argued, were just as important as federal or international ones. [700]

Crucially, the ACIR underscored revenue sharing's potential impact on the tax revolt, as well as the relative popularity of progressive taxes over regressive ones, including how this dynamic interacted with the system of fiscal federalism. "The dominant income tax position enjoyed by the federal government helps to insulate federal policymakers from irate taxpayers," the ACIR noted. The progressive federal income tax's structure angered Americans less than other revenue sources, according to the ACIR, and its highly elastic structure allowed income growth to generate rising income tax receipts. In contrast, states and localities had to rely more heavily on inelastic, regressive revenue sources. As a result, state and local policymakers were "forced to take the politically risky course of imposing new taxes and raising rates of existing taxes to meet the rising expenditure requirements of an urbanized society."[701] If Washington policy makers cut federal income taxes, they would "reap all the political credit for tax reductions," while state and local policymakers would continue to face taxpayer resentment as they raised state and local taxes. Beyond the issue of political credit and blame, distributional concerns were at the heart of the ACIR's objection to further federal income tax reductions. "This proposition [cutting federal income taxes and making state and local policymakers raise their own taxes] would have the overall effect of weakening our total state-local revenue system if states and localities made more intensive use of property and consumption taxes," the commission argued. "When compared to the local property tax and the state sales levy the federal income tax stands out as a far more equitable and productive revenue instrument." States

[700] ACIR, *Revenue Sharing: An Idea Whose Time Has Come* (GPO, December 1970)
[701] ACIR, *Revenue Sharing: An Idea Whose Time Has Come* (GPO, December 1970)

and localities could not be expected to raise income taxes, even if the fiscal room was created by federal tax cuts, the ACIR explained, because "interstate tax completion fears…place[d] powerful constraints on the ability of states to pick up *all* or even most of the slack on the income tax front." In this ACIR's view, only the federal government could be counted on to make the U.S. tax system fairer and more progressive.[702]

With revenue sharing popular among the public and policymaker, Nixon made a pitch for his revenue sharing plan in the 1971 SOTU address. Nixon mixed the practical appeals of revenue sharing that interested a broad array of local officials and homeowners with peons to small government that animated the tenuous conservative support for the program. "All across America today, states and cities are confronted with a financial crisis. Some have already been cutting back on essential services – for example, just recently San Diego and Cleveland cut back on trash collections. Most are caught between the prospects of bankruptcy on the one hand and adding to an already crushing tax burden on the other…," Nixon explained. "Let us share our [federal] resources. Let us share them to rescue the states and localities from the brink of financial crisis. Let us share them to give homeowners and wage earners a chance to escape from ever-higher property taxes and sales taxes." Turning to conservative rhetoric, Nixon next presented an ideological defense of revenue sharing. "Let us share our resources for two other reasons as well. The first of these reasons has to do with government itself, and the second has to do with each of us, with the individual. Let's face it. Most Americans today are simply fed up with government at all levels. They will not – and they should not – continue to tolerate the gap between promise and performance in government...," Nixon said. "I have faith in people. I trust the judgment of people. Let us give the people of America a chance, a bigger voice in deciding

[702] ACIR, *Revenue Sharing: An Idea Whose Time Has Come* (GPO, December 1970)

for themselves those questions that so greatly affect their lives." Nixon called revenue sharing a "new American revolution – a peaceful revolution in which power was turned back to the people – in which government at all levels was refreshed and renewed and made truly responsive," one that could be "as profound, as far-reaching, as exciting as that first revolution almost 200 years ago."[703]

Nixon's specific proposals, revealed the following month, mixed the liberal and conservative versions of revenue sharing. He proposed two forms of RS. The first, dubbed "General Revenue Sharing," was closer to the liberal vision. It would allocate $5 billion in new revenue with no strings attached. The second, "Special Revenue Sharing," was closer to the conservative vision. It would include $1 billion of new revenue and $10 billion in revenue from existing programs and group them into six categories, including education, law enforcement, and transportation. The revenues would be allocated among states and localities according to population and tax effort, though without encouraging the use of specific forms of taxation, such as the income tax.[704] The author's of the Democratic plan discarded by LBJ were, on the whole, pleased to see the new Republican president embracing their ideas. Pechman called it "remarkable that the administration's proposal follows the original [Heller-Pechman] plan almost to the letter." Despite being critical of some of the Nixon administration's divergences from the original Heller-Pechman plan, Pechman said that he "still believe[d] revenue sharing would make a significant contribution toward the improvement of federalism in this country, and I am

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[703] Richard Nixon, "Annual Message to Congress on the State of the Union," *Public Papers of the Presidents*, January 22, 1971
[704] Richard Nixon, "Annual Message to Congress on the State of the Union," *Public Papers of the Presidents*, January 22, 1971; Richard Nixon, "Special Message to Congress Proposing a General Revenue Sharing Program," *Public Papers of the President*, February 4, 1971; "Revenue Sharing: Hearings, But No Action in 1971," *CQ Almanac* (1971); "Congress Clears Nixon's Revenue-Sharing Plan," *CQ Almanac* (1972)

delighted to welcome the President of the United States and members of his Administration into the club of revenue sharing enthusiasts."[705]

Nixon's revenue sharing proposals were not without competition. A few revenue sharing plans came from Republicans, like a new, more generous proposal introduced by Baker and Betts, each now with more cosponsors.[706] But the most serious competing revenue sharing proposals were authored by Democrats. Senator Hubert Humphrey, who served as Vice President when Johnson decided to forgo revenue sharing, now embraced the idea. The perennial Democratic presidential contender believed revenue sharing would at least slow the increases in state and local taxes that had been accelerating over the past five years. "If we don't do something like this [revenue sharing] you are either going to close up services, vital services back home, or you are going to raise those property taxes or some other kind of taxes," Humphrey said. "I think this money will come from a tax source that is more equitable than putting an extra few mills or increasing the millage on homes out in Minnesota or Nebraska."[707] Humphrey also cast the issue of revenue sharing in civil rights terms. "I consider the whole subject of adequate revenues for cities at the heart and core of civil rights and human rights at this time," he said. "The people that live in the inner cities are the people that are being denied and deprived when there is a shortage of funds for municipal government."[708] Revenue sharing, Humphrey said, was an important step towards in making services for all Americans more equal and less depending on localities. In addition to revenue sharing, Humphrey envisioned "councils

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[705] Joseph A. Pechman, "Revenue Sharing Revisited," in *Financing State and Local Governments* (Federal Reserve Bank of Boston, 1970)
[706] Murray Weidenbaum, "Revenue Sharing and the New Federalism," *Review of Applied Urban Research* 2:1 (January 1974).
[707] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)
[708] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)

of government" and common metropolitan services as a long-term reform. People should not move between cities or localities, he suggested, and encounter vastly different levels of service. [709] Humphrey and Henry Reuss co-introduced a revenue sharing bill, S241, in early 1971. "One reason for the fiscal plight of the states is their insufficient reliance on progressive income taxes," Reuss argued. "States still lacking an income tax….[or that] have narrowly based or flat rate income taxes…compete unfairly with other states for industry. Worse, their reliance on property and regressive sales taxes unfairly burdens their middle-income homeowners and poor people." [710]

Humphrey's most powerful pitch for revenue sharing sounded like it could have been ripped from a speech by Nader or a CCC flyer. Humphrey framed RS as an antidote to the urban crisis, fiscal and otherwise. Services were so bad in most cities, the Minnesota Democrat argued, that it was impossible to attract businesses. "So you have a vicious circle here. Industry goes out to the suburbs and leaves no tax base, and it gets worse and worse, and the only answer is to draw a halt on it some place along the line and be able to provide services," Humphrey said. "I am going to lay it on the line. Working people live in the inner-cities. Ordinary people live there, black people live there, poor people live there, and those are the areas suffering today from lack of municipal resources, and we might just as well be frank about it. When there is money to be cut out of the city budget because there is no money left, who gets hurt?" The people in the "country club" would not get hurt, Humphrey responded in answer his rhetorical question, but the people in city neighborhoods would. "The streets are not repaired; they are dirty; the parks can't be taken care of; the property taxes have been raised 15, 20, 30 percent in the last 2 or 3

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[709] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)

[710] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)

years," he said. "Who is going to provide the money?" The federal income tax, Humphrey made clear, should.[711]

Yet another likely Democratic presidential candidate, Edmund Muskie, introduced his own revenue sharing bill, S1770, in 1971.[712] Muskie's proposal provided $6 billion in general revenue sharing money "as a supplement to and not a substitute for the [existing] grant programs," as Muskie put it. The soon-to-be presidential contender contrasted his approach to revenue sharing with that of conservatives, as well as the Nixon administration's bill, which some liberals believed left open the possibility of subsequent reductions in categorical aid programs. In addition to provisions preventing discrimination in the use of revenue sharing funds, Muskie's bill encouraged the use of state income taxes by providing "a bonus equal to 10 percent of the state income tax revenue." Muskie argued that this provision distinguished it from the White House's bill and bragged that his bill "includes strong incentives for the states to make greater use of the progressive income tax."[713] The ACIR officially endorsed Muskie's bill.[714]

Despite mountains of reports calling for federal revenue sharing with states and localities, the first challenge for the White House and revenue sharing's supporters was overcoming opponents who argued that RS was unnecessary. The primary attack against RS came from those who insisted that the previous rationale for RS, the "fiscal dividend," no longer applied and that the new justification, the state and local "fiscal crisis," did not exist. Indeed, an idea that had most recently been proposed as a way to spend projected federal surpluses was now seen to be

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[711] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[712] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[713] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[714] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)

unnecessary in an era of Vietnam-driven federal deficits. "[T]he fiscal dividend never materialized. It was a causality of the expanded war in Southeast Asia, of tax cuts, and of the burgeoning social welfare programs of the Great Society," a *New York Times* report summarized. "Faced with mounting deficits rater than surpluses, the Nixon administration therefore had to come up with a new rationale when it introduced revenue sharing. So it was that the 'fiscal crisis' [of states and localities] replaced the 'fiscal dividend' as the program's *raison d'etre*."[715] Therefore, the simplest attack on revenue sharing was denying that states and localities actually needed more revenue or that, even if they did, the federal government could not afford it. Both the U.S. Chamber of Commerce and the National Association of Manufacturers argued that that states and localities faced no "fiscal crisis."[716] Roland Bixler of NAM's state taxation committee argued that the notion of a state and local fiscal crisis had become "axiomatic" only "by virtue of uncritical repetition."[717] Business groups and conservatives found support for their view from conservative academics. Political scientist and urban policy scholar Edward Banfield questioned the rhetoric of "crisis" in a long *Public Interest* article.[718] Writing in the *Washington Post* economist Robert Reischauer slammed revenue sharing, arguing that the "fiscal crisis" of the states was a temporary issue that would resolve itself on its own. The economic stagnation and rising inflation of the recent past, Reischauer wrote in 1972, would soon be a thing of the past. Therefore, revenue sharing was not necessary.[719]

Revenue sharing's opponents' best hope came in the form of Ways and Means chair Wilbur Mills, as well and the committee's ranking Republican, John Byrnes. Both declared their

[715] Robert Reischauer, "Revenue Sharing: Matching the Money and the Needs," *Washington Post*, May 11, 1972
[716] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 4 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)
[717] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)
[718] Edward Banfield, "Revenue Sharing in Theory and Practice," *Public Interest* 23 (Spring 1971)
[719] Robert Reischauer, "Revenue Sharing: Matching the Money and the Needs," *Washington Post*, May 11, 1972

early opposition to revenue sharing. Despite their different parties, Mills and Byrnes shared the same fiscal conservatism. Both believed that the federal government should not undertake any new spending programs with the budget already in deficit.[720] "How anyone can suggest general revenue sharing with a straight face, in full view of federal deficits of that magnitude and the chronic string of deficits over the past forty years, is beyond me," Mills said in a June 1971 speech.[721] The Arkansas Democrat objected to the idea that the deficit-facing federal government would be sending money to state and localities. "Revenue sharing isn't anything but a gratuity in a will signed by a pauper," Mills quipped.[722] Mills and Byrnes spoke for a large number of balanced-budget fiscalists. Soon, these critics of revenue sharing began to sarcastically dub it "deficit sharing." They insisted revenue sharing should be scrapped.

Proving that Nixon intended to make good on his desire to move to the left, the White House now found itself joining with distributionist liberals to combat anti-revenue sharing arguments. A revenue sharing question-and-answer sheet released by the White House asked rhetorically, "Is there a 'crisis'?" The firm answer was "Yes." "Many have been proclaiming it [the state and local fiscal crisis] for several years – and [they have been] called Cassandras," the informational sheet explained. "But it is finally upon us."[723] Democratic revenue sharing architects agreed. "The fiscal plight of states and local governments is not a new phenomenon," Pechman noted, "yet the national government has not, until recently, seriously considered the adoption of a permanent set of solutions to this problem."[724] Pechman directly refuted the claims

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[720] Robert Mason, *Richard Nixon and the Quest for a New Majority* (University of North Carolina, 2004), 123-125
[721] Otto G. Stolz, "Revenue Sharing – New American Revolution or Trojan Horse?" *Minnesota Law Review* 58:1 (1973), 12
[722] Hugh Sidney, "The Republic of Wilbur Mills," *Life*, February 19, 1971
[723] Harper memo and attached, January 23, 1971, SMOF-Ehrlichman, F Revenue Sharing [1970-1971] [3 of 3], RNPL
[724] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)

of Mills, Byrnes, and other conservatives. The only reason the overall fiscal picture of states and local governments was not even worse, according to Pechman, was that "many elected officials took seriously their responsibilities and asked for tax increases, even though they knew that their political lives were at stake." But overall figures masked inequalities between states and localities, Pechman noted. "There will be many communities with a surplus. And then there will be many communities with deficits…," Pechman explained. "The point is that you can't use aggregate figures to evaluate the nature of the state-local fiscal problem in this country…. In the large urban states and cities, most of the governors and mayors are in trouble. And they are in trouble, not once every 5 years, they are in trouble every year…. [T]here is a state-local fiscal crisis."[725] Proponents also argued that addressing states and localities' large deficits would, indirectly, help the federal government erase its modest deficit. Stimulating the economies of the states and localities, the suggested, would stoke growth, which could help the federal government reach its full-employment surplus. Waiting until the federal government had a robust surplus before instituting revenue sharing, proponents added, suggested that the federal government's priorities were greater than those of the states and localities, when the opposite was true. "To get a down-to-earth illustration," Muskie said, "it is like saying that the breadwinner of the family ought to be free to spend all of his income for his won personal pleasures, before he worries about feeding his kids" – an analogy that Heller called "beautiful" and Pechman dubbed "excellent."[726]

Another prominent conservative critique of revenue sharing was that it would lead to vast expansion of government. The level government that collects the taxes, Mills and Byrnes said,

[725] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[726] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)

should also have the benefit of spending that money. To divorce the two – taxing and spending – encouraged profligacy, because the politicians who would be spending the money would not be the same ones who had endured the political pain of raising the revenue.[727] Echoing conservative-libertarian anti-tax arguments and recalling the rhetoric of Andrew Jackson, Byrnes argued, "[T]he 'free money' revenue sharing provides may actually result in a proliferation of expensive programs, ultimately requiring even greater taxes at [all] levels of government." Bynes quoted conservative Wisconsin columnist John Wyngaard approvingly, who wrote, "all the lessons of modern political history shows that availability of free money generates new programs, new services, and new pressures for higher budgets."[728] Likewise, Mills called the difficulty state and local politicians were having raising taxes a "necessary discipline on any governmental authority." "In my view, we already have too little restraint on spending programs at the present time," Mills told the House in January 1971. Brynes agreed, predicting "fiscal chaos" at all levels of government if revenue sharing was passed. To remove that "discipline" by giving state and local politicians revenue sharing money, Byrnes and Mills argued, would lead to profligate spending at the state and local level.[729] "If Uncle Same raises the money," Byrnes argued, "Uncle Sam should pretty much determine how it is spent."[730]

The response to this line of critique by revenue sharing's supporters was swift and highlighted the distributional effects of such a separation in taxing and spending. Edmund Muskie argued that, contrary to revenue sharing critics, most taxpayers would prefer splitting the collection of revenue from its spending. "The tax rate [in Newark] is something like $930 on a

[727] "Opponents Agree to Hearings, But Will Fight Revenue-Sharing," *New London* (Connecticut) *Day*, January 26, 1971
[728] *Congressional Record* (June 21, 1972), 21711; John Wyngaard, "Revenue Sharing – Larger Budget," *Sheboygan Press*, June 6, 1972
[729] *Congressional Record* (June 21, 1972), 21712
[730] A. James Reichley, *Conservatives in an Age of Change: The Nixon and Ford Administrations* (Brookings, 1981)

home that has a market value of $10,000 on today's market," he said. "That means the value of that house is consumed by taxes in 10 or 11 years. I suspect that the property tax payer would like to see the spending and taxing authorities split so that the burden of social services is lifted from his back by a more equitable system of taxation, namely, the federal income tax."[731] This redistribution was just what worried critics on the right.

Many conservatives implied that revenue sharing was a plot by urban political machines that had placated radicals and unions who demanded expanded welfare programs and higher wages. Pennsylvania Republican Herman Schneebeli rhetorically asked, "Why are we doing this? Merely to accommodate a handful of big city mayors who have gotten themselves into a fiscal bind and who have pressured their colleagues into joining them in this raid on the public treasury. Let the taxpayer beware…."[732] Likewise, the arch-conservative Liberty Lobby slammed Revenue Sharing as an expansion of government likely to raise taxes all to finance the whims of "selfish" politicians and "profligate do-gooders."[733] These conservatives had powerful business allies in advancing this argument. The U.S. Chamber of Commerce said that RS would "destroy fiscal responsibility within our state and local governments," and eventually lead to "increased federal taxes," which the Chamber would also opposed. In the Chamber's view, the public's revolt against rising property and sales taxes was a good thing, since it placed constraints on the size of state and local governments. Revenue sharing, the Chamber argued, would "weaken the already too-weak constraints on spending by governmental bodies."[734] Similarly, the National Association of Manufacturers saw expanding behemoths gobbling up ever-increasing amounts of

[731] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[732] *Congressional Record* (June 21, 1972), 21721
[733] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 3 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)
[734] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)

tax dollars, rather than a "fiscal crisis," when it looked at states and localities. Public employees, in NAM's view, were mainly to blame for whatever fiscal strains faced state and local governments.[735] In an editorial following the SOTU, the *Washington Post* slammed Nixon's revenue sharing plans, even critiquing Nixon's use of the word "revolution" – a term the paper said it "would just as soon see retired." The *Post*'s editorial questioned whether local governments really needed the money, suggesting instead that "labor unions capable of creating an endless series of service crises to be met could end up as the principal beneficiaries of the plan."[736] The end result of RS, Banfield agreed, would be rising federal taxes and higher state and local spending, creating a bigger government that the public desired. "Not only is it unfair to shift the cost of essentially state-local benefits to the national public; it is also very wasteful, for when someone else is to pay the bill, the natural tendency is to be prodigal," he wrote.[737]

Anticipating resistance to revenue sharing from both liberals and conservatives, albeit for different reasons, President Nixon's instructed the administration to engage in a far-reaching public relations blitz on behalf of his proposal. The blitz included television appearances by a variety of administration officials; briefings with Republicans, Democrats, and interest group leaders; and the organization of a "Citizens Committee for Revenue Sharing" in March 1971, which the White House hoped would "educate the public on revenue sharing" and "popularize the concept," among other goals.[738] The Citizens Committee saw the White House currying favor with liberal supporters of revenue sharing, rather than exclusively, or even mostly, conservatives. Despite Buchanan's pleas to use revenue sharing to appeal to the right, the White House approached Nelson Rockefeller – passing over Ronald Reagan – to lead the CCRS. It also sought

[735] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)
[736] "The State of the Union," *Washington Post*, January 24, 1971
[737] Edward Banfield, "Revenue Sharing in Theory and Practice," *Public Interest* 23 (Spring 1971)
[738] Morgan to Nixon, February 1, 1971, PNWH-6

to get Daniel Patrick Moynihan "out front publicly" in support of revenue sharing – a plan Nixon praised as "good."[739] The full membership of the CCRS featured mayors, business executives, federal legislators, and governors – including former Pennsylvania Governor Raymond Shafer. Perhaps most significantly, it also counted Walter Heller and Joseph Pechman among its members.[740] Speaking on behalf of the National Citizens Committee for Revenue Sharing Heller noted the "fiscal mismatch" between the revenue needs of states and localities and their tax systems. "[W]hile the federal government was cutting its progressive income tax again and again," Heller testified, "state and local governments were forced to push up their regressive taxes, thereby imposing harsh burdens on the poor."[741] CCRS mixed this more progressive message with ones aimed at conservatives. Economist Murray Weidenbaum served as the chair of the CCRS. Weidenbaum framed revenue sharing as "not…just another program of sending federal dollars around the country." Instead, he stressed revenue sharing as "unlike any existing grant-in-aid program." In a nod to conservative framings of revenue sharing, Weidenbaum argued in speeches touting revenue sharing, it was "a small-government initiative designed as a "shift of decision-making power to state and local governments."[742] However, as the White House would soon discover, conservative supporters of revenue sharing were harder to come by than liberal ones.

Nowhere was the White House's shift to the left more apparent than in the task given to Vice President Spiro Agnew. After sending Agnew out to attack "radical liberals" in the 1970 midterms, the White House sought to turn its most visible conservative into salesman for its

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[739] Morgan to Nixon, February 1, 1971, PNWH-6
[740] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[741] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 6 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)
[742] Murray Weidenbaum, "Revenue Sharing and the New Federalism," *Review of Applied Urban Research* 2:1 (January 1974)

center-left social programs. The White House, as columnists Evans and Novak put it, was undertaking "a complete retooling to convert Agnew from swashbuckling political hatchetman to leading lobbyist for social welfare causes," brining Agnew "into sympathetic contact with the urban masses and what White House aides call 'progressive' programs."[743] While Agnew would not now, nor ever, be confused for a "progressive," he nonetheless struck a more centrist tone – appealing to conservatives in more moderate terms and even mixing in some surprisingly liberal-sounding rhetoric as he made the White House's pitch for revenue sharing. Agnew sold RS as a solution to the "fiscal crisis" of states and localities. The Vice President dismissed both conservatives who insisted that the fiscal crisis was not real and liberals who argued that revenue sharing should encourage progressive types of taxation in the process of providing fiscal relief to states and localities. "With expenditures fast outstripping revenues, state and local governments need help now," Agnew argued. "Academic discourse concerning which states have the most appropriate tax structure does not solve the crisis."[744] For conservatives, Agnew noted that revenue sharing was an opportunity to stanch the flow of power to the federal government by returning it to states and localities.[745] In his role as the White House's revenue sharing evangelist, Agnew did not shy away from attacking the proposal's critics – especially powerful Ways and Means chair Wilbur Mills. Speaking to 250 southern members of the National Association of Counties, Agnew said that critics like Mills "distrust[ed]" state and local officials. Yet, Agnew argued, most Americans "probably know you [local officials] a lot better than Chairman Mills, and they probably have more confidence in you than they do in him."[746] Unlike Byrnes, who argued that revenue sharing was unconstitutional, Agnew claimed that revenue

[743] Rowland Evans and Robert Novak, "Agnew to Undergo Revamping," *Washington Post*, January 8, 1971
[744] Spiro Agnew, "The Case for Revenue Sharing," *Georgetown Law Journal* 60:22 (1971-1972)
[745] Spiro Agnew, "The Case for Revenue Sharing," *Georgetown Law Journal* 60:22 (1971-1972)
[746] Philip D. Carter, "Agnew Assails Critics of Tax Sharing," *Washington Post*, January 28, 1971

sharing would help restore "the genius of the federal system devised by our forefathers."[747] Agnew also took aim at one of his favorite targets – the supposedly liberal media. The Vice President said he regarded the *Washington Post*'s critique of revenue sharing as a compliment. "If anything would restore my confidence in [revenue sharing's] validity, that is it," he quipped. The *Post*'s panning revenue sharing revealed the paper's "basic distrust or skepticism about local government," Agnew said.[748] Agnew's shift was representative of a larger change in the administration's domestic policy orientation.

By 1971, the Nixon administration changed the interpretation of the tax revolt that it held in 1969 and 1970. This shift was borne of past political failures, particularly on pocketbook issues. In early 1971, Nixon prodded his White House staff to devise ways to combat the administration's defects. In May, Charles Colson – Nixon's blue collar Svengali in the midterms – wrote a "response to the president's request for 'some fresh thinking' on how to make our programs more meaningful to the people." It was a blueprint for how "the president's base of political support can be strengthened for 1972" following the disappointing midterms. Colson considered domestic policy to be "our biggest problem at the moment but, at the same time, our biggest opportunity." While "on the merits" Colson considered Nixon's domestic program "excellent," he conceded that "it is hard to make a plausible, understandable case of what they do for the pocketbook." The Democrats would continue to dominate the White House on domestic issues as long as the latter failed to make a compelling case for the efficacy of its pocketbook policies. "It is possible – there is time – to reorient our domestic efforts and to capture the high ground…," Colson counseled. "There are things we can do at this point to position ourselves and our programs on the right side of many of the pocketbook issues [important to voters]." The

[747] Spiro Agnew, "The Case for Revenue Sharing," *Georgetown Law Journal* 60:22 (1971-1972)
[748] Philip D. Carter, "Agnew Assails Critics of Tax Sharing," *Washington Post*, January 28, 1971

administration needed to pursue new policies as well as repackage its existing ones. The key, according to Colson was understanding voters' pocketbook "self interest." "It is not hard to draw the profile of what comprises the average individual's economic self-interest today," Colson wrote. "Obviously jobs and employment rank on the top of the list. High also on the list are taxes – particularly real property taxes…." Colson suggested refashioning and reframing Revenue Sharing as a property tax relief program. "Revenue sharing, for example, could be made appealing as a way to stop rising property taxes but it is [currently] not being sold that way…," Colson wrote. "Unfortunately our revenue sharing [plan] does not have any tangible, economic meaning to the individual. We haven't made the case that it could mean a reduced property tax burden." Colson suggested not only reselling RS as a program of local tax reduction, but even proposed rapidly shifting the White House's proposal from a system of grants to state and local governments to a system of tax credits for individual taxpayers based on state and local taxes paid. "It would be ideal if we could find a way to do this in the present Congress…so that next April 15 [1972] every taxpayer would be able to check a new box on his Form 1040 and receive a federal credit refund – a direct abatement for local taxes," Colson wrote. "We could argue that we – the Nixon administration – had brought tax relief to homeowners and taxpayers across the country."[749] Colson even advocated renaming revenue sharing the "Property Tax Relief Act." Providing relief from rising local property taxes, Colson argued would create "a damn good issue which people understand" for the White House. By proposing it, it would position Nixon as "trying to help the 66 million homeowners in America – most of them middle class working people who carry the heaviest tax burden and are increasingly restive about it."[750]

For both the White House and many left-leaning supporters of revenue sharing, the key

[749] Colson to Haldeman, May 21, 1971, Contested, B 55, F 22, RNPL
[750] Robert Mason, *Richard Nixon and the Quest for a New Majority* (University of North Carolina, 2004), 124

strategy for selling RS was pitching it as at least a partial response to the tax revolt. Nixon explained to Ehrlichman that "the taxpayers at the local level…[wants] relief from the crushing burden of increasing property and other local taxes… We should find a way to present our Revenue Sharing proposals which will appeal to those who are part of the 'Tax Revolt.'"[751] Or, as Jon Huntsman wrote to Ehrlichman, "Tax relief is the only sex appeal in Revenue Sharing."[752] The rhetoric arguing that RS would help local governments combat the "fiscal crisis" was scrapped. Instead, Nixon instructed, RS should be referred to as a vehicle for tax relief. "As far as most voters are concerned, they want tax relief at the local and state level, particularly where property taxes are concerned…," Nixon wrote in a memo to Ehrlichman. "I accept your analysis that states and local governments need all the revenue sharing we can provide simply to avoid having to raise taxes and even then they may not be able to achieve that goal. On the other hand, I think that our Revenue Sharing proposal must be sold on the basis that it provides an opportunity for local and state governments to first stop the rise in property taxes and other local taxes; and second, if they get proper efficiency at the local and state level even provide some tax relief."[753] Nixon also asked the CCRS to link revenue sharing with the tax revolt. "Presidential talking points" for a June 1971 meeting with the New York CCRS placed revenue sharing in the context of the revolt. "From 1966 to 1970 American homeowners paid over 12 billion dollars in property tax <u>increases</u>…a 45% increase in just 4 years!!!" the talking points read. "Excessive property tax increases in many areas have caused a 'taxpayers revolt'…. Bond referendums for education, which were passing at a rate of 89% in 1960 have, have plummeted to a low of 48% [approval]…."[754] In a June Rochester, New York, speech, Nixon claimed that RS could reduce

[751] Nixon to Ehrlichman, January 14, 1971, SMOF Ehrlichman, B 18, F Ehrlichman 'Scrapbook' [2 of 2], RNPL
[752] Huntsman to Ehrlichman, March 18, 1971, SMOF Ehrlichman, B 18, F Ehrlichman 'Scrapbook' [1 of 2], RNPL
[753] Nixon to Ehrlichman, January 14, 1971, SMOF-Ehrlichman, B 66, F Ehrlichman Scrapbook [2 of 2], RNPL
[754] Presidential Talking Points, June 18, 1971, SMOF-Harper, B 25, F President's Talking Points, RNPL

local property taxes by “approximately 30 percent.” “Revenue sharing is the only hope of stopping the rise of property taxes,” Nixon declared.[755]

Rather than arguing, like conservatives, that it represented a rejection of all taxes, the president echoed left-distributionists in making clear that the tax revolt was specifically directed at regressive local taxes. “[T]he property tax not only is the most unpopular; it is the fastest rising. It is the most unfair. It is the most unfair because it hits the people in the lower income brackets the hardest,” Nixon said in the Rochester speech. “We all know that if an individual is moving up in the income area, his ability to deduct property taxes from his gross income means that the burden of property tax, while still significant, is not all that important. On the other hand, for the lower income taxpayer, the individual who perhaps takes the standard deduction, as those property taxes escalate, the burden is much, much greater upon him. And also, all surveys show that the lower a family's income, the larger a proportion of his income goes to housing and, particularly if he is a homeowner, to his property tax.” Because of rising property taxes, in particular, Nixon explained, “We are having a taxpayers’ revolt….”[756] Text versions of Nixon’s speech later qualified the “30 percent” claim by noting that it represented a “possible…offset” of future property tax increases, based on the fact that “revenue sharing proceeds to all communities were estimated to equal 30 percent of total projected property tax increases in an average year.”[757] Nonetheless, the *New York Times* noted of the speech, “Mr. Nixon’s suggestion that homeowners would receive a net tax break from his plan was not without considerable political

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[755] Richard Nixon, “Remarks to the Eastern Media Executives Attending a Briefing on Domestic Policy in Rochester, New York,” *Public Papers of the President*, June 18, 1971

[756] Richard Nixon, “Remarks to the Eastern Media Executives Attending a Briefing on Domestic Policy in Rochester, New York,” *Public Papers of the President*, June 18, 1971

[757] Richard Nixon, “Remarks to the Eastern Media Executives Attending a Briefing on Domestic Policy in Rochester, New York,” *Public Papers of the President*, June 18, 1971. This calculation was based on a mult-agency study of the possible effects of Revenue Sharing. McLane to Ehrlichman, et al., July 2, 1971, SMOF-Harper, B 32, F Revenue Sharing – Property Taxes, RNPL

appeal and represented a new wrinkle in his campaign to overcome the opposition of key Congressmen."[758] Keeping with the theme, full-page newspaper ads taken out by the National Citizens Committee for Revenue Sharing – which blared "REVENUE SHARING…Why WE Can't Wait!" – explained in its first sentence that "Revenue Sharing will help rescue our local governments and provide relief to the local taxpayer…[by] halt[ing] the spiraling cost of local taxes."[759] Likewise, material for Agnew speeches in Southern California – ground zero of soaring property taxes – touted RS's ability to lower "skyrocket[ing]" property taxes.[760] A proposed television ad touting Nixon's program declared that it "represent[ed] a $16 billion investment in revitalizing state and local government, while stemming the pressure for ever higher state and local taxes."[761]

For Democratic proponents of revenue sharing, the relationship between the regressivity and unfairness of state and local taxes and the tax revolt was self-evident. Regressive taxes, they suggested, were the primary driver of the revolt, and shifting to progressive revenue sources would help alleviate the tax discontent of lower- and middle-income Americans, in particular. "I sense in so many areas of the country an incipient property tax revolt because of the inequality of the tax, its tremendous burdens, and especially as those burdens bear upon people who aren't able to pay the taxes or support the services that the property tax now has to support," Muskie said. Hubert Humphrey agreed. "These cities are, in many instances, nearly bankrupt: they have stretched to the ultimate, to the limit, their taxing power on whatever they have to tax," he said. "And there is a taxpayers' revolt on property taxes in the country…. We just cannot go on

[758] Robert B. Semple, Jr., "President Says Revenue Sharing Can Cut Taxes 30%," *New York Times*, June 19 1971
[759] National Citizens Committee for Revenue Sharing Ad, Undated [1971], SMOF-Harper, B 32, F Revenue Sharing News Clippings, RNPL
[760] Harper to Agnew, June 11, 1971, SMOF-Harper, B 32, F Revenue Sharing – Property Taxes, RNPL
[761] Price to Nixon, April 5, 1971, PNWH-6

forever like this."[762] Encouraging the use of progressive, rather than regressive, taxes, Ruess argued, would help assuage the public's tax discontent. "No tax is really delightful," Reuss conceded, "but certainly a progressive income tax much more closely follows the principle of the ability to pay than either the sales or the local property tax."[763] At least when it came to the politics of the tax revolt, left-distributionist Democrats and Nixon were seeing eye-to-eye. However, that did not mean that all was simpatico between Nixon's vision of RS and that of the labor-liberal left.

The primary differences between Nixon's proposals and Democratic alternatives – besides Special Revenue Sharing – were to be found in the details of the distribution formula. The Nixon White House's initial proposal made no distinction between revenue sources.[764] Edmund Muskie, among other Democrats, opposed this revenue source neutrality. One of the prime goals of revenue sharing, in the view of many Democrats, was shifting the tax burden upward. Revenue sharing should, as Humphrey put it, "encourage more progressive taxation policies."[765] Likewise, Reuss called the "central idea" of revenue sharing that "the federal government is a par excellence tax collector; that the states and localities cannot push their taxpayers much more because they rely mostly on the sales and property taxes which are very regressive; hence, you have got to get some way of getting the federal taxing capacity at the service of local and state governments."[766] Walter Heller argued that "the adoption of revenue

[762] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[763] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[764] Maureen McBreen, "A Comparison of the Basic Provisions of the Nixon Administration General Revenue Sharing Bill and of Congressman Mill' Bill for Assisting State and Local Governments," Congressional Research Service (February 15, 1972)
[765] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)
[766] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)

sharing would serve the interests of progressivity in our federal-state-local tax system." By giving higher priority to aid to states and localities than to further reductions in the federal income tax, Heller argued, revenue sharing should begin to tilt the balance of fiscal federalism against regressive taxes and towards progressive ones. "To forgo reductions in federal income taxes in the interest of slowing down the rise in regressive, inequitable, and inefficient consumption and property taxes would strike most persons as a good tradeoff," Heller said.[767]

But, while the simple act of replacing future sales or property tax increases with federal income tax revenue would slowly make the system more progressive – a fact noted by the Nixon White House, too – some Democrats wanted to use RS's distribution formula itself to encourage tax progressivity. Both the Muskie bill and Humphrey-Reuss bill incentivized use of the state income tax. Humphrey and Reuss gave state income tax revenue double the weight of other revenues in their distribution formula.[768] Reuss even indicated that his support for any RS plan might be contingent upon whether it encouraged states to adopt progressive income taxes.[769] Muskie's proposal also tied part of the allocation of revenue sharing dollars to states' usage of the income tax.[770] The explicit goal of this income tax "bonus," as Muskie dubbed it, was rewarding states that used an income tax. The goal, Muskie said, was "to encourage the states to make better use of the progressive income tax rather than continuing to rely so heavily on regressive taxes like the property tax and the sales tax."[771] Joseph Pechman argued that Muskie's incentive for state income taxes would be a "tremendous corrective" for "states that have been

[767] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[768] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[769] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 6 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)
[770] National League of Cities Revenue Sharing Briefing Book, [Undated 1972], SMOF-Harper, B 27, F Revenue Sharing Jan-May 1972 [2 of 2], RNPL
[771] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 3 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)

laggard in enactment of income taxes." "[T]he property taxes are quite high in the cities," Pechman said. "Anything that would help to alleviate the burden of the property tax would be a great gain."[772] Heller supported incentives for states to utilize the income tax, like the provisions included in the Muskie bill. "This extra bonus [for using the state income tax] would do much to resolve the dilemma that has plagued many supporters of revenue sharing, including myself," Heller said. The economist called it "a bit unseemly to distribute shares of the federal income tax to states that have not yet seen fit to use the income tax themselves, or are taxing incomes very lightly."[773] The provision excited rank-and-file Democrats, too. Oregon Democrat Al Ullman praised the House revenue sharing bill's encouraging all states to institute income taxes, arguing that "this objective alone is enough to warrant the passage of this bill."[774] Likewise, Ohio Democrat John Seiberling said that he was "particularly pleased with the incentive to encourage adoption by the states of progressive income tax statutes – a significant step toward state income tax reform."[775] Not surprisingly, governors of states with progressive income taxes also were delighted by the idea of using revenue sharing to reward the adoption of state income taxes. Wisconsin's Patrick Lucey noted that "only the income tax is generally progressive, reflective of ability to pay, broadly based, and responsive to economic growth. Likewise, Oregon's Tom McCall declared, "We support the formula of the act under consideration to reward progressive income tax states such as Oregon."[776]

The ACIR supported the inclusion of an income-tax incentive in revenue sharing. ACIR

[772] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[773] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[774] *Congressional Record* (June 22, 1972), 22041
[775] *Congressional Record* (June 22, 1972), 22074
[776] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)

pointed to the distributional issues inherent in the federal government's slashing of the progressive federal income tax at the same time that states and localities were being forced to raise regressive sales and property taxes in a time of fiscal crisis. The ACIR also noted the irony of this pattern at a time when the federal government was committing itself to fighting poverty. "[N]ational preoccupation with social and economic policies to improve the lot of the economically underprivileged groups in the population is focusing attention on the pattern of state tax burdens and more particularly on the potential usefulness of the states income tax in reshaping the distribution of state tax burdens to harmonize better with national social policy objectives," the ACIR noted. "Rising state and local consumer and property tax rates are increasing the weight of regressive and business cost taxes at a time when federal fiscal policies are reducing the progressiveness of the federal income tax. The increasing regressivity of the nation's total tax structure undercuts the administration's efforts to wage war on poverty through direct expenditure programs and federal tax revision."[777] The ACIR emphatically rejected the arguments that the progressive federal income tax made up for the regressivity of state and local taxes and that, since state and local expenditures were allegedly "pro poor," that regressive state and local taxes were justified – since, under this logic, lower income taxpayers were receiving great benefits for their higher taxes. "A close look at the real world," the ACIR argued, "clearly reveal[ed]" such arguments to be incorrect. "The elderly lady living on a $1,500 pension and paying a $300 tax on her residence, most of which goes for public education, can hardly take comfort in this form of tax benefit logic," or in the nominal progressivity of the federal income tax. Instead of justifying the current system, the ACIR suggested that policymakers needed to come to terms with the necessity of making state and local taxes more progressive. "The

[777] Advisory Commission on Intergovernmental Relations, *Federal-State Coordination of Personal Income Taxes* (GPO, October 1965), 8

important thing…is to create political acceptance of the idea that an affluent society can afford to be 'pro poor' in both its tax and expenditure practices," the ACIR argued in 1967. "At the very least, a wealthy nation should be willing to pay the modest cost of a circuit-breaker system designed to protect low income families from tax overloads."[778]

States had long been divided between income tax states and sales tax states, with the latter being in greater quantity in the 1960s. But the ACIR argued that the sales versus income tax debate needed to be abandoned by the states. Each state, the commission suggested, needed both. Utilizing only one of the two sources was "now a luxury few states can afford."[779] Graduated taxes were the fairest kind of taxes. The public was disenchanted with the property tax for a reason, the commission suggested. Unlike other taxes, it bore little relationship to ability to pay, unlike the income tax. "[T]otal household income stands out as a far more precise measure of taxable capacity in our modern urban society," ACIR noted.[780] Most states needed a push in order adopt the income tax and make their tax system more progressive. However, a variety of strucutral factors – including states constitutions that either explicitly, or debatably, banned graduated income taxes – worked against states' instituting substantive income taxes during the first half of the 20th century. The ACIR pointed specifically to a key political cause. "Because the graduated tax on income represented a substantial departure from the regressive (and proportional) incidence of the existing tax structures, it precipitated strong opposition," the ACIR noted. "To some persons, the adoption of a graduated tax on net income represented the first step down the path to Marxian Socialism." Ideological opposition to the income tax also had a practical justification for many conservatives. "There was also the contention that graduated income tax rates might drive the relatively mobile wealthy to non-income tax states…," the

[778] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 130
[779] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), xxii-xxiii
[780] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), xxii-xxiii

ACIR noted. "[T]he growing intensity of interstate competition for industry also placed a damper on the individual income tax movement…. Opponents of income taxation often argued that state adoption of progressive income tax policies tends to create a tax climate somewhat hostile to the location and expansion of industry. These warnings undoubtedly carried weight, particularly in certain Northeastern state legislative bodies, many of whose members were keenly concerned about the emigration of industrial firms to the Middle Atlantic and Southern states."[781] But two factors were now working in favor of the income tax, however: "fiscal crisis" and "a strong demand for property tax relief." Even so, graduated state income taxes remained "polariz[ing]." The left "denounced" regressive taxation and "championed the cause of progressive taxation." In contrast, the ACIR noted, "conservatives rushed to the defense of the sales tax and marshaled arguments in opposition to a graduated tax on personal income."[782]

The ACIR's revenue sharing recommendations not only encouraged the use of the state income tax, but strongly titled towards recommending the use of progressive state income taxes, achieved either through progressive rates, flat rates with a personal exemption, using the federal income tax as a base, or some combination of those methods. While the report noted that states could, in practice, enact truly flat – or even regressive – state income taxes, the ACIR made it clear that graduated rates of some form were to be strongly preferred.[783] Many conservatives, in particular, argued that it was not the ACIR's place to tell states how to formulate their tax systems. The ACIR's final report, however, argued that issues of fairness and progressivity trumped states' freedom to choose different tax policies and some states' desire to favor

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781 Advisory Commission on Intergovernmental Relations, *Federal-State Coordination of Personal Income Taxes* (GPO, October 1965), 54, 61

782 Advisory Commission on Intergovernmental Relations, *Federal-State Coordination of Personal Income Taxes* (GPO, October 1965), 54, 61

783 Advisory Commission on Intergovernmental Relations, *Federal-State Coordination of Personal Income Taxes* (GPO, October 1965), 14.

regressive taxes in an attempt to lure businesses. "The commission….recommends….that in formulation their tax policies, sates without the personal income tax give early and careful consideration to incorporating it into their tax system and that those [states] presently employing a relatively ineffective income tax strengthen it." Several Republicans and conservative Democrats dissented from this recommendation, but it carried a majority of ACIR's members. [784] Ultimately, the ACIR stopped short of calling graduated rates for state income taxes a "must." Instead, given the variety of state constitutional restrictions on graduated rates and the politics of enacting graduated rates in some states, the ACIR noted that flat rates – provided they included exemptions "to protect the very poor" – could be used, since a flat rate with exemptions "provide[d] a substantial degree of progression."[785] However, "progression" was just what many conservatives were still fighting to avoid.

Incentivizing the adoption of income taxes was not the only way in which the distribution formula in Democrats' proposals different from that in Nixon's. Many liberals also felt that "need" should be a distribution criterion, to ensure that poorer areas received extra funding. Joseph Pechman, in fact, framed the justification for general revenue sharing in terms of inequality between states and localities. "In my view, you wouldn't need general revenue sharing grants if the distribution of income was the same throughout the country," Pechman said. "If all communities had the same average income, the same structure could yield the same revenues revenues everywhere…. [N]o community would be thwarted because of the lack of fiscal

[784] Those objecting included Senator Sam Ervin (a North Carolina Democrat), Senator Karl Mundt (a South Dakota Republican), Governor John Dempsey (a Connecticut Democrat), and Representative Florence Dwyer (a New Jersey Republican). Despite being a Democrats, Dempsey was the governor of a fiercely anti-income tax state. Ervin's opposition was likely less rooted in the fiscal system of his home state – given that North Carolina already had a modest, though graduated, personal income tax – than the fact that he was one of the most conservative Democrats in the Senate. Advisory Commission on Intergovernmental Relations, *Federal-State Coordination of Personal Income Taxes* (GPO, October 1965), 14. On Ervin's ideology during this era, see the DW-Nominate scores for the 88th through 90th Senates (http://voteview.com).
[785] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 133

resources. But that can't happen in a national system in which the distribution of income is unequal." Poor areas needed to levy much higher tax rates in order to achieve the same level of revenue and, often, even with confiscatory rates, they could not collect the same taxes per capital as a rich area could with low rates.[786] Pechman viewed revenue sharing as the logical corollary to the guaranteed income/negative income tax proposals. A GI/NIT was for low-income individuals, while revenue sharing as for low-income governments.[787] Factoring "need" into the revenue sharing formula would help correct these geographic wealth imbalances. Additionally, many Democrats, as well as interest groups like the AFL-CIO, wanted federal government oversight in the use of revenue sharing funds, particularly civil rights standards, to ensure that RS was not "used in a discriminatory manner."[788] Ultimately, the differences between the two main Democratic were relatively small. While the Humphrey-Reuss plan provided inly half as much funding as the Muskie bill – $3 billion – in 1972, the Humphrey-Reuss legislation ramped up the funding gradually, reaching $9 billion by fiscal year 1975.[789] Both the White House and Muskie bills would eventually hit $10 billion per ear, but would take "eight or nine" years to do so, according to estimates by Joseph Pechman.[790] Both Muskie and Humphrey and Ruess considered their competing bills to be mostly similar, especially given that both incorporated incentives for state income taxes. Reuss argued that the two bills' divergent incentives for state

786 *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
787 *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
788 Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 6 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)
789 *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
790 *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)

income tax adoption could be "adopted together or separately."[791]

The upward redistribution of the tax burden inherent in revenue sharing – and explicit in the Democratic proposals – drew strong conservative censure. Conservative political scientist and urban policy scholar Edward Banfield lambasted revenue sharing a "kind of income redistribution."[792] RS, in Banfield's mind, was simply a means by which liberals sought to circumvent the will of the American people and redistribute income. If sales and property tax increases were being defeated by voters, he reasoned, that meant they did not want greater expenditures, regardless of what experts in D.C. believed.[793] New Jersey Republican Charles W. Sandman, Jr. called argued that income tax incentives "would unfairly discriminate against States, including New Jersey, that do not have income taxes."[794] Likewise, Florida Democrat Charles Bennett, a signer of the "Southern Manifesto," argued that his income tax-less state "would be continually penalized and discriminated against under the State and Local Fiscal Assistance Act of 1972."[795] Texas Republican William Archer argued that "in effect, Texas, which has no state income tax, is being punished for collecting revenue by other means." By encouraging state income taxation, Archer charged, the U.S. House was doing "great injustice to the spirit of federalism, which has long been a cornerstone of our republican form of government." There existed "no overriding federal interest that would justify legislation dictating the system of taxation practiced by the several states." If taxes were going to be reduced, Archer argued, those reductions should occur at the federal level. Revenue sharing, in the Texas Republican's view, amounted to little more than "a welfare program for state and local

[791] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[792] Edward Banfield, "Revenue Sharing in Theory and Practice," *Public Interest* 23 (Spring 1971)
[793] Edward Banfield, "Revenue Sharing in Theory and Practice," *Public Interest* 23 (Spring 1971)
[794] *Congressional Record* (June 21, 1972), 21701
[795] *Congressional Record* (June 21, 1972), 21701

governments."[796] Similarly, Texas Democrat J.J. Pickle argued that the bill "penalizes efficient government by offering inducements for states to pass a state income tax – and by penalizing those who do not."[797] Even some left-leaning Democrats worried about income tax provisions, though not for ideological reasons. Reuben Askew suggested that "to penalize any state for historical circumstances [a constitutional ban on income taxation] is very unjust."[798] Such opposition had its limits, however. Tennessee Republican Howard Baker, Jr. called the incentives in Humphrey-Reuss and Muskie bills "a direct intrusion into the constitutional functions of the state." Yet, his opposition to income tax incentives, according to Baker, was "infinitely less important than my desire for revenue sharing." [799] Likewise, while the governors of states without an income tax, like New Hampshire's Walter Peterson, chafed at the House bill's encouragement of income taxes, most were still willing to support the bill due to their overriding need for revenue.[800] To those, like Baker and others, who argued that such incentives were "intrusive," Walter Heller pointed to numerous existing deductions and incentives in the existing tax code.[801] But the anti-income tax incentive forces had powerful allies.

Business proved to be the most intransigent opponents of income tax incentives. The Chamber of Commerce argued that the revolt against property tax levies was proof that the public did not want any further taxes – regardless of type. "These is no question that a number of local tax increases and bond issues have been turned down by voters who have not been sold on the need," the Chamber argued. "Don't we have any faith in the wisdom of these voters at the

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[796] *Congressional Record* (June 21, 1972), 21725
[797] *Congressional Record* (June 21, 1972), 22073
[798] *Congressional Record* (June 21, 1972), 21702
[799] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[800] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)
[801] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)

local level? Don't we trust their judgment?"[802] Shifting from regressive taxes to progressive taxes was no achievement, in the Chamber's view, since the business group downplayed issues of distribution. "Federal, state, and local taxes all come from one source – the American taxpayer," the Chamber's representatives told the Ways and Means Committee.[803] Echoing the conservative ACIR dissenters, the Chamber concluded, "We believe the federal government should not tell the states what taxing systems they should use…."[804] The Chamber was more favorably disposed to categorical aid, such as Special Revenue Sharing, but only if it could "be done without an increase in federal taxes."[805] If states and localities needed revenue, National Association of Manufacturers suggested, the federal government should simply "reduc[e] federal [income tax] rates and, by implication, federal responsibilities." Then, NAM argued, states and localities could increase their own taxes, if they so desired.[806] Democratic revenue sharing bills' encouragement of progressive income taxes particularly galled NAM's representatives. "[NAM] question[s] whether it is the intention of Congress to increase tax graduation in this particular legislation through 'back door' means….," NAM's Bixler said. "We feel simply that that the present legislation would have the effect of putting the pressure on the remaining states and cities to establish income taxes that would be using the same base and the same progressivity that there is in the federal structure, whereas now they tent to be a flat rate or at least a very low rate."[807] Practically the only dissenter among business groups was the National Association of Real Estate

[802] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 3 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)
[803] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 3 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)
[804] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)
[805] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 3 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)
[806] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 4 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)
[807] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)

Boards, who supported RS for decidedly pragmatic reasons. "[W]e sincerely believe that continued reliance of local governments on the real property tax as their principal source of revenue poses a serious threat to home ownership in American," the boards' representative told Ways and Means members. "The property tax….[is] a financially inferior revenue instrument…. Real property taxes, like sales taxes, are regressive…. Increased reliance on these regressive taxes serves only to aggravate this regression."[808] The National Association of Real Estate Boards, in fact, produced a laudatory analysis of RS – including its projected effects on property taxes – in its 94,000-circulation newsletter and encouraged its members to lobby Congress for the bill's passage.[809] In general, however, business groups remained reliable opponents of the income tax.

The labor politics of revenue sharing were more complicated. The AFL-CIO opposed general revenue sharing, arguing that "no strings attached" aid to states and localities because it lacked federal oversight, particularly related to antidiscrimination and labor standards. Instead, the union supported federal takeover of welfare costs and a continuation and expansion of categorical grants to aid states and localities. When it came to taxes, the union agreed that the federal income tax was preferable to local property taxes. However, if the federal government wished to encourage more progressive forms of taxation, the union suggested creating federal tax credits for state income tax payments, which it argued "would stimulate progressive income taxes" and "add a big element of equity to the tax structure."[810] The union also suggested expansion of existing grant-in-aid programs, federal takeover of "a greater share" of education

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[808] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 5 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)
[809] McLane to Ehrlichman, June 29, 1971, WHCF-Confidential, F [CF] FA 7 Revenue Sharing, 1971-74, PNWH-AU
[810] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 2 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)

costs, national health care legislation, and “tax reform at all levels of government.”[811] The union had another key objection to existing RS proposals. “The income tax incentive is much too weak,” the union’s representatives told the Senate Finance Committee. “It is our view that if the states are to help themselves in closing the gap between public needs and resources, they must look to progressive taxes.”[812] The national AFL-CIO leadership did not represent the entirety of the union, however.

The AFL-CIO affiliated AFSME union endorsed revenue sharing. AFSME President Jerry Wurf applauded RS as an answer to the state and local fiscal crisis that utilized what the union called “the most efficient and equitable revenue source – the progressive income tax,” while lessening the using of sales and property taxes, which AFSME called “not only inequitable because of their regressive character, but also…ineffective revenue mechanisms because of their sluggish response to growth.” Most important to AFSME, though, was that revenue sharing would be used as a lever to force the adoption of more progressive taxes on the state and local levels. “What we face in America today, in terms of local property taxes and sales taxes, is that the poor pay the most,” Wurf argued. Revenue sharing, he argued, should be used to change that. “[A]s loudly as we have advocated revenue sharing, we have advocated the most dramatic king of tax reform in terms of the whole structure,” said Wurf.[813] Nonetheless, AFSME’s representatives leveled many of the same criticisms at Nixon revenue sharing plans as its parent union. Like the national AFL-CIO, AFSME wanted the entirety of the state revenue formula to be based on income tax effort. AFSME also advocated for greater “incentives for change in the

[811] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)
[812] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)
[813] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)

highly regressive tax structures" of states and localities. AFSME called for states to be "given larger entitlements as they effect restructuring of their tax systems, such as heavier reliance on progressive income taxes, the adoption of statewide property taxes, and the use of tax credits to offset some of the regressivity inherent in general sales taxes." Specifically, AFSME suggested that the initial $1.8 billion state distribution to be based on the states' income tax revenue, while they called for the yearly $300 million growth in state revenue sharing entitlement to be based on a formula allotting one-third to states with progressive income tax structures, one-third to states that adopt tax credits or rebates for sales taxes on food and drugs, and one-third to states that "substitute an equalized statewide property tax for the current local property tax."[814] Despite these asterisks on its endorsement, Wurf noted that the union had been "roundly criticized" by many within in the labor movement. AFSME's more favorable stance towards revenue sharing did not win it any Republican friends, either. Utah Republican Wallace Bennett – the former president of the National Association of Manufacturers – argued that AFSME was advocating a "form of coercion." Instead of advocating for strings on how revenue sharing money would be spent, Bennett quipped, "[AFSME is] putting strings on the manner in which the money, at the state level, should be raised." Arizona Republican Paul Fannin agreed, calling AFSME's proposal "dictatorial." Wurf pushed back. "What we are saying is that those states that are willing to pass progressive income taxes which put the tax burden on those best able to pay should be rewarded…," the AFSME president explained. "We are saying those states that…want to put the tax burden where it does not belong should not be rewarded by further having federal funds flow into those states. That is not a matter of dictates, it is a matter of sound fiscal

[814] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)

policy."[815]

Ultimately, the best advocates for federal revenue sharing were state and local officials from both parties. Not only would these be the recipients of its largesse, but they were also closest to the political fire of the local tax revolt. During hearings on the proposed Revenue Sharing legislation, Congress regularly heard invocations of the tax revolt and local fiscal crises. In the context of a debate over the direction of U.S. public finance, analyses of the tax revolt focused on the rising burden of property taxes on average homeowners as the cause of the revolt, rather than on the mood of voters. Pocketbook, rather than cultural or political, explanations for the tax revolt now predominated. Typical was a report submitted to the Ways and Means Committee by the Connecticut Conference of Mayors. "The local property tax, already pushed to the breaking point, can absorb no more of the growing cost of municipal government," the report, titled *Cities in Crisis*, argued in its introduction. "The local property tax weights heaviest on middle and lower income families. For example, a family with $5,000 annual income pays almost three times as great a percentage of its income in property taxes as a family with $50,000 income…."[816]

Endorsements of revenue sharing came pouring in from state and local officials. Individually, these officials flooded the offices of key congressional leaders with letters supporting revenue sharing. Organizations representing these officials – including both the National Governors' Conference and the U.S. Conference of Mayors – also endorsed Revenue Sharing enthusiastically.[817] This support was not accidental. The administration worked to

[815] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)
[816] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 8 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)
[817] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 5 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)

recruit the support of governors, in particular, by drafting state-by-state analyses of the strength of each governor's support for – or opposition to – revenue sharing.[818] As the Conference of Mayors – represented by Newark's Kenneth Gibson, New York's John Lindsay, Boston's Kevin White, and Milwaukee's Henry Maier, among others – told the Ways and Means Committee, in Lindsay's words, "We are for revenue sharing, and we are for it strongly." In his testimony on behalf of the COM, Lindsay painted a picture of cities dealing with fleeing tax bases – from the flight of both businesses and middle-income whites to the suburbs – rising demands for services and an outmoded revenue system. Many cities were also dealing with skyrocketing rates of tax exempt property, either due to the use of property tax incentive to woo businesses back into the urban core or because of property abandonment and blight. Echoing Nader, CAP, and CCC, Gibson noted that the result of this process was that the remaining homeonwers had to make of the difference by paying exorbitant property tax rates. "I think that to best illustrate our property tax rate," Gibson told the committee, "the owner of a $20,000 house pays $1,838 each year in property taxes…. I am sure you will all agree that this rate is confiscatory and is counterproductive."[819] Gibson tried to "impress upon [Congress] the extreme urgency of the fiscal crisis which we face at the local level." Like many cities, Newark faced a dwindling revenue base. Despite high taxes, it could not afford to provide the services its residence needed. "Sixty percent of Newark's land area is tax exempt," Gibson explained. "What that means is that 40 percent of Newark's land area pays all the property tax. The tax base is declining an average of three percent annually, and this is our primary source of revenue." "So, our tax rate is now confiscatory," Gibson continued. "In fact, in my opinion, it has been confiscatory for several

[818] Goodearle to Morgan, February 27, 1971, WHCF-Confidential, F [CF] FA 7 Revenue Sharing, 1971-74, PNWH-AU
[819] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 4 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)

years, and it is actually counterproductive…. We have reached a point where our property tax has only hastened the flight of industry, commerce, and the remaining middle-class homeowners out of Newark." Gibson supported using progressive income taxes for local services and had been lobbying the state of New Jersey to institute a statewide income tax with graduated rates and use some of the revenue for local needs currently supported by the property tax. "Not only must we use this inelastic source of revenue [the property tax] to keep pace with the inflationary spiral of maintaining such central services as police protection and garbage removal," Gibson told the subcommittee, "but we must also rely upon the property tax to support major new endeavors such as good education, rehabilitation clinics, compensatory educational programs, summer recreational programs, and urban renewal."[820]

Not all state and local officials were sold on revenue sharing, though. While, as noted above, some remained either ideologically opposed to RS or worried about the effects of particular provisions on their states or localities, others believed that existing revenue sharing provisions were either not bold enough or not the most effective way to combat the "fiscal crisis" and the tax revolt. Instead, they pushed alternative plans. Many officials, particularly Democrats, made it clear that they preferred a federal takeover of welfare.[821] Others, like John Gilligan, argued that the amount of money spent on RS would be too small a percentage of state and local

[820] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971); Alex Poinsett, "Newark's Kenneth Gibson: A Mayor's Mayor," *Ebony* (September 1976). Though he entered office critical of tax abatements to attract business, by the end of his time in office, Gibson would pursue extensive use of abatements to retain or lure businesses to Newark, much to the consternation of left-leaning activists and with little apparent success in stemming the outflow of business from the city. Megan French and Manning Marable, "Interviewing Amiri Baraka," *Souls* 13:2 (2011).

[821] William Chapman, "Governor's Split on Nixon's Revenue Sharing," *Washington Post*, February 24, 1971; Paul Hope, "Tax-Haring Appeal of Governors Fails," *Evening Star*, February 25, 1971; Paul Hope, "Governors at Odds on U.S. Aid," *Evening Star*, February 14, 1971

government outlays to make much of a meaningful difference on their fiscal crises.[822] Better, Gilligan and other critics suggested, would be a federal tax credit for state income taxes, which he argued would "provide an incentive for states to use income tax more extensively and rely less on property taxes than they have in the past."[823]

Left-leaning critics of revenue sharing rallied around alternative proposals to aid states and localities. Indiana Senator Vance Hartke offered on such alternative. Hartke agreed with Humphrey, Reuss, and Muskie that states should be forced to use progressive income taxes in order to qualify for any form of federal revenue sharing. "If you are really going to provide for any type of relief on a local level," Hartke argued, "you are going to have to get away from regressive forms of taxation; not alone on a local level, but on a state and federal level as well."[824] However, Hartke offered a proposal that he argued was a direct way of ensuring that federal aid incentivized use of the state income tax. Hartke did not call his legislation a revenue sharing bill at all, dubbing it the Revenue Adjustment Act of 1971. It proposed to allow taxpayers to take a federal tax credit equal to 50 percent of their total state and local income tax payment, up to a limit of 19 percent of the taxpayer's total federal tax liability. Harke's bill also permitted the federal collection of state and local income taxes and called for the complete federalization of 90 percent of welfare costs. Hartke's proposal was designed to both provide fiscal relief to state and local governments directly, by federalizing welfare, and to encourage the use of progressive income taxes at all levels of government.[825]

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[822] Gilligan JEC Speech, January 25, 1971, SMOF-Harper, B 31, F Revenue Sharing – Governors' Conference, RNPL

[823] Gilligan JEC Speech, January 25, 1971, SMOF-Harper, B 31, F Revenue Sharing – Governors' Conference, RNPL

[824] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)

[825] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)

The federal tax code already allowed for the deductibility of state and local taxes from federal income taxes. However, its structure actually exacerbated the regressivity of state and local taxes while providing yet another loophole in the federal code that benefitted upper-income earners disproportionately.[826] The deductibility of state and local taxes from federal income taxes originated in the original Federal Income Tax Act of 1913. It was designed as protection against the possibility that, under the uncoordinated system of fiscal federalism, that the layering of the same tax at various levels might create excessively confiscatory rates in some jurisdictions. However, in practice, the deduction proved to a boon for upper-income taxpayers. "Persons in the highest bracket are able to write off their state and local tax payments against their federal liability at 70 cents on the dollar," the ACIR noted. "Because the tax reduction benefit is a function of the marginal rate, the great mass of taxpayers in the 14 to 25 percent bracket receive relatively limited benefits from deductibility."[827] As a result, left-leaning tax reformers had long sought to transform the state and local deduction into a credit and, preferably, a refundable one. Hartke's proposal was the embodiment of this goal.

A similar proposal came from a surprising source. William V. Roth, Jr. – the fiscally conservative Republican Senator from Delaware – introduced his own $5 billion, five-year revenue sharing bill, which also included a 40 percent federal income tax credit for state and local income taxes paid, as well as a provision permitting the IRS to collect state and local income taxes on behalf of states and localities. Roth said he opposed making revenue sharing permanent, because he believed in decentralized government. His five-year plan was to help states and localities through their current fiscal crises. The long-term goal, Roth argued, should be to encourage "structural [tax] reforms on the parts of the states and localities. Unlike right-

[826] Advisory Commission on Intergovernmental Relations, *Federal-State Coordination of Personal Income Taxes* (GPO, October 1965), 107
[827] ACIR, *Fiscal Balance in the American Federal System, Vol. 1* (GPO, October 1967), 119

distributionist conservatives, who praised regressive taxes, Roth blamed them for the fiscal woes facing states and localities. “Perhaps the greatest obstacle faced by our states and localities in their struggle to fulfill their proper tasks is the weakness of their revenue systems,” Roth said. “These governments depend largely upon taxes which in comparison to the personal income taxes levied by Congress, are less responsive to the economy, less equitable in the burdens they place on individuals and social groups, and often detrimental in their effects on the economy, land use, and other aspects of urban growth.”[828] Roth’s 40 percent credit was designed as a clear alternative to the existing deduction for state and local taxes, whose benefits Roth argued skewed towards upper-income taxpayers. Moreover, Roth made his credit available only to state and local income taxes that were “minimally progressive,” meaning that they needed to “include basic personal exemptions similar to those provided to federal taxpayers.”[829]

As uncommon as it was for a conservative Republican to advocate for progressive over regressive taxes, Roth’s application of arguments usually reserve for the income tax to property and sales taxes was just as surprising. Property taxes, Roth argued, distorted investment decisions. Land speculators could use property tax laws to hold pieces of prime downtown real estate idle, thereby encouraging development in suburban areas. Roth argued that high property taxes discouraged investment in blighted areas, since improvements to land and buildings prompted rising assessments. “Such factors contribute to the vicious circle whereby the center city’s tax base continue to decline and tax rates on the remaining base climb,” Roth explained. “The suburban fringe, which does not suffer from as great a burden of public expenses, gains the tax base denied to cities.” Roth cited statistics noting that in many cities the property tax

[828] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)
[829] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)

constituted a 100 percent sales tax on the price of a house within 10 to 15 years of purchase. Both property and sales taxes, Roth argued, discouraged consumption and distorted the decisions of Americans on how to spend their money.[830]

A paradox of tax credit proposals like Harke's and Roth's, however, was that their effects would be regressive, at least in the short term. Because of the progressive structure of income taxes, limiting credits to the income tax would boost the after-tax income of upper-bracket taxpayers.[831] However, including other taxes in the credit would defeat the income tax-incentivizing purpose of the measure. In the end, the hope of tax credit proponents like Hartke and Roth seemed to be that, by encouraging states and localities to utilizing progressive income taxes, the national tax structure would become more progressive eventually. Yet, while that was a probable long-term outcome, some liberal critics doubted that it would not, in fact, work out that way. "In order to benefit from this tax reduction [federal credit], the state governments with income taxes would have to raise their own tax rates," Joseph Pechman argued. "I needn't tell you that it is difficult to raise nominal tax rates even if the net change in the effective tax burden for the taxpayer is zero."[832] Likewise, Walter Heller noted, incentivizing the use of state income taxes through a direct credit to taxpayers would do little to help state and local governments.[833] If only one could be chosen, Pechman saw revenue sharing as preferable to a credit, because the credit would skew too much towards rich states. However, Pechman supported the credit – federal budget permitting – as an addition to revenue sharing, and lauded the credit's function as a "device to encourage states to adopt personal income taxes as part of their permanent revenue

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[830] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)
[831] Author's analysis using ACIR data and published details of the Hartke and Roth plans
[832] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)
[833] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)

streams."[834] Given that it seemed both budgetarily and legislatively unlikely that both revenue sharing and the tax credit could be pursued, Pechman suggested modifying the Nixon proposal by "require[ing] all states to have effective income taxes (defined, say, as taxes that yield at least 3 percent of personal income) to be eligible for the revenue sharing grants."[835] Both the ACIR and the center-right Committee for Economic Development endorsed a federal income tax credit for state income taxes. The ACIR supported both the tax credit and revenue sharing, while the CED supported the tax credit but opposed revenue sharing.[836] Many Democrats, as well as some moderate-to-liberal Republicans, also preferred the suggestion to provide credits on federal income tax returns for state income taxes paid. This credit system, supporters argued, would be simpler than any revenue sharing formula and would have the same effect of encouraging states to adopt income taxes, especially progressive ones.[837] However, with revenue sharing having already secured the support of the White House, key legislators, and a variety of interest groups, a shift to the even more controversial credit approach proved to be highly unlikely.

For all the arguments on both sides of the revenue sharing debate, the seemingly intractable bipartisan opposition of the Ways and Means committee leadership to revenue sharing seemed sure to sink RS just as it had hampered FAP. After an initial meeting between Mills, Byrnes, and Nixon to discuss revenue sharing prospects for any RS legislation passing did not look good. Both Byrnes and Mills, Byrnes explained to the press, "told the president we have philosophical differences with revenue sharing, and are basically opposed to it…."[838] "I am

[834] Joseph A. Pechman, "Revenue Sharing Revisited," in *Financing State and Local Governments* (Federal Reserve Bank of Boston, 1970)
[835] Joseph A. Pechman, "Revenue Sharing Revisited," in *Financing State and Local Governments* (Federal Reserve Bank of Boston, 1970)
[836] Joseph A. Pechman, "Revenue Sharing Revisited," in *Financing State and Local Governments* (Federal Reserve Bank of Boston, 1970)
[837] *Congressional Record* (June 22, 1972), 22041
[838] "Opponents Agree to Hearings, But Will Fight Revenue-Sharing," *New London* (Connecticut) *Day*, January 26, 1971

perfectly willing to have hearings [on revenue sharing]," Mills declared the White House discussion, "but not for the purpose of promoting the plan – for the purpose of killing it."[839] Mills opposed General Revenue Sharing most strongly, while viewing Special Revenue Sharing somewhat more favorably – the exact opposite stance of most Democrats and left-liberal interest groups.[840] The Arkansas Democrat also indicated that he might favor federalization of all state and local welfare programs, however, as an alternative to both revenue sharing and FAP.[841] True to Mills's word, hearings on revenue sharing were held by the House Ways and Means committee in mid-1971, but resulted in no action.[842] But both the public popularity of RS and Mills's sudden – and unexpected – desire for national office conspired to shift the odds of revenue sharing's approval dramatically.

Mills's resistance to General Revenue Sharing evaporated when he decided to undertake his ill-fated run for the 1972 Democratic presidential nomination – and, eventually, vice presidential nomination. Suddenly, the longtime opponent of RS declared his support for the program.[843] In late-1971, Mills agreed to back a revenue sharing bill, given its wide popularity among voters, as well as state and local officials. But Mills did not want to simply endorse the Nixon White House's plan, which Mills had spent months lambasting. Instead, he backed a competing revenue sharing bill, HR 11950, a $5.3 billion bill that was introduced by Mills and nine other Ways and Means Committee members on November 30, 1971.[844] Mills's initial

[839] "Opponents Agree to Hearings, But Will Fight Revenue-Sharing," *New London* (Connecticut) *Day*, January 26, 1971
[840] "Opponents Agree to Hearings, But Will Fight Revenue-Sharing," *New London* (Connecticut) *Day*, January 26, 1971
[841] "The Controversy Over Revenue Sharing,"
[842] Otto G. Stolz, "Revenue Sharing – New American Revolution or Trojan Horse?" *Minnesota Law Review* 58:1 (1973), 12
[843] Robert Mason, *Richard Nixon and the Quest for a New Majority* (University of North Carolina, 2004), 123-125; Julian Zelizer, *Taxing America: Wilbur D. Mills, Congress, and the State* (Cambridge, 2000)
[844] Otto G. Stolz, "Revenue Sharing – New American Revolution or Trojan Horse?" *Minnesota Law Review* 58:1 (1973), 13; "Congress Clears Nixon's Revenue Sharing Plan," *CQ Almanac* (1972).

revenue sharing bill allocated the states' share of the revenue sharing funds – $1.8 billion – solely based on the states' income tax effort.[845] Long advocated by left-leaning tax reformers, this provision had the effect of proving strong encouragement for states to adopt income taxes, particularly progressive ones. Mills's support for this provision was short-lived, however. Hoping to curry the favor of voters in income tax-less New Hampshire, which was the first state scheduled to hold a primary in 1972, Mills now lobbied for the deletion of the income tax effort provision from the bill being constructed by his Ways and Means committee. But left-distributionists pushed back against the chair and, in the end, an awkward compromise was struck. Mills succeeded in getting the addition of "general tax effort" to "income tax effort" in the Ways and Means bill's distribution formula. Under the "general tax effort" calculation, states without an income tax – like New Hampshire – would be better off than under a formula that took the state income tax, in particular, into account.[846] Not content with the compromise Mills plainly denounced the remaining income tax effort provision as a scheme designed "to encourage greater use of individual income taxes" by the states. The presidential hopeful now made it clear that he loathed such provisions – despite having introduced the original bill that included an even stronger version of it. "Some of the committee wanted to encourage a state income tax – a majority of the members. I had a different view," Mills said on the House floor. "I wanted to look solely at the total of the revenues raised by the state in determining the states' revenue effort, but a majority of the members of the committee felt that heavy reliance on the income tax

[845] Maureen McBreen, "A Comparison of the Basic Provisions of the Nixon Administration General Revenue Sharing Bill and of Congressman Mill' Bill for Assisting State and Local Governments," Congressional Research Service (February 15, 1972)

[846] Bruce A Wallin, *From Revenue Sharing to Deficit Sharing: General Revenue Sharing and the Cities* (Georgetown, 1998), 33-34; "Mills in New Hampshire to Push Revenue Sharing," *Milwaukee Sentinel*, February 16, 1972; Timothy Conlan, *From New Federalism to Devolution: Twenty-Five Years of Intergovernmental Reform* (Brookings 1998), 69; Richard E. Thompson, *Revenue Sharing: A New Era in Federalism* (Revenue Sharing Advisory Services, 1973), 15.

was the preferable system of taxation for states as well as the federal government." Mills said that he strongly objected to encouraging states to use the income tax. "These differing views resulted in a compromise…," Mills said. "In this respect in my view the bill before us is not as good a formula as one based entirely on tax collections generally. However, I am satisfied to go along with it."[847]

The White House had privately predicted that Mills would eventually recant his opposition to revenue sharing, though a presidential run by Mills did not figure in the administration's prognostication. "Mills' initial strategy of hitting revenue sharing hard, blowing a lot of smoke about alternatives for revenue sharing, and then hoping that the support for revenue sharing would disintegrate across the country had clearly failed," an April 1971 memo by Ed Harper theorized. "His strategy failed because the support for revenue sharing among Democrats – especially big city Democratic mayors – held firm."[848] Indeed, Ehrlichman explained to Nixon back in April that the White House believed "Chairman Mills will be ready to make a deal on the general revenue sharing proposal within the next couple of weeks, this could effectively leave the Republicans out of the most important decisions to be made in their committee."[849]

With Mills's awkward approval, RS now had legislative legs. The compromise bill was approved by Ways and Means and reported to the full House for consideration. The "fiscal crisis" of localities, in particular, proved to be Ways and Means Committee's main justification for revenue sharing. The committee's report cited the "most severe financial crises" faced by many localities. The general causes of the crisis, according the committee, included "the increasing demand for public services resulting from the substantial increase in urbanization in

[847] *Congressional Record* (June 21, 1972), 21706
[848] Harper to Nixon, April 17, 1971, PNWH-6
[849] Ehrlichman to Nixon, April 19, 1971, PNWH-6

recent years," as well as the "twin problems of rising costs resulting from inflation and the lower than normal increase in revenues because of the stagnant condition of the economy." Modest-income urban areas – particularly those faced with industrial abandonment and suburban flight – faced an additional set of issues. These areas were "often called upon to provide services who do not live in their taxing jurisdictions," while those that did reside "within their taxation jurisdictions are often poor and unable to pay for their share of the services demanded." States' problems were "less severe," according to the committee. The committee's "primary emphasis" for states was "encouraging them to help themselves – by making more extensive use of their own tax resources."[850] The Ways and Means Committee also argued that many states, unlike most localities, were not "mak[ing] effective use of their revenue sources, either by not using certain taxes (individual and corporate income taxes and general sales taxes) or by keeping rates too low," as *Congressional Quarterly* summarized.[851] As a result, the Ways and Means Committee allocated nearly twice as much to localities as to states in its initial revenue sharing allocation – $3.5 billion to $1.8 billion.[852] Though it projected a $40 billion deficit in 1972 and a $25 billion deficit in 1973, the Ways and Means Committee argued that these shortfalls were not reason enough to delay revenue sharing, since doing so would imply that the federal government's needs were more important than those of states and localities. This proved to be a marked change of view for Mills, who had spent years wrangling with Johnson and Nixon over deficits and who had initially eschewed revenue sharing by arguing that the fiscal needs of states and localities should be kept separate from the federal government's.[853]

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[850] Quoted in "Congress Clears Nixon's Revenue Sharing Plan," *CQ Almanac* (1972); Otto G. Stolz, "Revenue Sharing – New American Revolution or Trojan Horse?" *Minnesota Law Review* 58:1 (1973), 14.
[851] "Congress Clears Nixon's Revenue Sharing Plan," *CQ Almanac* (1972);
[852] "Congress Clears Nixon's Revenue Sharing Plan," *CQ Almanac* (1972);
[853] "Congress Clears Nixon's Revenue Sharing Plan," *CQ Almanac* (1972);

Byrnes and other conservatives were outraged by Mills's defection. In a long dissent, primarily authored by Byrnes, revenue sharing opponents argued that RS was unconstitutional, unneeded, and unwise. States and localities, the dissenters argued, were not suffering from a "common fiscal crisis," and that those that faced budgetary problems both could and should, in the view of the dissenters, solve it themselves. The dissenters also argued that that "under the constitution the power to tax is carefully linked to and limited by the power to spend for specified purposes." "The responsibility for raising taxes is divorced from the dispensation of public benefits [under the revenue sharing bill]," the dissenters wrote. This fact, they warned, would lead to soaring federal taxes. Byrnes and his other dissenters quoted Andrew Jackson's 1883 veto message approvingly. Opponents even went so far as to blame German revenue sharing instituted in the 1920s for the country's post-WWI fiscal chaos. While the dissent did not mention Hitler, the allusion was unmistakable.[854] To highlight Mills's flip-flop, Byrnes also took to peppering his anti-revenue sharing speeches with quotes from Mills's old anti-revenue sharing speeches.[855] Keeping the heat on RS supporters, Byrnes lambasted the revenue sharing in bromides on the House floor and to local Chambers of Commerce, dubbing RS a "Trojan horse" for federal domination of states and localities.[856] Even worse for conservatives, Nixon's categorical grant proposal – Special Revenue Sharing – was quickly tossed aside. Many on the left viewed SRS with hostility, considering that it proposed effectively eliminating a variety of federal categorical programs and turning over the money to the states in the form of block grants earmarked for spending in the same category. As a result, none found favor with Congress

[854] *Congressional Record* (June 21, 1972), 21713-21720
[855] *Congressional Record* (June 21, 1972), 21712
[856] *Congressional Record* (June 21, 1972), 21712

during the 1971-72 revenue sharing debates and only a few were eventually enacted, albeit in a watered-down form.[857]

Opponents to revenue sharing were now facing an uphill battle. The bill had undeniable political appeal, thanks in part to its framing as a response to both the "fiscal crisis" and "tax revolt." The White House worked strategically to include analyses of the effect of RS on local property taxes into its publicity materials.[858] They included "heavy emphasis on why [the] taxpayer should care" about RS. [859] As Walter Heller had told skeptical federal legislators, the political credit for helping relieve Americans' state and local tax burden more than outweighed any objections to RS. "[A]s far as the voter is concerned, the most painful squeeze he feels today is not in federal taxes, it is at the state and local level," Heller explained. "What better campaign platform can a congressman or senator have than to go to the people of his state or his district and say, 'I have relieved some of the terrible pressure of rising state and local taxes? Or, I helped provide a better level of state-local services without higher state-local taxes?"[860] Heller was right. The accumulation of experts, interest groups, and state and local officials decrying heavy use of the property tax seemed to win over even some conservative Republicans. Following the testimony of Ohio legislator Charles Kurfess and David Bartley, the speaker of the Massachusetts House, New York Republican Barber Conable – a usually reliably pro-business member of the Ways and Means Committee who was nonetheless loyal to the Nixon

[857] Timothy Conlan, *From New Federalism to Devolution: Twenty-Five Years of Intergovernmental Reform* (Brookings 1998), 61-62; Robert Mason, *Richard Nixon and the Quest for a New Majority* (University of North Carolina, 2004), 123-124; Lawrence Susskind, "Revenue Sharing and the Lessons of the New Federalism," *Urban Law Annual Review* 8:33 (1974); Otis L. Graham, Jr. *Toward a Planned Society: From Roosevelt to Nixon* (Oxford 1976) 251-252

[858] McLane to Ehrlichman, June 29, 1971, WHCF-Confidential, F [CF] FA 7 Revenue Sharing, 1971-74, PNWH-AU

[859] General Revenue Sharing Package Plan for Target States, Undated [April 1972], WHCF-Confidential, F [CF] FA 7 Revenue Sharing, 1971-74, PNWH-AU

[860] *Intergovernmental Revenue Act of 1971 and Related Legislation*, Hearings Before the Subcommittee on Intergovernmental Relations, June 1, 3, and 8, and August 3, 1971 (U.S. GPO, 1971)

administration – declared, "I think we have too great a burden on the regressive taxes. I feel that progressive taxes should carry a greater portion of the burden of government…."[861] "[H]owever imperfect our income tax system is, it is obviously more progressive – and that is what most tax reformers are looking for in their tax system – than the real estate taxes and sales taxes, the basic devices for generating revenue for state and local governments," Conable said. "So anything that we can do to transfer an increasing portion of the total burden from the real estate and sales tax to the income tax is a step in the direction of tax reform…. [Revenue sharing] taxes pressure off a regressive tax, and that is what we are here to try to do in the pattern of government we are trying to establish."[862] Liberal Pennsylvania Republican John Heinz praised the bill for the same reasons. "The revenue-raising efforts by state and local governments are overly dependent on these regressive property taxes which penalize the poor and the elderly, as well as the middle-class working man," he said. "The bill we have passed today can help alleviate this burden and make our taxes fairer."[863] The White House knew all-too-well that the popularity of revenue sharing was a political boon to whomever received credit, which is why from the very beginning of the RS debate the administration bristled at the possibility that Muskie, McGovern, or Mills would take credit for revenue sharing and worked to make it clear to the public and the press that it was "our initiative."[864]

Revenue sharing passed the House in late-June. The final formula allocated $3.5 billion of the $5.3 billion according to population, urbanized population, and per capita income-weighted population, with each population measure receiving one-third of the $3.5 billion, or

[861] Committee on Ways and Means, U.S. House, *General Revenue Sharing, Part 3 of 8*, June 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 21, 23, 24, 28, 1971 (GPO 1971)
[862] *Congressional Record* (June 22, 1972), 22048
[863] *Congressional Record* (June 22, 1972), 22114
[864] McLane to Ehrlichman, June 29, 1971, WHCF-Confidential, F [CF] FA 7 Revenue Sharing, 1971-74, PNWH-AU

approximately $1.17 billion. The remaining $1.8 billion was split between measures of individual income tax effort by the states and a measure of general tax effort by states and localities, giving each $900 million. So, in the end, the final House bill made income tax effort a decidedly minor – though still significant – consideration in the allocation formula.[865] Henry Reuss criticized the House bill as "little better than the administration's revenue sharing plan" in many ways. However, the Wisconsin liberal praised the bill's "important incentives to encourage the adoption of progressive state income taxes," even if it did not go as far as he would have liked. "The formula under which funds are distributed to the states allocates half the funds given each state according to the amount of its individual income tax collections with some variations," Reuss said. "While a total allocation under this formula would have been preferable, this should induce some of the 10 states which currently lack an individual income tax to enact such taxes. Other states which have narrowly based or flat-rate income taxes will have an incentive to make them more progressive." For Reuss, encouraging state use of progressive income taxes was an issue of fairness both between the states and among taxpayers. "States without income taxes, or which make [use of] only a token income tax, often compete unfairly with other states for industry," Reuss argued. "Worse, their reliance on property and sales taxes unfairly burdens their low- and moderate-income homeowners and poor people."[866] Reuss also praised the House bill's provision permitting states to voluntarily allow the federal government to collect income taxes on behalf of the states. In this model, states could simply levy an additional percent on top of federal rates and save large administrative costs by letting the feds collect the revenue for them. Reuss warned, however, that this "piggback" income tax provision would not be meaningful if

[865] "Congress Clears Nixon's Revenue Sharing Plan," *CQ Almanac* (1972).
[866] *Congressional Record* (June 21, 1972), 21723

the federal code continued to resemble “swiss cheese” thanks to “flagrant loopholes.”[867] Moreover, at the White House’s request, the legislation only authorized federal-state “piggback” tax collections if five states requested it, making the likelihood that provision would be used much less likely than if states could request it individually.[868]

When the bill moved to the Senate, it seemed likely that it would be watered down further from the initial hopes of distributive liberals like Reuss. Nixon’s Treasury Secretary George Shultz requested that the Senate remove the House bill’s income tax incentive. “It has been the position of the administration not to favor particular state tax instruments, but rather to reward over-all state and local tax effort,” Shultz told the Finance Committee. “Accordingly, we would prefer to replace the income tax incentive with a provision closer to the President's original proposal.”[869] Indeed, led by Russell Long, the Senate Finance Committee made several key changes to the House bill, including altering the balance of funds allocated between urban and rural areas and stripping the income tax incentive from the bill by making population, personal income, and total tax effort the distribution criteria. Echoing Shultz and other conservatives, Long said that the House bill “would have meant that the federal government would be dictating to the state governments what taxes they should use.” Long said that the income tax effort element in the distribution formula “discriminates markedly against states with either no income tax or low income taxes.”[870] Not surprisingly, left-distributionist Fred Harris proved to be one of the few dissenters to the Finance Committee bill when it was approved and sent to the full Senate for consideration.[871]

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[867] *Congressional Record* (June 21, 1972), 21723. For more on the “piggback” provision, see
[868] *Congressional Record* (June 22, 1972), 22046
[869] “Congress Clears Nixon’s Revenue Sharing Plan,” *CQ Almanac* (1972).
[870] *Congressional Record* (August 18, 1972), 29060
[871] “Congress Clears Nixon’s Revenue Sharing Plan,” *CQ Almanac* (1972).

Left-liberal Senators attempted to attach various provisions to the Finance Committee bill via the amendment process, usually with little success, thanks in part to Long's aggressiveness in pursuing votes to table amendments he found undesirable. Most significantly, Ted Kennedy proposed an amendment to the RS bill requiring President Nixon to submit to Congress preliminary tax reform proposals by October 31, 1972 – a date which, likely not accidentally, fell just days before the presidential election – as well as final proposals by March 31, 1973. Long's motion to kill the bill passed 52-24, with GOP members voting unanimously 34-0 to kill it, supported by a minority of Democrats, who voted 18-24 to table Kennedy's amendment. Democrats' votes manifested the typical pattern on tax reform issues, with left-liberals – including Kennedy, Hartke, Muskie, Humphrey, Mondale, and Nelson, among others – voting against killing the Kennedy amendment and conservative and business-oriented Democrats – including Long, Chiles, Eastland, and Bentsen – voting with the GOP.[872] A Harke amendment prohibiting revenue sharing money form being used to "induce a business or industry to move a plant or other facility to one area from another" – in other words, using RS money for business tax incentives – was rejected by a 26-56 vote featuring much the same coalition as the one the killed the Kennedy amendment, with Muskie being the most significant Democratic opponent, in political terms.[873] Eventually, the Senate adopted the Finance Committee bill with minor changes by a 64-20 vote, with 15 of the "no" votes coming from Democrats.[874]

The conference report was adopted in two mid-October votes by the House and Senate. Though Republicans were, overall, more supportive of the bill, both parties passed it overwhelmingly, and few ideological patterns were evident in the voting, with many of the most

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[872] "CQ Senate Votes 375-381" *CQ Almanac* (1972), 59-S
[873] "CQ Senate Votes 368-374" *CQ Almanac* (1972), 58-S
[874] "CQ Senate Votes 389-394" *CQ Almanac* (1972), 61-S; "Congress Clears Nixon's Revenue Sharing Plan," *CQ Almanac* (1972).

liberal and conservative members of both chambers casting their votes in favor of the final bill.[875] The final bill allotted more than $5 billion per year to states and localities for five years beginning, retroactively, in January 1972. It also gave states the option of choosing between the House formula, which included an income tax effort provision, and the Senate formula, which did not. As a result, the already weakened incentive for states to employ income taxes was weakened further. The conference report also favored the Senate's state/local distribution ratio and, as a result, the final bill tilted more towards "poor central city and rural areas at the expense of more affluent suburbs," as *CQ Almanac* put it.[876] The share of revenue going to localities was also increased to two-thirds in the final bill.[877] Keeping with the shift away from emphasizing state income taxes, the JCT's "general explanation" of the final State and Local Fiscal Assistance Act, as the RS bill was dubbed, included nearly all of the "fiscal crisis" language used by Mills's Ways and Means Committee to justify revenue sharing. Notably, however, the phrase asking states to "mak[e] more extensive use of their own tax resources" was dropped. In its place, the JCT noted that states "also face severe financial problems," which the JCT blamed vaguely on "the nature of their tax structures."[878] Despite being watered down, the income tax effort provision in the bill retained some of its teeth. For example, one analysis found that Ohio would increase its revenue sharing allocation by 35 percent by instituting the income tax and decreasing the states sales tax collections by the same amount.[879]

Perhaps most significantly, from Nixon's perspective, Congress substituted a five-year

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[875] "CQ Senate Votes 514-520," *CQ Almanac* (1972), 79-S; "CQ House Votes 303-309," *CQ Almanac* (1972), 92-H, 93-H.
[876] "Congress Clears Nixon's Revenue Sharing Plan," *CQ Almanac* (1972).
[877] Murray Weidenbaum, "Revenue Sharing and the New Federalism," *Review of Applied Urban Research* 2:1 (January 1974).
[878] Joint Committee on Internal Revenue Taxation, "General Explanation of the State and Local Fiscal Assistance Act and the Federal-State Tax Collection Act of 1972" (GPO, February 12, 1973)
[879] Wallace E. Oates, ed. *Financing the New Federalism: Revenue Sharing, Conditional Grants, and Taxation* (Routledge, 2013) 8.

fixed dollar amount for the administration's plan to dispense a yearly parentage of the personal income tax base. While some advocates of the five-year fixed option argued that it would allow state and local governments to make long-term plans for the money, administration officials like Murray Weidenbaum argued that it had the opposite effect. Since state and local officials were unsure if the funds would continue after 1976, Weidenbaum wrote, they were "reluctant to incorporate the revenue sharing funds into their operating budgets."[880] Indeed, an ACIR survey of local officials found that the uncertainty about revenue sharing altered their decisions of how to use the money and, overwhelmingly, the officials told the ACIR that they tended to use the money on capital projects and other nonrecurring expenses, rather than incorporate it into the annual budget, because they feared it could be eliminated in 1976.[881] Overall, though, Weidenbaum's worries proved to be premature. The first two disbursements of funds – beginning in January 1972 and ending in December of that year – did see state and local governments allocating their funds to capital and nonrecurring costs, as Weidenbaum predicted. And, indeed, officials surveyed cited uncertainty over the future of revenue sharing as their reason for their allocation choices. However, by the third disbursement period, which began in January 1973, state and local officials had begun using revenue sharing money for normal operating and maintenance expenditures. "Contrary to early speculation," an Office of Revenue Sharing Report noted, "more money was earmarked for operating and maintenance expenses than for capital expenditures."[882]

The general revenue sharing legislation left state governments free to spend the money in any area, while it limited local governments to spending in one of five priority areas: public

[880] Murray Weidenbaum, "Revenue Sharing and the New Federalism," *Review of Applied Urban Research* 2:1 (January 1974).
[881] Poll results reproduced in Murray Weidenbaum, "Potential Impacts of Revenue Sharing," in *Congressional Record*, September 10, 1975, 28400-28404
[882] Priscilla R. Crane, *General Revenue Sharing – The First Planned Use Reports* (US GPO, September 24, 1973)

safety, environmental protection, public transportation, health, recreation, libraries, social services for the poor and aged, and financial administration, including "ordinary and necessary" capital expenditures.[883] Given that money is fungible, however, the categorical limits at the local level meant little, in practice. Additionally, state governments' standard practice of sharing revenue with localities meant that states no-strings-attached revenue sharing money could, in effect, be used to assist states in areas not allowed under the revenue sharing guidelines. While localities could not use funds for education, states could – and did. Thanks to large education expenditures on the state level, education ranked a close second to public safety (22 percent to 23.5 percent) of total state and local revenue sharing expenditures during the third entitlement period.[884]

Even without the strong income tax incentive desired by left-distributionists, revenue sharing did, in fact, shift the tax burden upward, at least a little. One effect of the use of revenue sharing money for general operating expenses was to lessen the reliance of states and localities on regressive taxes. "Almost half of the $2.96 billion represented in the third entitlement period reports is being spent in such a way as to reduce taxes, prevent an increase in taxes, prevent enactment of new taxes, or reduce the amount of a tax rate increase," the Office of Revenue Sharing reported in late-1973.[885] When "actual use" reports – in contrast to "planned use" reports – began to roll in during the first months of 1974, it became clear that revenue sharing was, indeed, having a substantial effect on the level and mix of taxes across the country. Nearly 45 percent of all governments (states, counties, cities, townships, and tribes) used the revenue

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[883] *State and Local Fiscal Assistance Act of 1972*, Conference Report 92-1229 (US GPO, September 26, 1972); Murray Weidenbaum, "Potential Impacts of Revenue Sharing," in *Congressional Record*, September 10, 1975, 28400-28404; Priscilla R. Crane, *General Revenue Sharing – The First Planned Use Reports* (US GPO, September 24, 1973)

[884] Priscilla R. Crane, *General Revenue Sharing – The First Planned Use Reports* (US GPO, September 24, 1973)

[885] Priscilla R. Crane, *General Revenue Sharing – The First Planned Use Reports* (US GPO, September 24, 1973)

sharing funds to reduce taxes or prevent an increase in taxes, while an additional 28 percent said it was "too soon to predict" if the money would be used to reduce taxes. Only 27 percent said revenue sharing would have no effect on the level of their taxes. Moreover, lower levels of government – counties, cities, townships, and tribes – were much more likely than states to say that they were using revenue sharing money to lower taxes. Thus, the levels of government with the most regressive taxes were also the most likely to be substituting revenue from the progressive federal income tax for their own tax sources. Moreover, researchers at the Office of Revenue Sharing believed that, over time, the effect on state and local taxes would become even larger than the initial reports. "For all units of government, the proportion indicating revenue haring to have had such an impact [reducing taxes and reducing debt] increased as the proportion of funds spent increased," the office noted in a March 1974 report. "This suggests that as more revenue sharing funds are spent even more recipient governments will indicate that the funds reduced or lessened tax increases and lessened or avoided debt increases."[886]

Left-distributionist proponents of shifting the tax mix in the system U.S. "fiscal federalism" towards progressive sources did not see the passage of revenue sharing as the end of their efforts, however. The 1972 presidential campaign quickly became a showcase for both left-distributionist analyses of the "tax revolt" and proposals to make the American tax system more progressive at all levels of government.

The Tax Revolt Presidential Campaign

Though it did not offer quite the same alliterative ring, the conservative slander against George McGovern's 1972 presidential campaign, as one of "acid, amnesty, and abortion" could

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[886] David A Caputo and Richard L. Cole, *General Revenue Sharing – The First Actual Use Reports* (US GPO, March 1, 1974)

just have easily been amended to "acid, amnesty, abortion, and redistribution." Indeed, McGovern's fiscal platform was likely the most radical plan by a Democratic presidential nominee since FDR's "Second Bill of Rights." Moreover, this platform reflected the influence of both grassroots "tax justice" groups and the tax successes of populist Democratic governors. The popularity of these stances was unmistakable. Despite the fact that the South Dakota Democrat's tax proposal were – like much of his campaign – marred by public relations missteps, McGovern's openly left-distributionist proposals proved to be not only the most popular element of his campaign, but the only issue on which voters consistently preferred McGovern to Nixon. As a result, in the process of pulling the Democratic Party to the left on taxes, McGovern took Nixon with him, too.

Perhaps more than any other domestic issue, the tax revolt dominated the 1972 Democratic primaries. Influenced both by grassroots activists like CCC and successful state-level Democratic candidates like Askew, National Democrats eyeing the 1972 presidential nomination also began striking populist, distributionist stances on taxes. Nearly every Democratic candidate in the 1972 primaries made tax inequities, in general, and property taxes, in particular, a key issue in their campaign. From Ed Muskie to Henry "Scoop" Jackson, Humbert Humphrey to John Lindsay, and George Wallace to George McGovern, every major Democratic pledged some form of progressive tax reform as they barnstormed the country throughout the spring and summer of 1972.[887] Echoing Reuben Askew, Jackson pledged a "fair share" tax plan he said would close between $12 and $20 billion in loopholes. The conservative Washington senator also "repeatedly emphasized" the "bruising impact" of property taxes on "middle income

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[887] Dailey to Mitchell, "Competitive Analysis Report #4," March 24, 1972, Contested, B 30, F 2, RNPL; Daily to Mitchell, "Competitive Analysis Report #5," March 31, 1972, Contested B 32, F 5, RNPL; Ehrlichman to Connally, April 18, 1972, Confidential, B 3 F [CF] FI-11-Taxation -1971-1974], RNPL; Magruder to Mitchell, April 6, 1972, Contested, B 32 F 3, RNPL

Americans."[888] Lindsay pledged a loophole-closing tax reform package that he said would raise $10 to $15 billion. He also called for "immediate emergency" relief to property taxpayers in the form of a graduated federal income tax credit equivalent to 30 percent of property tax bills for homeowners making less than $30,000 annually, 15 percent to those making between $30,000 and $40,000, and nothing for those making more than $40,000.[889] The NYC mayor ran ads bragging that Lindsay was "the first mayor of New York to tax banks and insurance companies, and he's the one candidate with a plan for immediate property tax relief now, not next year."[890] Humphrey pledged "that new federal aid will allow reductions in local property taxes," funded by closing federal tax loopholes.[891] Most major candidates for the 1972 Democratic nomination, including McGovern, Muskie, Humphrey, and the long-rumored candidate Ted Kennedy also either introduced or endorsed the Tax Reform Act of 1972, a bill by Senator Bill Nelson designed to wipe away $17 billion in tax loopholes.[892] Few Democrats seemed willing to forgo the rhetorical appeal of tax reform.

The tax fever sweeping the Democratic primaries gripped even the most unlikely candidates. George Wallace's tax proposals and rhetoric were the most idiosyncratic. Wallace simultaneously combined far-right general anti-tax, anti-weflare sentiment with left-distributionist loophole-closing proposals. Like many ideologically amorphous populists, Wallace aimed his ire at both the bottom and top of the American economic structure.[893] On the

[888] Dailey to Mitchell, "Competitive Analysis Report #4," March 24, 1972, Contested, B 30, F 2, RNPL; Daily to Mitchell, "Competitive Analysis Report #5," March 31, 1972, Contested B 32, F 5, RNPL; Ehrlichman to Connally, April 18, 1972, Confidential, B 3 F [CF] FI-11-Taxation -1971-1974], RNPL; Magruder to Mitchell, April 6, 1972, Contested, B 32 F 3, RNPL
[889] Dailey to Mitchell, "Competitive Analysis Report #4," March 24, 1972, Contested, B 30, F 2, RNPL; "Lindsay Urges a Credit on Property Tax Bills," *New York Times*, March 25, 1972
[890] Kathleen Hall Jamieson, *Packaging the Presidency* (Oxford 1996), 311
[891] Daily to Mitchell, "Competitive Analysis Report #5," March 31, 1972, Contested B 32, F 5, RNPL
[892] Kevin Phillips, "Demos 1972 Strategy: 'Haves Vs. Have Nots,'" *St. Petersburg Times*, March 29, 1972; *Congressional Record* (March 28, 1972) 10425; S3378 "Tax Reform Act of 1972," Contested, B 31, F 1, RNPL
[893] Michael Kazin, *The Populist Persuasion* (Cornel, 1998).

one hand, Wallace deployed conservative rhetoric, charging that all his Democratic opponents knew was "Tax, tax, tax, spend, spend, spend – tax and spend."[894] On the other hand, Wallace called for loophole-closing in the federal tax code, including the repeal of tax-exempt status for churches and foundations. In Wisconsin, Wallace pledged, "And I say to you, if you vote for George Wallace and he wins in Wisconsin, something will be done about tax reform even before the election."[895] Likewise, one Wallace television advertisement in the state told voters, "The average working man, business man, and farmer pays taxes through the nose. About $200 billion of income and wealth is tax exempt in this country. A vote for Wallace will be a message to the National Democratic Party that we want tax exemptions removed."[896] Speaking of the Democratic Senators running against him, Wallace quipped, "[T]hey have been in Congress 109 years total. Why didn't they do something about tax reform then?"[897] If he had been in the Senate, Wallace claimed to a Milwaukee audience, he would have spent "365 days a year" yelling "Tax relief, tax reform, tax relief, tax reform!"[898] As Wallace promised to "get your taxes lowered and the loopholes plugged" on the campaign trail, he argued that he was the original tax reformer and that other Democrats were "stealing my thunder."[899] Indeed, as early as February 1971, Wallace's newsletter declared, "A tax revolt is brewing! Until the unfair burden is taken from the shoulders of the average taxpayer – we shall continue our cause."[900] His campaign brochures consistently embraced an odd mélange of conservatism and liberalism, touting Wallace's bold "inquiries into forced busing, tax-exempt foundations, inequities in the tax-load,

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[894] Douglas Kneelan, "Wallace Wisconsin Plea Emphasizes Tax Reform," *New York Times*, March 24, 1972
[895] Daily to Mitchell, "Competitive Analysis Report #5," March 31, 1972, Contested B 32, F 5, RNPL
[896] Daily to Mitchell, "Competitive Analysis Report #5," March 31, 1972, Contested B 32, F 5, RNPL; Kathleen Hall Jamieson, *Packaging the Presidency* (Oxford 1996), 311
[897] Daily to Mitchell, "Competitive Analysis Report #5," March 31, 1972, Contested B 32, F 5, RNPL
[898] Douglas Kneelan, "Wallace Wisconsin Plea Emphasizes Tax Reform," *New York Times*, March 24, 1972
[899] George Lardner, Jr., "Wallace Aims Protest Drive at Taxes," *Washington Post*, April 3, 1972.
[900] Governor George Wallace, June 7, 1971, Contested B 16, F 5, RNPL

welfare loafing and foreign giveaways" in the same sentence.[901] Given his seemingly divergent ideological paths on taxes – progressive loophole-closing reformer one minute, conservative tax slasher the next – Nixon campaign analysts concluded, "What he [Wallace] would do about taxes if (God help us) he ever were elected is anybody's guess."[902] Even Eugene McCarthy – who had said precious little about domestic issues during his presidential run four years earlier and who had also been known for his often conservative stances on taxes during his time on the Senate Finance Committee – began calling for a "graduated property tax system, similar to the graduated income tax, to do away with the flat rate and assessed evaluation of determining property taxes" during his campaign in Illinois – and, perhaps not coincidentally, Illionis proved to be only state in which McCarthy garnered a substantial number of votes.[903]

But no other candidates made the tax revolt more central to their campaigns than the Democratic frontrunner Edmund Muskie and the eventual nominee George McGovern. Though both would place tax reform at the center of their campaigns, Muskie began with the clear early lead. Thanks both to his position as the most recognizable politician on the ACIR and his association with Nader's tax reform campaign, Muskie had spent much of 1971 drawing attention to the local fiscal crisis and advocating for progressive forms of revenue sharing. He solidified his position as perhaps the foremost expert on the tax revolt among the Democratic candidates by running radio ads in early primary states like New Hampshire proposing bold initiatives like monthly federal "housing security" payments to help struggling homeowners pay

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[901] "A Great Leader for America" Wallace campaign brochure, reprinted at 4president.org (http://www.4president.org/brochures/1972/wallace1972brochure.htm).
[902] Daily to Mitchell, "Competitive Analysis Report #5," March 31, 1972, Contested B 32, F 5, RNPL
[903] Dailey to Mitchell, "Competitive Analysis Report #4," March 24, 1972, Contested, B 30, F 2, RNPL; Robert Nolte, "Graduated Property Tax Would Be More Equitable: McCarthy," *Chicago Tribune*, March 19, 1972

for rising property taxes.[904] Indeed, beginning early in the 1972 presidential contest, the Nixon White House worried that Muskie would use his place on ACIR to "embarrass the president" by pushing Muskie's own plans "with regard to the school finance and property tax issue," while giving Nixon's initiatives short shrift.[905] Despite his image as a sensible moderate, Muskie had no hesitation issuing fiery rhetoric when it came to taxes. One Muskie television advertisement began with a voiceover declaring, "The taxpaying citizens of America know Ed Muskie. As a senator he has fought to reduce the burden of property taxes and to restore some balance to our spending so that our problems at home will get first priority." The ad then cut to Muskie delivering an indoor speech. "Let me give you one city – one city. Property taxes on a $10,000, today's market value, are over $900 a year," Muskie declared emphatically. "In eleven years – in eleven years! – that house is consumed by its own taxes. You can guess what's happening. You see property after property abandoned. The owners [are] walking away from it. They don't want to touch it. Well what do you do about those problems? Build a space shuttle?!" Following this sarcastic, rhetorical closing, the voiceover intoned, "Muskie, for the country."[906] From any vantage point, Muskie's position when it came to tax reform was unmistakable. The Nixon campaign team internally summarized Muskie's tax platform as "incorporating virtually ever major proposal made during the last decade by liberal Democratic economists."[907]

McGovern's initial forays into the tax debate were less refined, but no less passionate. McGovern was not a new convert to tax reform, as anyone who followed the TRA69 debates knew. However, as his campaign wore on, McGovern honed his domestic message, particularly

[904] Joanou to Sttrachan, March 21, 1972, "Competitive Analysis Reports #1 and #2," March 21, 1972, Contested, B 30, F 2, RNPL
[905] Khachigian to Haldeman, January 21, 1972, Contested B 28, F 3, RNPL
[906] 1972 Muskie Ad #05238
[907] Joanou to Sttrachan, March 21, 1972, "Competitive Analysis Reports #1 and #2," March 21, 1972, Contested, B 30, F 2, RNPL

when it came to taxes. With each passing week, McGovern's already sizable emphasis on taxes grew. His plans became more specific, his rhetoric more cutting. Like Nader and many other left reformers, McGovern was a moralist most at ease with issues that could be framed in binary terms of good-and-evil.[908] Vietnam, the initial issue motivating his campaign, was one such topic that could be framed in that way. Taxes – particularly seen though a left-distributionist lens – proved to be another. Though economic issues were initially far from McGovern's forte, the Democrat became more and more interested in pocketbook issues his campaign developed throughout late-1971 and early-1972.[909] During the New Hampshire primary – the third contest in 1972 – McGovern stressed tax issues, but his tax plans were short on specifics. At this early stage, the South Dakota Democrat called for closing loopholes that benefitted corporations providing tax-relief to low- and middle-income taxpayers, both on the federal level and on the local level, by having the federal government assume a greater share of welfare and education expenses.[910] In New Hampshire, McGovern ran radio advertisements declaring that the South Dakota Democrat "proposes eliminating 'outrageous' loopholes that enable large corporations to shift their tax load to the working man. He proposes relieving the property tax burden by having the government assume the major part of education and welfare costs and he seeks to phase out oil and gas depletion allowances."[911]

Not only had candidates like McGovern and Muskie been influenced by the tax stances of Nader and grassroots groups like CCC, but tax populist Democratic governors also served as an animating for national Democrats. By early March, McGovern was telling members of the

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[908] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 70-71
[909] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 73-75
[910] Joanou to Sttrachan, March 21, 1972, "Competitive Analysis Reports #1 and #2," March 21, 1972, Contested, B 30, F 2, RNPL
[911] Joanou to Sttrachan, March 21, 1972, "Competitive Analysis Reports #1 and #2," March 21, 1972, Contested, B 30, F 2, RNPL

Florida state legislature – who McGovern knew very well were no strangers to tax politics, thanks to Reuben Askew – that "tax reform should be the campaign's major issue," as a Nixon reelection campaign operative reported to the White House.[912] Indeed, reforms in states like Florida tricked up into the 1972 presidential race. "It is McGovern's theory – almost identical to the views expressed by Askew – that large economic interests in the state have been using racial animosity over the years to prevent the formation of a coalition of blacks and working class whites to take their share of economic and political power," the *Palm Beach Post* observed in March 1972. "McGovern even is talking about basic reform in the federal tax system – not unlike the reforms which Askew as pushed on the state level…include[ing] a closing of all loopholes in upper income bracket, increased corporate income taxes, and the removal of personal exemptions."[913] During campaign McGovern praised Askew, specifically, "largely because of his successful fight to pass a corporate income tax last year and for his outspoken opposition to a constitutional amendment prohibiting school busing for purposes of integration."[914]

Following these examples from the grassroots and the states, taxes and other pocket issues joined Vietnam as McGovern's strongest appeal as the Democratic presidential contest wore on. By mid-March, as a *Washington Post* headline explained, the McGovern campaign had settled on a simple strategy: "Stress the War, Taxes, and Inflation." McGovern's shift to domestic pocketbook issues was driven, in part, by his interpretation of George Wallace's victory in the Florida primary. The McGovern team was convinced that Wallace's strong showing in Florida was more than a simple "anti-busing vote." Instead, they argued that voting

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912 Joanou to Sttrachan, March 21, 1972, "Competitive Analysis Reports #1 and #2," March 21, 1972, Contested, B 30, F 2, RNPL

913 David Schultz, "'Charisma' Plagues the Senator," *Palm Beach Post*, March 5, 1972

914 David Schultz, "'Charisma' Plagues the Senator," *Palm Beach Post*, March 5, 1972

for Wallace represented a "general protest by working people against general conditions" in the country.[915] Polls showed that McGovern voters most agreed with him on the issues of Vietnam, taxes, and national priorities, while the polls also showed that Wallace voters most agreed with their candidate on busing, taxes, and crime.[916] If McGovern was going to make inroads with Wallace voters, the issue on which he could base his appeal was clear. While McGovern continued to denounce Wallace's position on issues like busing, he believed that a greater emphasis on pocketbook issues could woo Wallace voters to his campaign. "Anger at local tax increases heads the list of McGovern's new targets," the *Washington Post* noted in mid-March. The first step in McGovern's new strategy was to acknowledge the validity of the public's anger about taxes. The second was to propose a solution. In a speech in Peoria, Illinois, McGovern declared, "There is a real tax revolt in this country." The answer, McGovern argued, was to close tax loopholes for the well-off and make taxes fairer for lower- and middle-income Americans.[917]

McGovern made Wisconsin the pivotal primary in his campaign, and taxes played a central role in catapulting the outsider candidate to victory in the Badger State. In New Hampshire, McGovern had delivered an impressive second-place finish to frontrunner Muskie, in part by courting "working people" on economic issues, thereby expanding his appeal beyond the antiwar crowd. But then McGovern's momentum faltered. The Florida primary that followed saw McGovern come in a distant sixth place behind George Wallace, whose supporters McGovern was careful not to denounce, on the grounds that many Wallace voters, in the South Dakotan's view, were simply disaffected with the government and economic issues, rather than out-and-out racists. The subsequent Illinois campaign – which saw the tax-centric Muskie win

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[915] William Chapman, "McGovern's New Strategy: Stress the War, Taxes, and Inflation," *Washington Post*, March 17, 1972
[916] Dailey to Mitchell, "Competitive Analysis Report #3," March 17, 1972, Contested, B 30, F 2
[917] William Chapman, "McGovern's New Strategy: Stress the War, Taxes, and Inflation," *Wasington Post*, March 17, 1972

with a whopping 62 percent of the vote – was a "disaster" for McGovern, as one of his staffers put it, and, following the disappointment in Florida, only served to heighten the upcoming Wisconsin race. Like many states, Wisconsin had experienced soaring property taxes, particularly in poor and working-class neighborhoods in Milwaukee. Nationwide, Wisconsin had the third highest property taxes in the country.[918] Grassroots activists understood the power of taxes in Wisconsin. Both the Madison Tenants Union and the nascent Madison Committee for Fair Taxes were beginning to organize around property taxes in early 1972. According to an MTU study, assessments in some Madison neighborhoods had risen as much as 240 percent in twelve years, forcing many low- and fixed-income Madison homeowners to sell their homes.[919] Like Nader, CAP, and CCC, the MCFT argued that businesses were underassessed, driving up rates for homeowners. . "[I]t is not just the rising cost of social services that makes our tax burden heavy," the MCFT argued. "It is the unfair distribution of taxes that put us as working people under a burden that we <u>can</u> <u>not</u> and <u>will</u> <u>not</u> carry any longer." The MCFT called for the abolition of the property tax, which it termed "regressive, inequitable, and impossible to impartially administer," and its replacement with progressive forms of taxation.[920] The IAF and Alinsky took note of the appeal of tax issues in Wisconsin. "McGovern, Wallace, Lindsay all made an issue of the property tax in the Wisconsin primary," Harmon wrote to Alinsky in mid-April. "So the scene is ripe up there…."[921] Indeed, within a year, several Alinksy-trained groups would be working on taxes in the state.[922] Wisconsin politicians understood the significance of the tax issue in their state, too. Not only had Milwaukee's congressmen, Henry Reuss, been pushing for progressive tax relief, but Senator Gaylord Nelson of Wisconsin also authored a

[918] George Lardner, Jr., "Wallace Aims Protest Drive at Taxes," *Washington Post*, April 3, 1972
[919] Madison Tenants Union, "Property Taxes," Box 12, Folder 5, Lynd Papers, WHS
[920] "How Much Do We Pay in Taxes?" Box 12, Folder 5, Lynd Papers, WHS
[921] Dick to Saul, April 12, 1972, IAF, B 40, F 616, UIC
[922] Dick to Ed, January 15, 1973, IAF, B 39, F 615, UIC; Dick to Saul, May, 13, 1972, IAF, B 40, F 616, UIC

property tax relief bill, which he asked McGovern to cosponsor. At Nelson's suggestion, McGovern campaigned around the Badger State touting the "Nelson-McGovern" bill and generally "capitalizing on voter discontent with rising property taxes," as McGovern adviser Gordon Weil put it.[923] Already high on McGovern's priority list, taxes now effectively found an equal footing with Vietnam as his most-emphasized topic. Indeed, the Wisconsin Democratic campaign saw every major candidate emphasize tax reform, in general, and property taxes, in particular, as they attempted to woo voters to their side.

The vibrancy of tax reform as a winning issue for candidates like McGovern in the Democratic primary worried the White House. "As is becoming apparent in Wisconsin, tax reform has the potential of becoming a first-rate political issue this year. I have the feeling that the initiative in the property tax relief area is being stolen from us by the Democrats…," Colson warned in an April memo to Ehrlichman. "It seems to me that we need events that will elevate visibly our efforts to this area and that we really need a coordinated plan to keep the President out front on the property tax issue. Without knowing, I suspect that if we took a poll to Wisconsin right now we would find that the average citizen believes that the Democrats want to do something about their tax burdens and that we are not only insensitive to it but are allowing several hundred millionaires to go scott-free without paying any taxes." Colson suggested that the White House begin touting the ACIR's reform studies, among other measures to get Nixon talking about tax reform again. Colson also noted that many in the administration, including John Connally, worried that the Democrats would not only talk tax reform on the campaign trail, but would try to enact it during the election year in order to force Nixon to either accept or oppose it.

[923] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 56, 61-62, 68

Either way, under this plan, the Democrats would win politically. ”[924] Nixon could not afford to give short shrift the tax revolt, or attempt to portray it as little more than the epiphenomena of working-class whites' cultural grievances. Even revenue sharing was not enough. "[T]he tax issue [has been] forced upon us," Ehrlichman decleared in an April memo. Evidence suggested that Americans were upset about not only the level, but the fairness of the tax system, particularly the "loopholes" that were receiving abundant coverage in the press. "[V]]oting in the primaries has, arguably, validated the issue," Ehrlichman argued, because "Humphrey, Muskie, McGovern and Wallace have all made an issue of the need for tax reform, and the first three have backed specific legislation."[925] John Conally agreed. He believed that both Wallace and McGovern were succeeding in the primaries because they appealed to a frustrated populace. "They have raised the tax issue by harping on reforms and loophoes. There is a real issue here…," Connally told OMB staffers in May 1972. "The tax issue is basic. When you see people turning down bond issues for schools and sewers and waters in their own hometowns, then you know they are fed up."[926] Nixon's inner circle took note of what was transpiring in the primaries, compiling extensive accounts of the Democratic candidates' tax appeals and seeking to discern how Nixon should craft his own appeal[927]

Polling data analyzed by the White House in December 1971 made clear the futility of traditional conservative stances on taxing-and-spending. While avoiding tax increases was, as always, politically advisable according to Ed Harper's analysis of the data, small-government

[924] Colson to Ehrlichman, April 3, 1972, SMOF-Colson, F Tax Reform Issue, B 116, RNPL
[925] Ehrlichman to Connally, April 18, 1972, WHCF-Special/Confidential, F Taxation [1971-74], B 18, RNPL
[926] Waldman to Cole and Harper, May 2, 1972, WHCF-Confidential, F [CF] FG 6-16 Domestic Council – 1971-1974, PNWH-AU
[927] Dailey to Mitchell, "Competitive Analysis Report #4," March 24, 1972, Contested, B 30, F 2, RNPL; Daily to Mitchell, "Competitive Analysis Report #5," March 31, 1972, Contested B 32, F 5, RNPL; Ehrlichman to Connally, April 18, 1972, Confidential, B 3 F [CF] FI-11-Taxation -1971-1974], RNPL; Magruder to Mitchell, April 6, 1972, Contested, B 32 F 3, RNPL

conservatism was not. The public, the data showed, cared little about a balanced budget. When it came to taxes, the public's views were nuanced. Only nine percent of Americans said that they "disliked all taxes." Property taxes were the most disliked (27 percent), followed by state and local sales taxes (22 percent), federal income taxes (18 percent) and state income taxes (15 percent). In other words, according to the White House's study, the two most disliked taxes were regressive levies. Predictably, regional variations existed in the data. Property taxes were more popular in the South, which tended to rely less on them. Likewise, state income taxes were less popular in the Northeast than in other regions.[928] The administration also received a preview of ACIR's survey of Americans' views on taxes. It found that "clos[ing] loopholes" was the most popular response (offered by 40 percent of respondents) when Americans were asked how they would want the federal government to raise additional tax revenue. The federal income tax was labeled the "fairest" form of taxation (picked by 36 percent of respondents), and the local property tax was chosen as the "worst" and "least fair" form of taxation (chosen by 45 percent of respondents).[929] The administration also paid attention to local polls. Lew Engman wrote to Ehrlichman to alert him of a *Detroit News* poll showing that a large majority of voters in Michigan supported amending the state's constitution to "change...the way public schools are financed under a plan which would reduce local school property taxes, but increase the state income tax and enact a value added tax." Even majorities of union members and renters supported the proposal, Engman marveled.[930]

The Nixon campaign team documented the clear link between the Democratic candidates' tax appeals and their success in the primaries. A Committee to Reelect the President "Competitive Analysis Report" noted that McGovern's "emphasis here [Wisconsin] will be on

[928] Harper to Ehrlichman, November 23, 1971, WHCF-EX FI 11, F 11, B 59, RNPL
[929] Hullen to Ehrlichman, May 19, 1972, WHCF-EX FI 11, F 14, B 60, RNPL
[930] Engman to Ehrlichman, September 12, 1972, WHCF-EX FI 11, F 14, B 60, RNPL

tax reform" and that "Wallace kicked off his Wisconsin campaign by stressing the need for tax reform."[931] "McGovern has hit the issues, and the opposition, hard in Wisconsin," another CRP "Competitive Analysis Report" explained. "He has consistently spoken on the war, inflation, unemployment, tax reform, property taxes, farm subsidies and farm take-overs by businesses for tax write-offs."[932] These national analyses echoed the findings of Wisconsin CRP operatives. Nixon field staffers in the Badger State wrote a detailed memo – read by CRP deputy director Jeb Magruder and forwarded to director John Mitchell – on the successful economic appeals of Democrats in the Wisconsin primary. Contrary to commentators who saw the McGovern and Wallace campaigns as polar opposites, the CRP operatives viewed them as two sides of the same coin. "Only two smart campaigns emerge, Wallace and McGovern. There is a duality here that seems to escape the press experts," the CRP memo noted. "McGovern has stolen the Wallace technique but with subtle touches and aimed at a wider audience. Both of these candidates have been badly underestimated and are potentially very dangerous to the President." The Nixon operatives warned the president that Wallace's appeal in a state like Wisconsin could not be dismissed as racially extremist. "There is no racist appeal being made in Wisconsin," the memo argued. Instead, it suggested that both McGovern and Wallace were making a "class appeal" that was winning over voters in the Badger State. "This is bad for Republicans...," the CRP staffers warned. "We are vulnerable because of their spadework in pinning the adjective rich to Republicans." Despite Nixon's longtime obsession with Wallace, the CRP field operatives saw McGovern was the more dangerous candidate. While Wallace's "self-identification [with the] lower class is crude," the memo noted, "The McGovern pitch has as its target the whole middle class. His villains are the richer, [the] corporations, and [the] Republicans in power." While

[931] Dailey to Mitchell, "Competitive Analysis Report #4," March 24, 1972, Contested, B 30, F 2, RNPL; Dailey to Mitchell, "Competitive Analysis Report #3," March 17, 1972, Contested, B 30, F 2
[932] Daily to Mitchell, "Competitive Analysis Report #5," March 31, 1972, Contested B 32, F 5, RNPL

Wallace directed part of his voters anger towards "welfare loafers," McGovern was "redirecting these resentments towards the richer neighbor." Taxes were a key issue in this "class appeal," according to the CRP staffers. "Certain code words emerge – tax loopholes, corporate lawyer, and the military industrial complex," the memo noted. Without a Nixon response, the attacks would only become more effective. If McGovern faltered in the Wisconsin primary, the memo predicted, "then we can relax a little." But if McGovern "score[d]" in the Wisconsin, the CRP staff warned, "watch out." The tax-based "class appeal" would soon become the Democrats' standard line of attach against Nixon. "Humphrey and Muskie are catching on to this approach, too," the memo noted.[933] So, when McGovern and Wallace finished first and second, respectively, in the Wisconsin Democratic primary, the takeaway for the Nixon White House was clear – Nixon would need to move even further to the left on taxes if he hoped to win the issue from the Democrats. Just how far Nixon would need to move depended on the outcome of the primaries, and as McGovern gained momentum, the answer seemed to be very far, indeed.

During the primaries, both Muskie and McGovern ran television ads decrying unfairness in taxes at the local and federal levels, offering sympathy to the agitated taxpayers who were voting down local tax measures, and pledging progressive tax relief if elected. One commercial showed McGovern talking to a backyard full of people. A young white man asks McGovern, "Most of us feel that our property taxes are awfully high and we'd really like to know what you have in mind to provide some relief." In response, the Democratic candidate argued that the federal government needed to step in and finance local property tax relief by closing tax federal "loopholes" that benefited the wealthy. "The ordinary family can hardly own their own home anymore, or their own business, or their own farm," McGovern empathized in the commercial.

[933] Magruder to Mitchell, April 6, 1972, Contested, B 32, F 3

"The only way I can see to reduce that load is for the federal government to move in and pick up a heavier share of the services that the states and cities are now carrying. The great injustice in the tax laws are in these loopholes that permit some of the richest people to pay little or no taxes at all. And that's not right. That money is one source of money that you could use to take some of the pressure off the middle-income taxpayer."[934] One of Muskie's ads showed him giving a speech addressing the tax revolt. "We need, in addition, in this country to more fairly distribute the burden of taxes," the candidate declares in the commercial. "We find tax resistance all across this country, at the local level and the federal level. Why? It isn't because people don't want good schools. It isn't because people don't want to build good communities. But its because they perceive that the tax burden is not spread fairly."[935] Though McGovern would eventually secure the nomination, the decision by two of the top contenders for the presidency to focus on inequities in local taxation spoke to just how mainstream the left-distributionist tax reform had become.

McGovern spoke the language of left-distributionist tax reform from the very beginning of his presidential campaign. However, McGovern's specific tax policy proposals were slower to develop. Northwestern economist Robert Eisner, one of McGovern's longtime friends, and John Kenneth Galbraith served as the South Dakotan's first economic advisers during his early presidential run. They were soon joined by a who's who of left-liberal economists, including James Tobin and Lester Thurow. Much of the policy that would form McGovern's platform was devised during a June 1971 meeting, attended by nearly all of McGovern's top economic advisers. There, Tobin pushed for fighting unemployment, rather than inflation, and Thurow

[934] McGovern 1972 TV Commercial #14752, JKPA

[935] Muskie 1972 TV Commercial #10580, JKPA.

pushed for progressive tax reform.[936] This general orientation – for jobs and tax reform – would persist throughout McGovern's campaign, but details would come slowly, often to McGovern's political detriment. Politically, one of McGovern's faults was focusing on the substance of a policy proposal, rather than how it might be attacked by opponents or perceived by the public, leaving the Democrat on the defensive when assault inevitably came.[937] McGovern's earliest tax proposals – announced in a January speech in Ames, Iowa – openly advocated bringing about a "redistribution of income."[938] Nonetheless, McGovern's initial tax reform suggestions were designed to be maximally effective while minimizing political controversy. Instead of choosing a Pechman-Ockner backed plan to close all tax loopholes and lower rates corresponding – which close advisers Frank Mankiewicz and Gordon Weil agreed would be easy for Nixon to attack politically, given the popularity of a few loopholes, like the mortgage interest deduction – McGovern backed a Thurow proposal to set a minimum tax of 75 percent of the statutory rate for those who made more than $50,000. Essentially, it was a much tougher version of Nixon's minimum tax contained in the TRA69. McGovern also called for the repeal of a host of corporate tax liberalizations and investment credits, as well as a steep tax on inheritances over $500,000.[939] These initial proposals were good enough for the South Dakotan to win not only the Wisconsin primary, but also the following three – Idaho, Vermont, and Massachusetts – largely on the strength of his populist tax rhetoric.

McGovern and his advisers revised his proposals over the first several months of the campaign until they were finally presented in an early May *New York Review of Books* article

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[936] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 72
[937] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 70-71
[938] Eileen Shanahan, "McGovern Calls for Tax Reform," *New York Times*, January 14, 1972
[939] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 74; Eileen Shanahan, "McGovern Calls for Tax Reform," *New York Times*, January 14, 1972; George McGovern and Wassily Leontief, "On Taxing & Redistributing Income," *New York Review of Books*, May 4, 1972

coauthored by McGovern and economist Wassily Leontief.[940] The article's provocative title – "On Taxing & Redistributing Income" – made it clear that the Democrat had little fear of the public viewing him as too far to the left when it came to taxes. McGovern's treatise provided a powerful argument for the notion that the income distribution could not be attributed to the natural workings of the market or cast as the just outcome of a morally neutral system. Instead, McGovern and Leontief wrote, "the distribution of income and of wealth naturally depends, to some extent, on every one of its social and economic institutions," including the government's "power…to levy taxes, to borrow and to print money." These tools could either be used to bring about "a distribution of income compatible with the prevailing standards of social justice" or to "thwar[t] attempts to do so." By the early-1970s, McGovern and Lontief argued, the latter was becoming more and more the case.[941] "Many of the ills that both the federal and the local governments are now trying to cure, or at least to camouflage by various emergency measures," McGovern and Lontief wrote, "will vanish with the elimination of their fundamental cause—a lopsided distribution of national wealth and income."[942]

McGovern invoked the tax revolt in his call for left-distributionist reform. The Democrat also distinguished between the flaws in the federal tax system and those inflicting state and local levies. The system of state and local taxation was fundamentally broken, in McGovern's view. "The property tax revolt may be a major issue in the coming months. The federal government may have to step in to allow for a reduction of property taxes used to support education – perhaps their complete removal," McGovern and Lontief wrote. "As I [McGovern] indicated in

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[940] George McGovern and Wassily Leontief, "On Taxing & Redistributing Income," *New York Review of Books*, May 4, 1972
[941] George McGovern and Wassily Leontief, "On Taxing & Redistributing Income," *New York Review of Books*, May 4, 1972
[942] George McGovern and Wassily Leontief, "On Taxing & Redistributing Income," *New York Review of Books*, May 4, 1972

July, 1971, in my proposals on revenue sharing, the states should be given the incentive to raise more of their revenues from progressive income taxes. In addition, the federal government should take over at least a third of the total bill for primary and secondary education."[943] The federal tax code, in contrast, was a "basically sound, although it has been riddled with special privileges for the rich." Fixing it was a question of reform, rather than total overhaul. "[T]he cardinal importance of just taxation has receded in the American political conscience in the last thirty years…," they charged. "Our once equitable and effective system of taxation has fallen victim to…[e]xemptions, accelerated amortizations, deductions, and credits of all kinds… [which] have fatally weakened, if not entirely destroyed, the progressive nature of the income, inheritance, and corporation taxes." The loophole-driven decline in progressivity also undermined the public trust in the tax system, according to McGovern. "Many Americans feel themselves the victims of economic discrimination at the hands of the federal tax system," he argued. "Although that system is, in many respects, one of the most enlightened in the world, it is an undeniable fact that millions of ordinary, working, middle-income families pay their taxes as required by law, while many of the wealthy use a variety of devices to escape their rightful tax burden." When it came to taxes, the poor and middle-class both received the short end of the stick, in McGovern's view. Ultimately, Democrat's goal was "to restore and to strengthen the role of taxation as a stern guardian of social justice and an effective instrument of social reform" – no small feat. [944]

McGovern and Lontief proposed a minimum tax of 75 percent of the statutory rate for filers with incomes about $50,000, including "all income regardless of source" – meaning capital

[943] George McGovern and Wassily Leontief, "On Taxing & Redistributing Income," *New York Review of Books*, May 4, 1972
[944] George McGovern and Wassily Leontief, "On Taxing & Redistributing Income," *New York Review of Books*, May 4, 1972

gains, among other non-wage sources.[945] “Money made by money,” McGovern said throughout the campaign, “should be taxed at the same rate as money made by men.”[946] Beyond individual income tax reforms, McGovern proposed curbing corporate income tax loopholes and the shifting of gift and inheritance taxes to the receiver, rather than the giver, with rates as high as 77 percent for lifetime receipt of gifts or inheritances in excess of $500,000.[947] McGovern also suggested the creation “inflation insurance,” which would take the form of a variety of measures, including tying Social Security payments and veteran’s benefits to inflation. He also proposed offering U.S. bonds that would increase with inflation, but offer lower real returns than riskier bonds. “People who want to hedge against inflation, and are willing to sacrifice the chance of larger gains for such security,” McGovern argued, “should be able to do so.”[948]

The Democrat was unsparing in his criticism of Nixon’s economic policies – especially when it came to taxes. But McGovern also anticipated that Nixon would attempt to coopt McGovern’s tax plans – indeed, he challenged the president to do so. The White House was considering a Value Added Tax, McGovern and Lontief charged, calling such a levy “nothing less than a universal sales tax.” It would, in their view, “deliver a *coup de grâce* to the taxation system of which this country was once rightfully proud.” Tax reform – including local property tax reductions – had to be financed by the use of progressive taxes, not potentially regressive sources like the VAT. McGovern strenuously opposed reducing or eliminating the property tax with a VAT. “[T]he value added tax or national sales tax is against the interest of middle- and low-income people,” he wrote. “It is a regressive tax on consumption, which cannot, of course,

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[945] George McGovern and Wassily Leontief, “On Taxing & Redistributing Income,” *New York Review of Books*, May 4, 1972
[946] Bruce Davidson, “McGovern or Not, Capital Gains Tax Is Due for Review,” *Boston Globe*, September 17, 1972
[947] George McGovern and Wassily Leontief, “On Taxing & Redistributing Income,” *New York Review of Books*, May 4, 1972
[948] Sylvia Porter, “Answers for Everyone?” *Milwaukee Sentinel*, June 26, 1972

be reduced beyond a certain point necessary to ensure a decent life. And it represents a backdoor method of increasing individual taxes just after a reduction in taxation on individual incomes has been enacted." McGovern and Lontief argued that tax reform proposals should become the central issue in the electoral campaign. President Nixon has again and again disarmed the opposition by making its proposals his own. It is most unlikely that he will want to do so in this case. What he would have to sacrifice are not lofty principles but hard cash." McGovern, it seemed, was doubtful that Nixon would make that sacrifice.[949] Of course, Nixon had already seemingly moved to the left on welfare reform with FAP, though McGovern planned to challenge him on that front, too.

For McGovern, welfare reform and tax reform were intertwined, with each assuming a prominent place in his distributionist fiscal agenda. While Nixon sought to place a firewall between his tax and welfare plans, ensuring that tax reform would not be tainted by welfare's unpopularity, McGovern integrated the two. Rather than foreground the racialization of welfare in the U.S., McGovern emphasized the economic roots of the public's welfare resentment, which he compared to their frustration with tax loopholes that benefitted the rich. "Those with medium incomes find they are paying their taxes but not receiving either the kind of tax breaks given to the wealthy or the kind of public assistance payments made to the poor…," McGovern wrote. "[T]he man in the middle sees billions of dollars going into welfare programs that don't work. In short, many Americans pay their taxes dutifully and feel that others are exploiting the tax and welfare systems." The unpopularity of the existing welfare system undeniably hurt Democrats politically. But, in McGovern's view, the welfare system was not working well for the poor, either. "The poor find that, as soon as they go to work, they are subject to extremely high rates of

[949] George McGovern and Wassily Leontief, "On Taxing & Redistributing Income," *New York Review of Books*, May 4, 1972

income taxation because of their sudden sharp reduction of public aid when they earn their first dollar," he and Leontief wrote. "The net result is mounting frustration for those in the middle and a future of poverty for those who are heavily penalized when they seek to work their way out of welfare dependence." McGovern's proposed solution was a universal minimum income program – available to the poor and non-poor, alike – which the South Dakota Senator argued would end the current "two-class society [of] those who pay and those who receive."[950] This goal – to eliminate the means-tested element of welfare – placed McGovern's proposals in contrast with the current welfare system and Nixon's FAP.

Despite McGovern's lofty welfare reform goals, at this stage in the primaries, the Democrat was short on specifics. McGovern called for a "minimum annual income" in his January tax reform speech in Iowa, but his welfare reform proposals were "offered somewhat more tentatively than his tax reform plan," as the *New York Times* put it.[951] "I propose that every man, woman, and child receive from the federal government an annual payment," McGovern declared in the speech.[952] Throughout the early campaign, McGovern offered his plan as a hypothetical, and suggested that any final plan would "require full examination by the best economic talent available."[953] What would become McGovern's $1,000-per-person "Demogrant" proposal originated in the June 1971 meeting with liberal economists. Its most immediate intellectual inspiration was a "Fair Share" proposal by New York businessperson Leonard Green. But (as noted earlier in this chapter) the idea of a "guaranteed income" or "negative income tax" had a long lineage and a solid intellectual pedigree. Not only had McGovern adviser James

[950] George McGovern and Wassily Leontief, "On Taxing & Redistributing Income," *New York Review of Books*, May 4, 1972
[951] Eileen Shanahan, "McGovern Calls for Tax Reform," *New York Times*, January 14, 1972
[952] Jack Rosenthal, "Growth of an Issue," *New York Times*, July 8, 1972
[953] George McGovern and Wassily Leontief, "On Taxing & Redistributing Income," *New York Review of Books*, May 4, 1972

Tobin – who approved of McGovern's "Demogrant" variation – previously proposed such a plan, but so had libertarian Nixon adviser Milton Friedman – a fact that, at first, seemed to guard against accusations that the program was too radical.

McGovern initially mentioned the plan in a December 1971 interview with the *Washington Post*. It shared much in common with Nixon's own FAP proposal. Every American would get a yearly $1,000 grant from the government. For a family of four, it would mean $4,000 per year. The possibility of the $1,000-per-person formula proposed by James Tobin years earlier in was mentioned by McGovern and Lontief in their *New York Review of Books* article, but so were alternate plans by Greene and Joseph Pechman.[954] The grant would gradually phase out as income increased, reaching a break-even point, beyond which the entire grant would be taxed away, meaning that upper-income people would, effectively, never receive the grant. Those between the poor – who would receive the grant as a cash payment – and the break-even point would experience the grant as, effectively, a tax cut. "If the break-even income for a family of four were set at $12,000, about 20 percent of federal taxpayers would experience a tax increase, while about 80 percent would be able to keep all or part of the grant," McGovern and Lontief in the *New York Review of Books* articled. The Democrat explained that the program would "actually provide more money to medium-income taxpayers than to the poor," because $29 billion would go to those between the poverty line and the break-even points, while $14.1 billion would go to those below the poverty line. Some of the funding would come in the form of additional taxes on taxpayers above the breakeven point, while $1.4 billion per year would come from saved federal welfare administrative costs. Likewise, states would save $5 billion in yearly administrative costs, while McGovern and Lontief proposed should be used to lower property

[954] On Greene's "Fair Share" plan see Greene to Wiley, July 18, 1973, GWP, B40, F13, WHS

taxes.[955] The "Demogrant," like the "negative income tax," the FAP, or many other guaranteed income proposals, avoided the work disincentive inherent in the existing welfare system. Because the grant was taxed away gradually, rather than taken away all at once, no one in poverty would be penalized by going to work, unlike the current AFDC system. Moreover, the "Demogrant" would also provide a boost to the incomes of working- and middle-class families. In short, it seemed like a political winner. It was, in effect, a simpler, seemingly more politically attractive, version of Nixon's own welfare reform plan.[956] Yet, the specifics of the plan – including its costs – remained vague, largely because many McGovern advisers felt it was better not to get into specifics. The public, they believed, did not expect or care about them. It was a decision that McGovern, in time, would come to regret.

From the beginning, McGovern's campaign was besotted with blunders and gaffes when it came to the details of his economic program. Because McGovern was quickly slingshot from outsider to frontrunner early in the primaries, his skeletal staff initially lacked the resources to properly calculate the effects of his proposals. "The process of seriously costing out various alternatives is a very complex job," MIT economist and McGovern adviser Edwin Kuh told the *New York Times*. "Much more so than we realized when we started."[957] Flocking to his campaign, journalists immediately subjected McGovern's proposals to scrutiny, at least in part because few other candidates – including the president – had offered much in the way of concrete plans, effectively shielding them from the type of scrutiny applied to McGovern's proposals. The McGovern team, for their part, had no firm estimates for how much the "Demogrant" plan actually would cost. From the beginning, McGovern left the details open for

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[955] George McGovern and Wassily Leontief, "On Taxing & Redistributing Income," *New York Review of Books*, May 4, 1972
[956] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 75-78
[957] Jack Rosenthal, "Growth of an Issue," *New York Times*, July 8, 1972

debate and tweaking by experts and Congress, should be elected, but that proved to be a dire mistake, given a press corps that not only expected hard numbers, but were willing to latch on to unflattering – or even outright implausible – outside estimates in the absence of numbers provided by the McGovern team. As *Washington Post* economics columnist Hobard Rowan noted, "[T]he cash giveaway, or 'Demogrant,' seemed ludicrous on its face to many people, although it, or variants of it, had been discussed in academic circles for years."[958] And McGovern's early inability to offer firm details did not help. In a televised late-May interview, McGovern was asked if Americans should accept his "Demogrant" program, even though the candidate could not provide an estimate of its cost. "That is exactly right," McGovern replied. In July McGovern would call that response, "Absolutely the worst moment of the campaign" – though, of course, it came before his ill-fated Vice Presidential selection.[959] McGovern's dismissive response "made his welfare plan – even though similar to proposals of conservative and liberal economists alike – sound like just another cheap campaign promise," as one journalist put it, and gave the public reason to doubt his competence, as McGovern himself admitted later in the campaign.[960] Indeed, attacks on McGovern's welfare proposals would become a theme for his opponents throughout the campaign.

By early spring, the Democratic primary field had narrowed to three candidates – McGovern, Humphrey, and Wallace. Despite his strong tax platform, Muskie was outflanked on the issue by McGovern, who offered all that Muskie did and more when it came to pocketbook issues. Muskie was also badly damaged by appearing to cry when responding to a letter attributed to Muskie's campaign team, which referred to French-Canadians as "canucks." The "canuck letter" was later revealed to have been a Nixon campaign "dirty trick," and in making

[958] Hobart Rowan, "McGovern Proposes Traditional," *Washington Post*, August 30, 1972
[959] Jack Rosenthal, "Growth of an Issue," *New York Times*, July 8, 1972
[960] Jack Rosenthal, "Growth of an Issue," *New York Times*, July 8, 1972

Muskie respond to it, the letter did its job. Following a strong showing in the March 21st Illinois primary – made possible by McGovern and Humphrey's non-participation – Muskie quickly fell out the race and ultimately withdrew in late-April.[961] Wallace would be the next major candidate to fall, both literally and figuratively – shot and paralyzed by a would-be assassin in Maryland on May 15th. The Nixon White House moved quickly, and unsuccessfully, to try to link Wallace's shooter to McGovern and left politics, generally. However, such efforts were ultimately unnecessary. The effective removal of Wallace from the presidential contest harmed any potential Democratic nominee by ensuring that Wallace would not again run as a third party candidate, eliminating the possibility that the conservative Democrat would once again siphon votes from Nixon, thereby aiding the Democratic nominee, as Wallace had in 1968.[962]

With the field narrowed to two frontrunners in the run-up to the crucial California primary, Hubert Humphrey decided to attack McGovern from the right, filling the void left by Wallace. Thanks to his waffling on Vietnam and generally bland campaign in 1968, Humphrey was already loathed by many on the left. ("Gonzo" journalist Hunter S. Thompson, who covered the 1972 campaign for *Rolling Stone*, called Humphrey "a shallow, contemptible and hopelessly dishonest old hack."[963]) And, despite his reputation as stalwart New Deal liberal on economics, Humphrey – desperate to win the nomination in what seemed certain to be his last opportunity to reach the White House – did not hesitate to embrace conservative rhetoric in the 1972 primaries. Humphrey tactical move to the right began early in the campaign, before the March 14th Florida

[961] Theodore White, *The Making of the President 1972* (Harper, 2010); "Remembering David S. Broder and Edmund Muskie," Bates Library, 2011 (https://kent.bates.edu/librarynews/node/401); Carl Bernstein and Bob Woodward, "FBI Finds Nixon Aides Sabotaged Democrats," *Washington Post*, October 10, 1972; Carl Bernstein and Bob Woodward, *All the President's Men* (Simon and Schuster, 2012)
[962] Theodore White, *The Making of the President 1972* (Harper, 2010); Dan T. Carter, *The Politics of Rage: George Wallace, the Origins of the New Conservatism, and the Transformation of American Politics* (LSU Press, 2000), 416-450; Stephen Lesher, *George Wallace: American Populist* (Da Capo, 1994) 432-491
[963] Hunter S. Thompson, *Fear and Loathing on the Campaign Trail '72* (Grand Central, 2006)

primary. In Florida, Humphrey threw his weight fully behind the welfare-resentment "backlash" thesis. One Humphrey radio commercial that ran in Florida pledged, "Humphrey will stop the flow of your tax dollars to lazy welfare chiselers" – a sentiment that a Nixon campaign memo declared "sounded like echoes of Wallace."[964] By the time Humphrey arrived in California to campaign prior to the June 6th primary, the Democrat had dropped any lingering hesitation about moving to the right or attacking his old Senate friend George McGovern's economic proposals.

The key confrontation between Humphrey and McGovern came during a series of three televised California debates. During the first debate, Humphrey took a question on Vietnam as an opportunity to launch into an attack on McGovern's economic platform. The Minnesota Democrat called McGovern's "Demogrant" proposal a "horrible mess" that would "post an unbelievable burden on the taxpayer." Later in the first debate, Humphrey cited a Senate Finance Committee calculation of the cost of the National Welfare Rights Organization's minimum income plan – which proposed $6,500 for a family of four – claiming the $72 billion estimate represented McGovern's $4,000-per-family of four plan and referring elsewhere in the debate to the "a $72 billion welfare proposal that Senator McGovern makes today."[965] (McGovern introduced NWRO's bill in the Senate at their request, but he made it clear that he was doing so out of support for NWRO, not because he was endorsing the plan wholesale.[966]) Humphrey's coup de grace was an example of how much the McGovern plan would allegedly cost a few examples of average workers. "A secretary working in San Francisco making $8,000…would

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[964] Dailey to Mitchell, "Competitive Analysis Report #3," March 17, 1972, Contested, B 30, F 2
[965] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 79-81. 101-117; "McGovern, Humphrey Debate Sharp," *Lakeland Ledger*, May 29, 1972; "McGovern, Humphre Hold 1st TV Debate," *Sarasota Herald-Tribune*, May 29, 1972; Wallace Turner, "McGovern, Humphrey Clas on War and Relief," *New York Times*, May 29, 1972; Richard Bergholz, "Humphrey Puts McGovern on Defense in First of 3 Debates," *Los Angeles Times*, May 29, 1972; Leroy F. Aarons, "McGovern and HH Tilt in Inconclusive 'Debate,'" *Washington Post*, May 31, 1972; Carl P. Leubsdorf, "Humphrey, McGovern Stage Debate in California," *The Day*, May 31, 1972; Rick Perlstein, *NIxonland* (Simon and Schuster, 2010), 667-670; Kathleen E. Kendall, *Communication in the Presidential Primaries: Candidates and the Media, 1912-2000* (Greenwood, 2000), 76-80
[966] Wiley to Humphrey, May 30, 1972, GWP, B32, F9, WHS

have an increase in his or her taxes, under Senator McGovern's welfare proposal, of $567…," Humphrey claimed. "[A]nd a family that has $12,000 a year, a family of four, would have a $409 increase." After both examples, McGovern interjected to argue that they were "not true." But Humphrey did not back down. "Now the senator can say it's not true," Humphrey retorted, "[but] he doesn't' even know what the price tag to his bill us." Humphrey claimed that he did know, and that his figures were correct. McGovern continued to disagree, but could not provide the moderator with alternate figures. By the second primary debate, the Humphrey campaign cooperated with an unknown member of the Senate Finance Committee – possibly Russell Long, given his views on guaranteed income – to work up a private estimate of McGovern's "Demogrant" plan, which his campaign then passed to conservative columnist Robert Novak, who sat on the second debate's panel of moderators. Novak, not surprisingly, used the unpublished, unnamed study to attack McGovern and claim that Humphrey's assertion in the first that the South Dakotan's plan would, in fact, raise taxes on middle-income people was true. For his part, Humphrey claimed in the second debate that McGovern planned to do away with a variety of popular deductions, including the home mortgage interest deduction, even though McGovern's plans made clear he intended nothing of the sort. This new attack, as McGovern adviser Gordon Weil noted, "hurt us badly in suburbia."[967]

Though Humphrey had been critical of McGovern in his California stump speeches, the ferocity of the Minnesota Democrat's attacks in the California debates damaged McGovern and

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[967] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 79-81. 101-117; "McGovern, Humphrey Debate Sharp," *Lakeland Ledger*, May 29, 1972; "McGovern, Humphre Hold 1st TV Debate," *Sarasota Herald-Tribune*, May 29, 1972; Wallace Turner, "McGovern, Humphrey Clas on War and Relief," *New York Times*, May 29, 1972; Richard Bergholz, "Humphrey Puts McGovern on Defense in First of 3 Debates," *Los Angeles Times*, May 29, 1972; Leroy F. Aarons, "McGovern and HH Tilt in Inconclusive 'Debate,'" *Washington Post*, May 31, 1972; Carl P. Leubsdorf, "Humphrey, McGovern Stage Debate in California," *The Day*, May 31, 1972; Rick Perlstein, *Nixonland* (Simon and Schuster, 2010), 667-670; Kathleen E. Kendall, *Communication in the Presidential Primaries: Candidates and the Media, 1912-2000* (Greenwood, 2000), 76-80

stunned both the candidate and his supporters. “McGovern’s face literally dropped,” campaign manager Gary Hart remembered. “Here are guys who’ve served together, been on every liberal cause together. Humphrey was his *next-door neighbor,* for Christ sake. And you watch McGovern seeing a totally different guy across the table from him. This is Mr. Liberal [Humphrey] telling him [McGovern] he is ‘too far left.’ He’s looking at a guy who would do anything to get to the presidency, and it shocked him.”[968] Humphrey’s attacks on McGovern also raised the ire of George Wiley. “You used to be the champion of poor people, Blacks, Chicanos, old people and other minorities,” Wiley began in a scathing May letter to Humphrey. “But you have changed your stripes…. You are rivaling Wallace and Nixon in spreading myths about ‘welfare chiselers’ and the need…to ‘get the loafers off the taxpayers’ backs.’” Wiley took particular exception to Humphrey’s attacks on NWRO’s guaranteed income, which Wiley reminded Humphrey that he had supported at the May 1971 Democratic Policy Council Meeting. “You misrepresent it as a welfare program when it would benefit working poor people and moderate income taxpayers as well as welfare recipients,” Wiley wrote. The NWRO executive director also added that Humphrey’s identification of McGovern with the NWRO proposal was particularly absurd, not only in light of Humphrey’s past support for it, but also because McGovern’s proposal was different from NWRO’s. Wiley concluded his letter to Humphrey with the biting line, “No one as two faced and unprincipled as this deserves to be president.”[969] No matter how hypocritical or incorrect Humphrey’s attacks, the California debates undoubtedly damaged McGovern. “For many people across the country, the debates were their introduction to George McGovern,” Weil wrote later. “Humphrey had made sure that [McGovern]…made a very bad showing in his first major national appearance…. [Humphrey] had spent almost all his

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[968] Robert Sam Anson, “McGovern ’72: An Oral History,” *Vanity Fair*, November 6, 2012
[969] Wiley to Humphrey, May 30, 1972, GWP, B32, F9, WHS

time attacking McGovern and had said little to criticize Nixon." Most significantly, Humphrey's attacks set the tone for the remainder of the campaign when it came to McGovern's tax welfare proposals by handing an attack plan to the Nixon White House.[970] Nonetheless, despite Humphrey's savage attacks on McGovern, the South Dakotan prevailed in the California primary. With his California victory, McGovern came close to assuring himself the 1972 Democratic nomination, barring unforeseen finagling at the Democratic National Convention.

Attacks from conservatives rose as McGovern's national profile increased. Writing in the *National Review* Alan Reynolds spoke for many conservatives when he slammed McGovern's critique of "loopholes" and call for tax reform as simply a plan for "the redistribution of income" – a fact, of course, that McGovern never denied.[971] Conservative syndicated columnist Jeffrey Hart – a former speechwriter for first Reagan, then Nixon, during the 1968 campaign – wrote that "the assumption implicit in the McGovern proposals, and the spirit prevading [sic] the whole thing is…that the money a man earns is a resources of the federal government….the only serious question is what the government shall spend your money on, not whether you or the government will in fact spend it."[972] Syndicated finance columnist Sylvia Porter, though a Democrat, did not like McGovern and made it known in a June five-part series analyzing McGovern's economic platform.[973] If McGovern were elected president, Porter predicted, "wealthy American[s] with substantial earnings or investments carefully 'sheltered from taxes'" would receive "a wallop in

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[970] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 79-81. 101-117; "McGovern, Humphrey Debate Sharp," *Lakeland Ledger*, May 29, 1972; "McGovern, Humphre Hold 1st TV Debate," *Sarasota Herald-Tribune*, May 29, 1972; Wallace Turner, "McGovern, Humphrey Clas on War and Relief," *New York Times*, May 29, 1972; Richard Bergholz, "Humphrey Puts McGovern on Defense in First of 3 Debates," *Los Angeles Times*, May 29, 1972; Leroy F. Aarons, "McGovern and HH Tilt in Inconclusive 'Debate,'" *Washington Post*, May 31, 1972; Carl P. Leubsdorf, "Humphrey, McGovern Stage Debate in California," *The Day*, May 31, 1972; Rick Perlstein, *Nixonland* (Simon and Schuster, 2010), 667-670; Kathleen E. Kendall, *Communication in the Presidential Primaries: Candidates and the Media, 1912-2000* (Greenwood, 2000), 76-80

[971] Alan Reynolds, "Funny Money," *National Review* (May 26, 1972)

[972] Jeffrey Hart, "Utter Frivolity of George McGovern Package Evident," *Park City Daily News*, June 26, 1972

[973] Tracy Lucht, *Sylvia Porter: America's Original Personal Finance Columnist* (Syracuse University Press) 176-177

the pocketbook."[974] Likewise, the "big businessman" and the "investor" could expect "higher taxes on [their] earnings and capital gains" from McGovern, according to Porter.[975] The effects of McGovern's program would be felt far and wide, though, in Porter's view. "[McGovern] is fully aware that a business and stock market slump caused by his proposals would destroy him as well as millions of us," she claimed.[976] Erstwhile Democrat Porter was joined in her criticism of McGovern by Senate Finance Committee chair Russell Long, who rarely missed an opportunity to make it clear that McGovern did not represent his views, despite their shared party. In an appearance by NAM representatives before the Finance Committee to discuss revenue sharing, Long went out of his way to slam McGovern's economic proposals. "All you have got to do is take the family assistance programs [proposal] and change that from $2,400 to $6,500 and that gives you the McGovern bill and that costs $72 billion," Long said, "all of which is to be taken from your [NAM] members and people who work for your members."[977]

Indeed, the opposition of business and financial groups to the Democrat's proposals did worry the McGovern campaign. The main sticking point for these groups was McGovern's seemingly simple proposal of a minimum tax equal to 75 percent of the statutory rate. This proposal was actually too complex for many political reporters, who often wrote as if McGovern were proposing that everyone who made more than $50,000 pay a 75 percent tax rate, rather than 75 percent of what they would owe under a loophole-free statutory rate.[978] As donations began to dry up from many otherwise loyal Democratic business donors, McGovern's national finance

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[974] Sylvia Porter, "McGovern's Economic Policies: Part II, For the Wealthy," *Santa Fe New Mexican*, June 27, 1972
[975] Sylvia Porter, "McGovern's Economic Policies: Part II, For the Businessman," *Santa Fe New Mexican*, June 29, 1972
[976] Sylvia Porter, "Answers for Everyone?" *Milwaukee Sentinel*, June 26, 1972
[977] *Revenue Sharing: Hearings Before the Committee on Finance United States Senate*, June 29, July 20, 21, 25, 26, and 27, 1972 (U.S. GPO, 1972)
[978] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 74; George McGovern and Wassily Leontief, "On Taxing & Redistributing Income," *New York Review of Books*, May 4, 1972

chair, Henry Kimelman, asked McGovern to write an open letter to business for publication in the *Wall Street Journal*. The goal was to make it clear that the 75 percent was applied to the statutory rate, not all income over $50,000, as well as the fact that it was designed to be an alternative to – not an addition to – closing every specific loophole. The letter from McGovern to banker Belmont Towbin regarding his tax proposals was printed as an advertisement in the *Wall Street Journal* under the auspices of "Business and Professional People for McGovern." In reality the advertisement had already been circulating privately for weeks among potential big contributors as a corrective statement on "what McGovern really believes about economic and tax matters." But the public printing of the advertisement gave the candidate a public forum to counteract what the campaign viewed as dangerous misconceptions about the Democrat. Specifically, the letter was meant to stem what was a readily apparent exodus of well-heeled donors from the Democratic Party. The centerpiece of his proposal remained the 75 percent-of-statutory rates minimum tax for earners making more than $50,000 – a position that allowed McGovern to, accurately, assure Townbin that he had not proposed eliminating the preferential rate on capital gains, even though the minimum tax would have exactly that effect, in all practical terms. Yet, the *Wall Street Journal* letter did little assuage business, which still viewed McGovern as a dangerous economic radical. [979]

McGovern's distributionist emphasis on inequality fit with a growing trend among Democrats and on the left, more broadly – a trend that was influenced by the triumphs of grassroots activists and gubernatorial candidates and reflected in the congressional debates over tax reform and revenue sharing, among other issues. For many on the left, this emphasis on distributional questions was portrayed a break with the distribution-neutral fiscalism of "growth

[979] "A Letter from George McGovern," *Wall Street Journal*, May 22, 1972; Richard Reeves, "The Education of George McGovern," *New York Magazine*, June 5, 1972; Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 78-79

liberalism." However, it was also viewed as a logical extension of Keynesianism and New Deal liberalism, albeit one that went beyond their previous implementations. If government intervention in the economy was not only necessary, but unavoidable, these left-leaning critics asked, was there any such thing as being neutral when it came do distribution? No, they answered decisively. The only question was in what direction the government would work to distribute the country's wealth and income. "We are in a new period in which there is no question of *whether* the government is going to determine, in broad measure, the distribution of wealth, but only as to *how* it is going to do so," *The Other America* author Michael Harrington told Congress in 1972. "Therefore it is wrong to counterpose 'radical' redistributionists on the left to those who humbly submit to the free market distribution of income on the center and right. President Nixon is as radical a wealth redistributor as I am (and much more of a radical than the reasonable moderate, George McGovern)…. [Nixon] favors policies which redistribute wealth to the rich whereas I think that the government should channel resources to that majority whose basic, and crying, needs are far from satisfied." While Harrington praised the work of left-reformers like Fred Harris, Philip Stern, Joseph Pechman, Benjamin Okner, and Stanley Surrey as "expert and convincing," the author also pointed out that they shared with their more conservative counterparts the assumption that "pretax income is market-determined." Harrington disagreed. "Pretax income is not a given….," Harrington argued. "It's quantity and distribution…are increasingly the result of government intervention [both fiscal and monetary]."[980] Based on McGovern's programmatic tax statements, it seemed that the candidate agreed with Harrington, too.

[980] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)

Throughout 1972, the actions of earlier Democrats increasingly came under assault from left-distributionists, too. Previous Democratic administrations, in the view of these critics, had not focused enough on the distributional effects of their policies, instead focusing only on the fiscalist outcomes of growth and inflation. Yet, fiscalist Democrats' insistence that policies could avoid distributional questions was a fallacy. The Keynesian revolution – made explicit by the Employment Act of 1946 and exemplified by Eisenhower's inflation-fighting, Kennedy-Johnson's pro-growth policies, and Nixon's "trickle-down economics," as Harrington put it – made clear the government's decisive role in affecting not just growth and inflation, but the distribution of income and wealth. No decision could be distributionally neutral. "Government economic management…in the entire postwar period has been to stimulate corporations, to stimulate the top – for the government to use its power to generate income at the top and to let it trickle down," Harrington argued, pointing to JFK's decision to pursue regressive tax cuts, rather than spending, as stimulus. "The decision made by President Kennedy to stimulate the economy by investment incentives rather than, say, through a massive middle- and low-cost housing program," Harrington argued, "had a profound – and negative – impact on the way in which our resources were allocated." No document better exemplified the profoundly political nature of income and wealth distribution for Harrington than the internal revenue code. "The individual and corporate rich have invested millions of – tax deductible – dollars into drilling, and sometimes dynamiting, loopholes into the Internal Revenue Code," Harrington charged.[981] And such views were not limited to activists like Harrington. Influential Washington University economist Hyman Minsky argued that Keynes's "first lesson" – that the government could help avert unemployment and depressions – was now "taken for granted," but that Keynes's second

[981] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)

lesson – that the government ultimately controlled the distribution of income – was not yet appreciated. "Income distribution and the contribution that economics can make to the quality of life are the policy issues," Minsky argued. The alternation of the distribution advocated by McGovern, Minsky argued, would "make the American dream a reality" by assisting low- and middle-income Americans. The GOP, in contrast, had "no explicit policy toward income distribution," but Minksy – expertly outlining the distinction between left- and right-distributionists – believed it was possible to "infer" that Republicans were "wedded" to the idea that "the rich must get richer." Minskey lauded McGovern's employment and tax proposals, suggesting that they would "halt and reverse the drift toward two nations – a nation of the affluent and a nation of workers and the poor."[982] John Kenneth Galbraith agreed that "if a Republican administration should be tested by its service to the corporations and the affluent, then a Democratic administration should be tested by its service to minorities, blue-collar workers, and the generally poor." But, according to Galbraith, "past Democratic administrations would fail that test," since they paid greater attention to growth than to the distribution of that growth. In contrast, the GOP "had an unavowed commitment to the rich which they have kept." What was needed was greater attention by Democrats to issues of distribtution. "This means that something effective must be done about the redistribution of taxes and income which, we should remember, was bad before Republicans made it moderately worse," Galbraith told the Joint Economic Committee.[983] McGovern's tax reform plan, thereby, was simply providing a badly needed corrective to the right-distributionism of the GOP.

Rather than run away from accusations of redistribution, McGovern and his Democratic

[982] Hyman P. Minsky, "Economic Issues in 1972: A Perspective" (http://digitalcommons.bard.edu/cgi/viewcontent.cgi?article=1426&context=hm_archive)
[983] *The 1972 Midyear Review of the Economy*, Hearings before the Joint Economic Committee, July 24-27, 1972 (GPO, 1972)

supporters embraced this designation – as the title of McGovern's *New York Review of Books* tax treatise demonstrated. But it did not end there. Like McGovern, Henry Reuss explicitly connected "plugging loopholes" with income inequality in 1972. "Ever since the New Deal of 1933 until 1968 the income shares of America's families have been getting more progressive and better distributed…," Reuss said. "Well, since 1968 something alarming has happened. The progressive tendency [towards falling income inequality] which existed for 35 years started to reverse itself…as a result of almost doubling unemployment since 1968, as a result of allowing inflation to continue, and as a result of overall increase in the regressive taxes in this country, the property tax, the state sales tax, the federal payroll tax…. By 1970 the share of total income obtained by the top 20 percent of American families had begun to rise once again at the expense mainly of the middle-income group….." Instituting "loophole-closing tax reform," Reuss argued, was a key step towards reversing the trend of rising income inequality.[984] "[S]ince then [the TRA69] the public awareness of the need for tax reform has risen greatly," Reuss argued. "The so-called taxpayers' revolt has hotted up [sic] a great deal…."[985] When critics argued that McGovern's supposed radicalism on economics made him the Democratic version of Barry Goldwater, McGovern's team noted a key – distributional – difference. "McGovern is urging change in favor of the many who are in the middle or below…," John Kenneth Galbraith explained. "It was Barry Goldwater's romantic thought that the poor wanted more done for the rich, less for themselves. He had inveighed against the progressive income tax; when the campaign started, he was still worried about the effect of Social Security on the moral fiber…. The McGovern reforms – on employment, taxes, welfare, equality – are all designed to benefit

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[984] Ways and Means, U.S. House of Representatives, *Administration Request for Increase in Public Debt Ceiling*, June 5 and 6, 1972 (GPO, 1972);
[985] Ways and Means, U.S. House of Representatives, *Administration Request for Increase in Public Debt Ceiling*, June 5 and 6, 1972 (GPO, 1972);

the majority. An important distinction."[986] This belief that they were on the side of the majority gave left-distributionists an aggressive edge in the early-1970s.

Democrats made a concerted effort to put pressure on Nixon on the issue of taxes throughout 1972. It was a strategy endorsed at the top. DNC Chair Lawrence O'Brein noted in a March speech that the popularity of George Wallace indicated that many Americans believed that the government was "designed to protect those already in the club." A strong stance by the Democrats on key issues like taxes would allow them to tap into this inequality-and-fairness-themed discontent. "In my view, the issue of tax reform offers this opportunity in 1972," he said. "It is a bit unusual – indeed some persons would say distinctly out of place – for a national party chairman to speak this directly about a public issue that has always been highly controversial…. Nonetheless, I repeat: Tax reform is an issue whose time is a lot closer to coming than many professional politicians admit, or even realize."[987] The rise of left-distributionist tax reform to the top of the Democrats' agenda in the 1972 primaries caught even many insiders off guard. "As far as issues are concerned, there have been two great surprises in the presidential campaign so far," journalist and former DNC staffer Clayton Fritchey wrote in early June. "The first is the public's sudden intense interest in tax reform. The second is the Nixon administration's failure to recognize this explosive development as a political threat and do anything about it." While (as the previous chapters have demonstrated), Fritchey was wrong that the public's interest was "sudden," his analysis of the dynamics of taxes in the presidential campaign was accurate.[988] "It was assumed that the 1972 campaign would revolve around issues like Vietnam, unemployment, and the cost of living," Fritchey wrote. "But then the primaries started, and both Sen. George McGovern and Gov. George Wallace began to hit the jackpot with their attacks on tax loopholes

[986] John Kenneth Galbraith, "The Case for George McGovern," *Saturday Review* (July 1, 1972)
[987] Kevin Phillips, "Demos 1972 Strategy: 'Haves Vs. Have Nots,'" *St. Petersburg Times*, March 29, 1972
[988] Clayton Fritchey, "Deep in the Heart of Taxes," *Lewiston Evening Journal*, June 10, 1972

and tax favoritism for big business and the superrich. Even they, however, were surprised at the passionate response they got." Soon, other Democratic presidential hopefuls got into the act by offering their own tax reform plans, but "the White House, much to the mystification of many political pros, not only showed no interest in climbing aboard the bandwagon, but defended the loopholes[.]"[989]

This turned towards populist economics worried the White House and its allies. Both Committee to Reelect the President chair John Mitchell and Treasury Secretary John Connally noted early in the election year that the Democrats 1972 strategy was "set[ting] the 'have nots' against the 'haves.'"[990] It was a strategy, the White House knew, that inherently favored Democrats. Kevin Phillips, among others, praised the Democrats' decision to make inequality-themed issues like taxes the center of their campaign. Having learned from the midterms, Phillips now changed his analysis of the GOP's losses in 1970. "The 1970 elections provided a trial run [of the populist strategy], inasmuch as Jesse Unruh, California's Democratic gubernatorial candidate, used just these themes to attack Republican Gov. Ronald Reagan…," Phillips noted. "After the election, Republican surveys and analyses of the election return uncovered these tactics as Unruh's most effective vote-getter. In comparison with Reagan's 1966 election support, Unruh made solid gains in typical 'Middle American' blue-collar and white-collar precincts of economically troubled Southern California."[991] Pat Buchanan also fretted about McGovern's "populism." If McGovern was seen "as a representative of the 'outs' against the 'ins,' the fighter against the 'interests' for the common man who bears too much of the burden, while powerful corporations get off without paying there fair share," then the Nixon team was in trouble, Buchanan explained. "There are few larger imperatives in our campaign than to move

[989] Clayton Fritchey, "Deep in the Heart of Taxes," *Lewiston Evening Journal*, June 10, 1972
[990] Kevin Phillips, "Demos 1972 Strategy: 'Haves Vs. Have Nots,'" *St. Petersburg Times*, March 29, 1972
[991] Kevin Phillips, "Demos 1972 Strategy: 'Haves Vs. Have Nots,'" *St. Petersburg Times*, March 29, 1972

McGovern into the position of the Establishment Candidate – running against the candidate of Middle American [Nixon]…,” Buchanan wrote to the president and Haldeman. “If we allow him to be perceived as his ads, and previous campaigns portray him, we could have a serious problem.” Therefore, the White House and the GOP needed to “portray McGovern as a Candidate of the Elite, ‘Professor McGovern,’ the leader of the party of the PhDs and limousine liberals, whole elitist shock troops took over the party of the people, the ‘noise-makers’ and the ‘exotic,’ the tiny minority who are imposing an asinine social policy of bussing on a country, eighty-five percent of whose people do not want bussing.”[992] In contrast, letting McGovern claim the mantle of working- and middle class-centric economics would spell disaster for Nixon. Even the former architect of the “hard hat” strategy now worried about the Democrats’ new appeals. The threat from Democrats in 1972 came in the form of “The New Populism,” Charles Colson wrote in a mid-May memo. “Without trying to define this,” he wrote, “I think it falls right now into three categories; 1) we are for the big guy, the Democrats are for the little man; 2) taxes and 3) disenchantment with government – i.e. the bureaucracy.” A serious issue for Nixon going into the 1972 general election against a economically populist Democrat, Colson warned, was that it would be “hard [for Nixon] to shed” the “big business label.”[993]

The polling data made Nixon’s tough task clear. A private Muskie campaign poll of California Democrats – which was subsequently leaked to the Nixon campaign – found that president received the highest “poor handling” ratings for inflation (62 percent) and taxes (60 percent) among all issues.[994] Soon, the Nixon reelection team was commissioning a variety of economic policy-centric public opinion studies – specifically ones with questions related to the perceived fairness of the U.S. tax system and to the public’s view of Nixon’s tax positions vis-à-

[992] Buchanan to Nixon and Haldeman, July 12, 1972, Contested, B1, F13, RNPL
[993] Colson to Haldeman, May 17, 1972, SMOF Colson B 4 F HRH Memos, RNPL.
[994] Teeter to Mitchell, May 17, 1972, Contested, B 32, F 3

vis the Democrats' plans.[995] These new studies generated telling, and bracing, responses for the Nixon campaign, demonstrating Democrats distinct advantage on this this key pocketbook issue, no matter how it was framed. Lloyd Free – Nelson Rockefeller's personal pollster, the former editor of *Public Opinion Quarterly*, and the co-founder of the Institute for International Social Research – warned the Nixon reelection team in a private memo, eventually passed to Haldeman, that Nixon was perceived as too friendly to business.[996] Free's views were worth heeding. In 1967, Free, along with his coauthor Hadley Cantril, had famously argued that Americans were "ideological conservatives" and "operational liberals," and their work reportedly received "considerable attention" among Nixon's 1968 campaign team.[997] With this deficit on pocketbook issues, Nixon's chances of reelection, Free wrote to CRP public relations expert Clifford Miller in early April, were "no better than 50-50." "Americans generally are so frustrated, in fact, that I feel relatively confident that they will soon prove receptive to some new kind of individual and social philosophy of life…," Free wrote. "[W]hat I have been saying for some years is that…the new philosophy that finally takes hold will involve large elements of populism…, [which] will almost surely include lashing out at big government, big business, big unions, bug what-have-you[.]" Haldeman noted this observation. Free felt that on the question of "big government," the president's revenue sharing plan proved he wanted to "return power to the people." On the count of business, though, Nixon's image was not as favorable. "[F]orgive me for putting it so bluntly[,] the record in terms of complacency, if not permissiveness toward the wealthy and coziness with 'big business' could hardly be worse," Free wrote in an observation underlined by Haldeman. The pollster listed a litany of reasons that the public viewed Nixon as "titl[ing]

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[995] Engman to Strachan, April 28 1972, Contested, B 23 F 1, RNPL

[996] Robert Thomas Jr., "Lloyd A. Free, 88, Is Dead; Revealed Political Paradox," *New York Times*, November 1, 1996; Leo Bogard, Ed., *Polls and the Awarenesss of Public Opinion* (Transaction, 1985), 213.

[997] Lloyd Free and Hadley Cantril, *The Political Beliefs of Americans* (Rutgers, 1967); Free to Miller, April 13, 1972, Contested, B 32, F 3

toward big business," including "tax breaks for business, viewed as being at the expense of individual taxpayers; tax loopholes which allow men with enormous incomes to get off scot-free of taxes; [and] a wage-price control system which large numbers of people are beginning to say controls the wages of the little man, all right, but not the prices charged by business[,]" along with the fact that "the Republican Party, in the public's view, has traditionally been looked upon as more business-oriented than people-oriented." The public perception of the Nixon administration on economics was bleak, in Free's view. As he put it in another long passage underlined by Haldeman, "I suspect that by now the Nixon administration is considered by many to be the most business-oriented since literally the days of Warren G. Harding (of Teapot Dome fame), Cal Coolidge, and Herbert Hoover – a posture which is basically inconsistent, of course, with the platform of operational liberalism (cloaked in conservative terminology) which I personally feel it is necessary for Mr. Nixon to stand on if he is to be reelected."[998]

Free offered the Nixon reelection team five suggestions for correcting the president's domestic image. The first two had to do with taxes. "(1) Advocate a new tax bill eliminating some of the tax breaks presently afforded business (meaning, in practice, big business); (2) Tighten up on tax loopholes for the wealthy so apparently drastically that it will seem that a 'soak the rich' measure is being proposed," Free wrote. "(3) Institute…severe anti-trust actions against some of the huge conglomerates…(4) Clamp down – really clamp down – on price increases; (5) Straighten up some of the regulatory agencies in their currently obvious 'tilt' toward big business." Pursuing policies along those lines would position Nixon as an "operation liberal," Free noted, and place him in the Republican tradition of Theodore Roosevelt, rather than that of the party's more conservative wing. By moving to the left on economic issues, Nixon

[998] Free to Miller, April 13, 1972, Contested, B 32, F 3

would align himself with the public's views and, in the process, force Democrats to move even further to the left or to appear to agree with the president. Nixon needed to make liberal policy moves, but cast them in conservative terms in order to placate the "right-wing of his own party." The goal for Nixon, Free wrote, was "opting for operational liberalism (cloaked in conservative terminology)." Even if Nixon alienated some conservatives and, especially, big business, they would have no place to turn, since the Democratic candidate – barring the unlikely nomination of "Scoop" Jackson – would be just as liberal, if not more liberal, than Nixon.[999] Despite the clear need for Nixon to distance himself from big business, some of the administration's own, ostensibly private, actions early in the election year made shedding the "big business" label even more difficult.

As eager as Nixon would be to pitch himself as a bold tax reformer when the general election approached, some conservatives urged Nixon to reassure key business allies that favored tax preferences would be protected by the White House, no matter how strong the gale forces of reform would blow in the coming months and years. Just as the RNC and the Nixon White House had worried about curbs to the oil depletion allowance in 1969 hindering George H.W. Bush's Senate chances in 1970, so, too, did Republican worry that key allies in the oil industry would be alarmed by talk of cutting or eliminating the depletion allowance during the 1972 election year.[1000] The White House knew that big business and Wall Street donors were also worried about attacks on other key loopholes, too. On the last Sunday in April, Nixon and corporate donors – particularly Texas oil executives – gathered at John Connally's ranch in Floresville, Texas. The White House believed that this meeting could provide a private opportunity to assuage the fears of prospective donors. Several business execs who had once

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[999] Free to Miller, April 13, 1972, Contested, B 32, F 3
[1000] David Broder, "Political Romance Texas-style Gets Second Chance," *Boston Globe*, May 2, 1972

been loyal to the Democratic Party but were now giving indications of concern over McGovern's tax proposals were also invited to the Connally ranch soiree. Nixon wooed the disaffected business executives, answering questions for more than an hour after dinner. "[R]ather than moving in the direction of reducing the depletion allowance," Nixon told them, "[the administration would seek] to provide incentive…for people to go out and explore for oil."[1001]

However, reports of Nixon's private rendezvous with the businessmen leaked to the national press. "The guests arrived Texas-style, setting their executive jets down on the Picosa Ranch airstrip," David Broder reported, "with the great red Santa Gertrudis cattle watching." The president had wooed corporate donors, he noted, while a "strolling Mexican mariachi band [played] and…black waiters pass[ed] drinks."[1002] Liberals quickly pounced on the opportunity to skewer the president. "[T]he fiscal system has been fostering a whole new class of income-tax dropouts," economist John Kenneth Galbraith wrote of the meeting, "who were even so gauche as to convene by private jet at John Connally's ranch to hear the President defend their graft with wonderful indifference to the trouble the average citizen was having with the tax on his house[.]"[1003] In a press conference following the business meeting at Conally's ranch, Nixon was forced to meekly reframe the issue of business tax incentives as one that concerned the wellbeing of the American economy, in general, and, by proxy, the middle class. "[I]f we are going to be competitive, [we] have to have a tax structure which will encourage new investment in capital rather than discourage it…," Nixon told reporters. "[T]here has been a lot of talk lately about the need for tax reform, and a great deal of criticism of so-called tax loopholes…. [T]his Administration has been subjected to considerable criticism on the ground that we are for big business and we are for rich oilmen and against people. I will tell you what we are for. What we

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[1001] David Broder, "Political Romance Texas-style Gets Second Chance," *Boston Globe*, May 2, 1972
[1002] David Broder, "Political Romance Texas-style Gets Second Chance," *Boston Globe*, May 2, 1972
[1003] John Kenneth Galbraith, "The Case for George McGovern," *Saturday Review* (July 1, 1972)

are for is for more jobs for America and for American industry to be able to compete abroad…"[1004] All-in-all it was a tepid defense by the fiery Nixon.

It had quickly become clear that attacking McGovern and other Democrats as demagogues and hoping that the tax reform storm would pass was no longer an option for the White House. Nixon could no longer even count on its former allies among conservative Democrats to defend the president against attacks from the left. "The White House was taken aback," one news report noted, "when [Wilbur] Mills privately let the president know that he, too, was getting aboard the tax reform express."[1005] Indeed, Wilbur Mills would become – at least temporarily – one of the Democrats' key allies in putting taxes front-and-center throughout the election year. Even though the conservative Arkansas Democrat privately had little stomach for McGovern's reforms, political expediency dictated that Mills behave otherwise. Just as with RS, Wilbur Mills's unexpected campaign for the presidency created new opportunities for left-distributionist tax reformers. Though a consummate inside-the-beltway fiscalist, Mills clearly understood that the public was with the left-leaning reformers. As a result, Mills uncharacteristically gave left-distributionists a big boost early in 1972. The first great election-year showdown with the White House over tax reform came when the president requested an increase in the debt ceiling in early-1972. In February 1972, progressive Democrats in the Democratic Study Group pushing for the attachment of provision to Nixon's desired debt ceiling increase requiring the president propose a tax reform program by May 1st. "The deficits we face result from the administration's mismanagement of the economy and from a tax system which is ridden with loopholes," the letter argued. Wilbur Mills persuaded to DSC to drop their request in exchange for Mills sending Nixon a letter reminding him of his 1971 promise to submit a tax

[1004] Richard Nixon, "Remarks and a Question-and-Answer Session With Guests Following a Dinner at Secretary Connally's Ranch in Floresville, Texas," *Public Papers of the President* (April 30, 1972)
[1005] Clayton Fritchey, "Deep in the Heart of Taxes," *Lewiston Evening Journal*, June 10, 1972

reform program to Congress and asking Nixon to make good on that promise by March 15th in order to give Congress to debate and act on the proposal. Mills noted to Nixon that his August 15th economic program included a promise to submit a tax reform program to Congress. "To me, and to most others," Mills reminded Nixon in his letter, "this term means a program of further elimination of preferences and so-called loopholes in the federal income, estate, and gift tax system."[1006]

For the time being, at least, enough reform Democrats trusted Mills to wait for the effects of the letter. "A number of us…are supporting the debt-ceiling limitation today because we have so much faith in [Mills]…and in light of his request of the President to forward the administration's tax-loophole-closing recommendations within the next few months [the DSC was dropping its request]," DSC chair Philip Burton, of California, said. "The next trip around [debt ceiling increase request] we do expect, before we lend this issue our support, to see meaningful tax reforms…." Even the ranking Republican on the Ways and Means committee, Wisconsin's John Byrnes, argued that "what is needed is a full-scale effort…to close the loopholes in our income, estate and gift tax system which now allow billions of dollars to escape taxation every year. These lost billions serve no real job-creating function and they make it necessary for millions of average, middle income taxpayers to pay more to the Treasury every year to make up for what the well-to-do fail to pay." Despite this growing pressure on Nixon to submit reform plans, Mills received no reply to the letter. After receiving no reform plans from the White House, on March 15 – the day the debt ceiling was raised to $450 billion – the Democratic Caucus passed a resolution declaring that "passage of further debt ceiling legislation

[1006] "Debt Ceiling: $450-Billion through June 30, 1972," *CQ Almanac* (1972); Ways and Means, U.S. House of Representatives, *Administration Request for Increase in Public Debt Ceiling*, June 5 and 6, 1972 (GPO, 1972); "Third Debt Ceiling Bill: Spending Limit Rejected," *CQ Almanac* (1972); Richard L. Lyons, "Mills Takes Over Hill Campaign to Prod Nixon on Tax Reforms," *Washington Post*, February 9, 1972; "Mills Asks Nixon for Proposals to Close Federal Tax Loopholes," *Los Angeles Times*, February 9, 1972;

would be jeopardized if the president did not either support meaningful, revenue-raising tax reform, or at least indicate which tax preferences Congress might revise without fear of a presidential veto," as Reuss summarized. That resolution, like the Mills letter, yielded nothing.[1007]

Whatever his previous promises, Nixon now made it clear that he would not make a tax reform proposal in 1972. However, he promised to do so early in 1973.[1008] There was wide agreement, both within Congress and in the Nixon White House, that tax reform would be at the top of the agenda for 1973, regardless of Nixon's proposals, or lack thereof.[1009] But the administration believed it was "unwise to undertake a complete review of the tax laws at this time during a presidential election campaign," as Edwin Cohen put it.[1010] Such a debate would place the administration at a political disadvantage, according to the polls, which is exactly why the White House did not want and McGovern did. Hoping to tamp down the growing public and congressional demands for reform now, the White House argued that delaying action until 1973 did not mean that Nixon was not committed to reform. "[T]his Administration has been committed since the campaign of 1968 to major tax reform, and within 90 days of the President's inauguration, you will remember that major and fundamental tax reforms were proposed," Ehrlichman told the press in a May press conference, pointing to the TRA69. Indeed, the White House now attempted to downplay the more recent RA71. Ehrlichman provided a table to the press combining the distributional effects of TRA69 and RA71, masking the regressive features

[1007] "Debt Ceiling: $450-Billion through June 30, 1972," *CQ Almanac* (1972); Ways and Means, U.S. House of Representatives, *Administration Request for Increase in Public Debt Ceiling*, June 5 and 6, 1972 (GPO, 1972); "Third Debt Ceiling Bill: Spending Limit Rejected," *CQ Almanac* (1972); Richard L. Lyons, "Mills Takes Over Hill Campaign to Prod Nixon on Tax Reforms," *Washington Post*, February 9, 1972; "Mills Asks Nixon for Proposals to Close Federal Tax Loopholes," *Los Angeles Times*, February 9, 1972;
[1008] Robert B. Semple, Jr., "Nixon Said to Bar Tax Reform IN '72," *New York Times*, May 14, 1972
[1009] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)
[1010] Eileen Shanahan, "Nixon Aide Urges Tougher Tax Law," *New York Times*, July 22, 1972

of the latter and allowing Nixon's total tax record to look progressive. "[T]he result [of Nixon's tax policies] has been an enormous tax saving to the fellow in the low-income bracket," Ehrlichman explained, "and has tended to put the load at the high end of the income brackets, and also on corporations."[1011] Though Ehrlichman objected to Democrats hammering Nixon on loopholes, he explained that, when it came to tax reform, the "foremost" criteria the White House would apply to all tax reform proposal were "fairness to the average taxpayer, and that whatever result we come to doesn't cost that average taxpayer more money in the long run, more taxes in the long run, rather than less."[1012]

As the president debated how to better position himself on the tax issue for the general election, Democrats kept pressure on the White House. Determined to demonstrate his commitment to the red hot issue of tax reform in the election year, Ways and Means chair-turned-presidential candidate Wilbur Mills joined with Senate majority leader Mike Mansfield in sponsoring a bill to automatically and systematically repeal 54 major loopholes – including the depletion allowance, accelerated depreciation, the state-and-local bond interest exemption, and, notably, the capital gains preference – in a waves by January 1, 1976. If Congress wanted to keep them, each would have to be reapproved individually. Mills bragged that the bill would eliminate "virtually all provisions" in the code that provided "any special exclusion or deduction or special tax rate to any particular type of group or category of income." Longtime reformers and left-distributionists – like Henry Reuss, who called it an "act of economic statesmanship – enthusiastically endorsed the proposal. Perhaps evidencing the turning tide on taxes, the Nixon White House, which had spent much time strenuously defending the very loopholes under attack by the Mills-Mansfield plan now offered a "qualified" endorsement of the bill, saying that it was

[1011] Ehrlichman Press Conference, May 12, 1972, SMOF-Ehrlichman, B 66, F John Ehrlichman, RNPL
[1012] Ehrlichman Press Conference, May 12, 1972, SMOF-Ehrlichman, B 66, F John Ehrlichman, RNPL

aligned with the spirit of reform favored by Nixon. But, privately, many White House staffers were shocked and angered. One unnamed aid called it "a stunner," telling the *New York Times*, "Jesus, it's drastic."[1013]

Opinions on the Mills-Mansfield view broke sharply along ideological lines, but its popularity could not be denied. Left-leaning reformers applauded Mills-Mansfield. The public interest law lobby, Taxation With Representation, called the bill "clearly one of the most innovative steps yet taken to reform our revenue laws." Mills-Mansfield, TWR argued, would "insure that tax expenditures are subject to the same careful review as direct expenditures."[1014] Common Cause hired Mitchell Rogovin – an assistant attorney general under LBJ who headed the Justice Department's tax division – to lobby for the bill. In contrast, business conservatives trashed the plan.[1015] In June, McGovern indicated that he might prefer the Mills-Mansfield plan to his own loophole-closing suggestions, noting that, by repealing 54 of the largest loopholes, the Tax Policy Review Act "would incorporate all the things we proposed and go considerably beyond that."[1016] The right, in contrast, viewed the bill with unsparing hostility. Despite Byrnes's apparent favorability to tax reform, he lambasted the Mills-Mansfield bill, arguing that it suggested that Mills did not have in his "capacity….as a leader" of Ways and Means, since the plan suggested that the committee had a "reputation…[that] we cannot do anything unless we

[1013] "Demos Seek to Close Loopholes," *Ellensburg Daily Record*, June 1, 1972; "Mills-Mansfield Plan," *Pittsburgh Press*, June 5, 1972; Eileen Shanahan, "Mills Gives Plan to Force Review of Tax Benefits," *New York Times*, June 1, 1972; "The Mills-Mansfield Gambit," *Wall Street Journal*, June 5, 1972; Committee on Ways and Means, U.S. House of Representatives, *Material Relating to H.R. 15230, The Proposed "Tax Policy Review Act of 1972"* (GPO, May 31, 1972); *Congressional Record* (May 31, 1972), 19266; Peter Milius, "Democrats Act on Tax Loopholes," *Washington Post*, June 1, 1972; "Mulls, Mansfield Push Bills to End Tax Preferences," *Wall Street Journal*, June 1, 1972

[1014] Ways and Means, U.S. House of Representatives, *Administration Request for Increase in Public Debt Ceiling*, June 5 and 6, 1972 (GPO, 1972)

[1015] Robert A. Barnes, "New Congress Faces tax Law Battle," *St. Petersburg Times*, September 22, 1972; Ways and Means, U.S. House of Representatives, *Administration Request for Increase in Public Debt Ceiling*, June 5 and 6, 1972 (GPO, 1972); "Third Debt Ceiling Bill: Spending Limit Rejected," *CQ Almanac* (1972)

[1016] Tom Wicker, "McGovern, Muskie, and Mills," *New York Times*, June 11, 1972 give ourselves a loaded gun with which to shoot ourselves unless we do what we are supposed to do." [1017] Likewise, the Chamber of Commerce slammed the election-year "refrain of 'tax reform'" – including both McGovern's proposals and the Mills-Mansfield plan – as "Robin Hood syndrome," calling the idea that loopholes should be closed "the big tax reform myth of 1972."[1018] The *Wall Street Journal*'s editorial board remarked that Mills "can't be all that serious" in proposing such a measure, while *Business Week* argued that the bill "would introduce a paralyzing element of confusion and uncertainty into the tax laws at a moment when producers and consumers need confidence." [1019] Senator Clifford Hansen, a Wyoming Republican, lambasted the Mills-Mansfield bill, arguing that it would both harm economic growth and punish investors. Defending "so-called loopholes," Hansen said that many such provisions "encourage those with substantial capital holdings to invest that capital," which he argued benefitted "the nation as a whole." If the Mills-Mansfield bill were enacted, Hansen predicted, growth would slow, jobs would be destroyed, and "the American businessman would become and endangered species." Moreover, Hansen also predicted that eliminating loopholes would actually cost the government revenue, since doing so would have such detrimental effects on the economy. "The probabilities are that the enactment of the Mills-Mansfield proposal would actually produce *less* revenues at all echelons of government…because of the [resulting] economic downturn," he speculated. Taxpayers were not really angry about millionaires escaping taxes, Hansen concluded, instead "the so-called taxpayers' revolt may in fact be a revolt against the burgeoning level of government spending."[1020] In the face of a mountain of evidence to the contrary, even

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[1017] Ways and Means, U.S. House of Representatives, *Administration Request for Increase in Public Debt Ceiling*, June 5 and 6, 1972 (GPO, 1972)

[1018] "The Big Tax Reform Myth of 1972," *Nation's Business* (September 1972)

[1019] "The Mills-Mansfield Gambit," *Wall Street Journal*, June 5, 1972; Robert A. Barnes, "New Congress Faces tax Law Battle," *St. Petersburg Times*, September 22, 1972

[1020] *Congressional Record* (June 7, 1972), 20026-20028 many Republicans could no longer swallow this line of reasoning. In fact, the Mills-Mansfield act proved to be so popular among ideologically diverse members of Congress that both left-liberal Democrat Bella Abzug and libertarian-leaning Republican Jack Kemp sponsored identical bills.[1021] At least initially, its momentum seemed unstoppable.

In early June, Mills declared that tax reform "has to be enacted this year" and called adding his Tax Policy Review Act to the next debt ceiling increase, which was scheduled to fall before the presidential election, "one genuine possibility." Mills told the press while campaigning for the Democratic nomination in California that he believed his bill was so popular that it could pass the House, whether attached to the debt ceiling increase or not.[1022] Many Democrats met Mills's announcement with applause. Charles Vanik and DSG chair Philip Burton, among others, quickly called for the inclusion of the Mills-Mansfield bill in the debt ceiling increase.[1023] Leading the charge, Henry Reuss argued that, unless the Mills-Mansfield bill was passed in 1972, there would not be proper time to debate the value of the expiring loopholes. Additionally, Reuss noted that attaching the bill to the debt ceiling increase would eliminate the possibility of Nixon vetoing the Tax Policy Review Act. "Unless President Nixon is willing to let the government grind to a halt in the middle of an election year [by vetoing the

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[1021] George J. Leibowitz, *Summary Comparison of Three Major Tax Reform Bills in the 92D Congress*, CRS 72-195S (June 24, 1972)

[1022] Committee on Finance, U.S. Senate, *$450 Billion Debt Limit*, February 28m, 1972 (GPO, 1972); Peter Milius, "Mills Asks Action in '72 on Tax Bill," *Washington Post*, June 2, 1972; Peter Milius, "U.S. Debt Ceiling Increase Tied to Elections," *Washington Post*, June 8, 1972; Eileen Shanahan, "Mills to Oppose Joint Fiscal Bill," *New York Times*, June 6, 1972; "House Panel Gives Up Tax Reform Until '73," *Los Angeles Times*, June 9, 1972; "Tax Reform Barred from Debt-Limit Bill," *Washington Post*, June 21, 1972; Peter Milius, "Linking of Tax Reform to Debt Bill Oppose," *Los Angeles Times*, June 6, 1972; "Debt Ceiling Rise Blocked in House," *Washington Post*, March 14, 1972; "Action to Raise Debt Ceiling Blocked By Tax Reform Issue," *Los Angeles Times*, March 13, 1972; Peter Milius, "White House Opposes Tying Tax Reform to Debt Ceiling," *Washington Post*, June 6, 1972; Peter Milius, "Committee Votes Debt Ceiling Bill Without Additions," *Washington Post*, June 9, 1972; "House Committee Leans to U.S. Debt Ceiling Extension," *Los Angeles Times*, June 8, 1972; Peter Miliu, "Connally Cool to Tax Reform Now, Opposes 20% Social Security Rise," *Washington Post*, February 29, 1972; Eileen Shanahan, "Connally Maneuvers to Block Tax Reform," *New York Times*, March 5, 1972; Peter Milius, "Mills Asks Action in '72 on Tax Bill," *Washington Post*, June 2, 1972; "Tax Reforms Expected to be Put Off to '73," *Wall Street Journal*, May 12, 1972;

[1023] "Reform of Taxes Slowed in House," *New York Times*, June 9, 1972 debt ceiling increase]," Reuss argued, "the Tax Policy Review Act would then be sure for enactment." Ultimately, the Mills-Mansfield bill was not just a question of "need[ing] the revenue," Reuss noted, but of the government's "need to restore the equity in our tax system if we are to avoid a taxpayers' revolt."[1024] Texas Democrat Wright Patman proposed a similar plan to link tax reform with the debt ceiling increase. "I would not give the Treasury the $15 billion increase in the debt ceiling until we can assure the American people that we are doing what has to be done to obtain tax reform," he argued. Instead, Patman proposed granting the Treasury only "month-to-month [increases in the debt ceiling] until a tax reform package can be drafted and passed by both Houses." Patman believed that tax reform was a central – and perhaps, the central – domestic issue for many Americans. "I have recently gone through a primary campaign in the state of Texas, and no issue was raised more often in my district…than the question of tax reform," he said. "This question was raised by people of all political persuasion[s]….The people are fed up with promises [to reform taxes later]…. [T]he people want tax reform now and they want the Congress to put aside everything else if necessary. They feel it is a job that should have been done in past years and anyone who thinks that we can delay on this issue is playing with political dynamite." Patman also called for "a public interest test" when reviewing loopholes. Distributional issues were key, Patman claimed, noting that the percentage of total federal taxes paid by individuals had risen between 1936 and 1971, while the percentage paid by corporations had fallen. In 1936, revenues were divided 50-50. By 1971, individuals paid 77 percent. "Now, that is awfully hard for people to understand. Of course, the truth is that corporations have many ways of reducing and evading taxes…," he said. "And a poor man has no opportunities [to do

[1024] "Debt Ceiling: $450-Billion through June 30, 1972," *CQ Almanac* (1972); Ways and Means, U.S. House of Representatives, *Administration Request for Increase in Public Debt Ceiling*, June 5 and 6, 1972 (GPO, 1972); "Third Debt Ceiling Bill: Spending Limit Rejected," *CQ Almanac* (1972); Richard L. Lyons, "Mills Takes Over Hill Campaign to Prod Nixon on Tax Reforms," *Washington Post*, February 9, 1972; "Mills Asks Nixon for Proposals to Close Federal Tax Loopholes," *Los Angeles Times*, February 9, 1972;

so]…."[1025] Mitchell Rogovin, Common Cause's new general council, also urged the Ways and Means committee to link raising the deficit ceiling with the Mills-Mansfield bill. Rogovin challenged the committee to "channel the widespread public unrest and frustration with the inequities in the tax system into widely beneficial change."[1026]

As it seemed closer to becoming a reality, the Nixon administration maintained its "heavily qualified" support for the substance of the bill, but it seemed clear that privately the White House opposed it. Indeed, the White House denounced not only any attempt to link the Mills-Mansfield bill to the debt ceiling increase, but also questioned the Mills-Mansfield's view of loopholes itself. "I do not consider a capital gains provision of the tax law as a loophole," Connally said. "I do not consider depletion allowances as a loophole." Rather, the Treasury secretary argued, they were incentives. The kind of reform Nixon had in mind, Conally said, was the federal government "help[ing] alleviate…[the] great tax burden that is now borne by homeowners," specifically in terms of the "inordinate increase in property taxes on homes throughout this nation." Likewise, Fed chair Arthur Burns argued publicly that the Tax Policy Review Act would shake "business confidence." The White House also received support from Senate Finance chair Russell Long, who made it clear that he not only opposed adding the Mills-Mansfield bill to the debt ceiling increase, but also opposed it, generally. The White House need not have worried. Just days after opening the possibility of attaching his bill to the debt ceiling, Mills quickly announced that he would no longer attempt to do so. Other reformers, however, made it clear that they would continue to push for linking the two, with or without Mills's

[1025] Ways and Means, U.S. House of Representatives, *Administration Request for Increase in Public Debt Ceiling*, June 5 and 6, 1972 (GPO, 1972)
[1026] Ways and Means, U.S. House of Representatives, *Administration Request for Increase in Public Debt Ceiling*, June 5 and 6, 1972 (GPO, 1972)

support.[1027] However, Mills made such an effort impossible by ruling that the inclusion of such a measure as "not germane to the debt measure" and blocked its inclusion, though he promised to take up tax reform as the first issue when Congress reconvened in 1973. Mills's sudden shift baffled pro-reform forces, and Mills gave no reason for his change of heart, though the *New York Times* attributed it to pressure from "business executives." Without a doubt, Mills's cratering presidential campaign – which peaked when Mills received a scant four percent in the New Hampshire primary – also influenced the Ways and Means chair's decision to revert to his tried-and-true conservative fiscalism.[1028]

Other congressional leaders, however, maintained their commitment to tax reform in the election year. The Joint Economic Committee, co-chaired by Democrats William Proxmire and Wright Patman, provided several assists to left-leaning tax reformers throughout the election year. In March, the JEC published a study coauthored by liberal economist Lester Thurow and conservative economist Robert Lucas on "The American Distribution of Income" just in time for tax season. The Thurow-Lucas study argued that government policy was paramount in the distribution of both "market" and post-tax-and-transfer incomes. "One of the main functions of government is to establish the right distribution of economic voting power," they wrote. "Not

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[1027] Committee on Finance, U.S. Senate, *$450 Billion Debt Limit*, February 28m, 1972 (GPO, 1972); Peter Milius, "Mills Asks Action in '72 on Tax Bill," *Washington Post*, June 2, 1972; Peter Milius, "U.S. Debt Ceiling Increase Tied to Elections," *Washington Post*, June 8, 1972; Eileen Shanahan, "Mills to Oppose Joint Fiscal Bill," *New York Times*, June 6, 1972; "House Panel Gives Up Tax Reform Until '73," *Los Angeles Times*, June 9, 1972; "Tax Reform Barred from Debt-Limit Bill," *Washington Post*, June 21, 1972; Peter Milius, "Linking of Tax Reform to Debt Bill Oppose," *Los Angeles Times*, June 6, 1972; "Debt Ceiling Rise Blocked in House," *Washington Post*, March 14, 1972; "Action to Raise Debt Ceiling Blocked By Tax Reform Issue," *Los Angeles Times*, March 13, 1972; Peter Milius, "White House Opposes Tying Tax Reform to Debt Ceiling," *Washington Post*, June 6, 1972; Peter Milius, "Committee Votes Debt Ceiling Bill Without Additions," *Washington Post*, June 9, 1972; "House Committee Leans to U.S. Debt Ceiling Extension," *Los Angeles Times*, June 8, 1972; Peter Miliu, "Connally Cool to Tax Reform Now, Opposes 20% Social Security Rise," *Washington Post*, February 29, 1972; Eileen Shanahan, "Connally Maneuvers to Block Tax Reform," *New York Times*, March 5, 1972; Peter Milius, "Mills Asks Action in '72 on Tax Bill," *Washington Post*, June 2, 1972; "Tax Reforms Expected to be Put Off to '73," *Wall Street Journal*, May 12, 1972;

[1028] "Reform of Taxes Slowed in House," *New York Times*, June 9, 1972; Eileen Shanahan, "Mr Mills Again Disposes," *New York Times*, June 11, 1972 only must it establish such a distribution initially, it must continually reestablish such a distribution." The proper distribution of income was could not be determined by "economic analyses," the author's explained, rather it was a "moral problem." "In essence," they wrote, "the fights over progressive versus regressive tax structures, level so welfare, and social security benefits are all disputes over the optimum distribution of money incomes." When it came to taxes, the authors made clear that the tax system was doing little to alter the pre-tax distribution of income in the U.S., contrary to claims that the American system was highly progressive. "When all of our taxes (local, state, and federal) are added together, progressive taxes seem to be cancelled by regressive taxes leaving a proportional tax system," they noted. The Thurow-Lucas study also found that the wide inequality between Americans in the bottom income quintile and the top had narrowed only slightly throughout the postwar era in relative terms, while increasing in absolute terms – a conclusion that undoubtedly reinforced the critiques of Harrington, Minsky, and others. "The real gap between the poorest and richest 5 percent of all families rose from $17,057 to $27,605 (in 1969 dollars) [between 1947 and 1969] despite the sharply declining differences in relative incomes," the study explained.[1029] Unsurprisingly, the controversial report grabbed media attention, particularly regarding its tax distribution claims.[1030]

Following the Thurow-Lucas report's release, the JEC held a series of hearings on both "tax subsides and tax reform" and the general state of the economy throughout the summer of 1972. The JEC hearings ensured that issues of inequality and tax reform would remain in the news throughout the election year. Indeed, left-distributionist reformers made use of the hearings to publicize inequalities in the tax code and – sometimes subtly, sometimes overtly – tout Democrats' tax reform plans. Ohio Representative Charles Vanik used the hearings to publicize a

[1029] Lester Thurow and Robert Lucas, "The American Distribution of Income: A Structural Problem," Joint Economic Committee Study (GPO March 17, 1972)
[1030] See, for example, "Tax Reform Long Overdue in America," *Oneonta Star*, April 14, 1972

study he conducted with a team of CPAs and tax experts that found widespread tax avoidance by the country's largest corporations. Vanik highlighted the disparity between firms' public face and their claims to the IRS. As a result, the Vanik study on corporate tax avoidance garnered press headlines.[1031] Every year, the study showed, substantial numbers of the country's largest corporation escaped taxation entirely. On average, larger companies paid lower rates, or escaped taxation entirely, while small companies paid at much closer to the statutory rate. ITT paid a rate of 14 percent in 1969, 5 percent in 1970, and no tax at all in 1971. "As ITT grows," Vanik noted, "it's tax rate shrinks." The steel and oil industries was among the best at avoiding taxes. "U.S. Steel has paid a low effective tax rate over the past three years," Vanik noted. "In 1970, U.S. Steel paid no federal tax, received a credit or reduction of its tax liability of $66 million – yet had an income before taxes of $109 million." Among eight oil companies studied by Vanik's team, they paid an average rate of 6.1 percent on $2.5 billion in income. Despite these low rates, most large companies were not doing anything illegal. Rather they were availing themselves of the myriad tax breaks and loopholes created by Congress. Small firms, in contrast, were effectively discriminated against, according to the findings of Vanik's study.[1032] "Corporate annual reports are a 'mirage of ambiguous statements' that lead stockholders to believe that business is better and profits are improving," Vanik said. "The tax statements of these same companies to Internal Revenue often illustrate a completely different picture that reduces their profit figure, which in effect, reduces their total tax figure." Many firms, Vanik charged, actually violated SEC disclosure rules in their attempts to obfuscate their true economic position. "Like the medieval European peasants," Vanik quipped, "for their stockholders they wear their wedding clothes; for the tax man, they wear rages." Many companies' massaging of the numbers by picking and

[1031] Edwin L. Dale, Jr., "Tax Disparity Among Concerns Called as Wide as for Individuals," New York Times, July 20, 1972; "Tax Report Denied By Continental Oil," New York Times, July 21, 1972
[1032] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)

choosing among accounting practices proved to be egregious, such as oil firms that included excise taxes paid by consumers in the accounting of taxes paid by the company. Individual tax filers, Vanik noted, did not have the same option, "When an individual making $10,000 files his income tax," he told the JEC, "he has not choices among 'generally accepted accounting principles' so as to conceal his income and reduce his tax."[1033] Vanik's report on corporate tax avoidance was buttressed by his House colleague Henry Reuss's studies of individual income tax loopholes.

In the months leading up to the presidential election, Reuss aided the left-reformer's cause by unleashing a volley of reports, press releases, and speeches based on original research about the inequities in the individual income tax code. In March 1971, Reuss released a report on wealthy Americans who paid no income taxes in 1969, which prompted hundreds of letters from all over the country written by Americans upset about tax loopholes that benefitted the wealthy. The next month, he released a report showing that nearly five percent of millionaires paid no federal income tax, while taxpayers making between $10,000 and $15,000 had "only 1/26th as good a chance as the millionaires of escaping all taxes," since less than two-tenths of a percent of taxpayers in that category did not pay any federal income taxes. "It just isn't fair that the very wealthy should be able to use gimmicks and loopholes to reduce their tares to nothing or almost nothing, while the working can carries the load of taxation on his back," he said. "The case is clear for a new round of loophole-plugging." [1034] In March 1972, Reuss released another report showing that the 18,646 upper-income Americans subject to the minimum tax in 1970 – taxpayers who, by definition, benefitted from preferential rates on various types of "loophole income," like capital gains – paid an average effective rate of less than seven percent, and

[1033] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)
[1034] Reuss Release, April 6, 1971, B83, F7, HSRP, WHS

averaged at least $100,000 apiece in increased income thanks to their use of loopholes. Moreover, Reuss's numbers, which were prepared at his request by the Treasury, excluded the nearly 400 taxpayers with adjusted gross incomes of over $100,000 who paid no taxes. These taxpayers were not subject to the minimum tax, because some tax preferences – such as some oil and gas drilling expenses and interest on tax-exempt bonds – were exempt from the minimum tax. "This is just one more illustration of the gross inequity of our Federal tax system," Reuss said. "Here we have thousands of wealthy Americans piling up $100,000 a year and more from capital gains, oil depletion allowances, stock options, real estate tax shelters, and other tax loopholes, and paying a tax on it of less than 7 percent – the same percentage paid by a wage-earner making $6,500 a year!"[1035]

McGovern supporters used the 1972 JEC hearings to make cases for their preferred left-distributionist tax policies, which were almost invariably those advocated by McGovern's campaign. Appearing before the JEC, Harvard economist and McGovern adviser Wassily Leontief argued that the loopholes in the federal tax code were even worse than what most Americans believed. "The average person would [be 'incredulous' to] learn that while the federal government spends $4 billion on Medicaid and Medicare and about the same amount in support of education, its subsidies to upper income groups – that take the form of income tax reduction on capital gains and special depletion and depreciation allowances on corporation – add up to some $11 billion…," Leontif said. "The ignorance of the great majority of voters of the remarkable fact that some $12,300 of spendable income per family is being redistributed, most of it through massive subsidies not shown in the budget, should not be tolerated any longer." Leontief also echoed left-reformers argument that the entire tax system needed to be considered

[1035] Reuss Release, March 26, 1972, B83, F7, HSRP, WHS as a whole. “To discuss each tax separately really is not a sufficiently broad approach,” he said. “What really counts to an individual is how the whole picture…affects him.” The economist also criticized Congress for allotting less than “a middle sized corporation [would spent] for promotion its products” on programs to educate the public about government spending and the tax system. The wisdom of the public, Leontief argued, was crucial for good fiscal policymaking. “Taxation is too serious a matter to be left entirely in the hands of experts...,” he told the JEC. “[D]istribtion of benefits and sacrifices…is a political question. There is no reason why, in arriving at an answer, the Congress should giver greater weight to the personal opinion of a tax expert, or of any expert, than it gives to that of any other voter.” Ultimately, Leontief argued that “as a citizen, not as an expert” that the country needed “a significant transfer of tax burdens from lower to the upper income groups and of benefits from various government subsidies in the opposition direction.”[1036] Even the architects of the Kennedy tax cut now believed that the system had tilted too far in favor of the well-off. Walter Heller told the JEC that “new tax legislation should seek a significant increase in the relative tax burden of the upper income groups, whose share of the total burden has been reduced by (a) income tax cuts, (b) use of tax shelters, (c) the rapid growth of regressive payroll taxes.” [1037]

Though he spent much of his professional career focusing on the poor, Michael Harrington used most of his JEC appearance to attack the idea that working- and middle-class Americans were prosperous. “[I]t is wrong to imagine America as a society in which you have the rich who have too much, the poor who have not enough, and the vast number of people in between having roughly enough…,” Harrington argued. “[M]edian income [statistics] in the United States indicate that a majority of Americans do not have a modest but adequate income as

[1036] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)
[1037] *The 1972 Midyear Review of the Economy*, Hearings before the Joint Economic Committee, July 24-27, 1972 (GPO, 1972)

defined by the Bureau of Labor Statistics…. [O]ur median income is a little over $11,000 and the BLS's modest but adequate [family budget] is a little over $12,000…. [T]he point [of tax reform] is not simply to benefit the poor…but to benefit everybody." Harrington made a pitch for Democrats to pursue policies that would unite the interests of poor and middle-income workers, rather than treating each group separately. "I think we made a mistake – some people made a mistake, myself included – in the early days of the rediscovery of poverty by implying that the problem was one of taking from a majority and giving it to a minority who were poor," Harrington said. "I think the problem has to be defined as one in which the majority of people in America would benefit by…[left-redistributive] tax reforms…not just the poor…. [Y]ou should design a program which will help the poor and so to speak discriminate in their favor because they are the people of the greatest need, but also help the working people and the middle class people." Harrington called for a "redistributionist approach oriented to the majority." Such a policy was not only "justified on extra-economic, 'ethical' ground," Harrington noted. It also provided "a greater *economic* stimulus," since lower- and middle-income taxpayers were more likely to spend the extra income. Harringon praised both Nixon's FAP plan and McGovern's "Demogrant" and advocated the abolition of all local, state, and federal taxes, including the federal corporate tax, leaving a progressive, loophole-free progressive federal income tax as the sole source of revenue for the entire U.S. "It is clear that state taxes on consumption are regressive and so are local property taxes…[and] various federal taxes other than the income tax – social security taxes, for instance – are often regressive," Harrington argued. "Therefore on grounds of progressivity – and of efficiency since Internal Revenue usually gets high marks in that area – that there is a very strong *prima facie* case for making the federal government the sole collection agency for all public funds in the United States." A formula could be devised, Harrington continued, to allocate funds back to states and localities. "It should be a goal of public policy to put an end to all of the regressive tax systems in America," Harrington concluded.[1038]

The president of the United Steelworkers of America and chairman of the AFL-CIO's economic policy committee, I.W. Abel, appeared before the JEC to throw the AFL-CIO's support behind left-distributionist tax reform. "In hardly any area of public concern is there so much at stake for the nation as the issue of tax justice," Abel declared. Like Harrington, Abel used the BLS family income standards to note that the average factory worker, making $8,000 per year, actually fell below the "moderate" standard of living for a family of four. Relieving these workers from some of their tax burden, Abel told the JEC, was a good first step towards increasing their standard of living. "What is surrendered to the tax collector…cuts very deeply into their living standards," Abel argued, "since most working people are not enjoying a very big piece of the so-called 'affluence.'" Union members had no problem "pay[ing] their fair share," Abel argued, and members also "appreciated the value of public services" and wanted government at all levels to have the revenue to fund valued services. It was the distribution of the tax burden and the fairness of the tax system to which members objected, Abel said, echoing labor's arguments from 1969. Like many left-reformers by the early-1970s, Abel discussed the tax system as a whole, arguing that tax reform at the federal level should take state and local provisions into consideration. "[T]he tax laws at all levels of government are rigged in favor of those who are already well-off," he charged. By failing to address distributional issues, supporters of government services were courting public cynicism and, ultimately, the undermining of the legitimacy of government itself. "Clearly, there is a definite relationship

[1038] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)

between the public's view of the fairness of the tax structure and its confidence in the integrity of government…," Abel said. "We are, I fear, beyond the stage where inaction or 'token' measures will be tolerated." The union leader predicted that "delay in real tax reform fuel growing disenchantment with government." Only by "restoring fairness in the tax structure" could the "people's faith in their government" be "restore[d]."[1039]

Despite the AFL-CIO's not-so-covert support for Nixon in 1972, Abel sharply criticized the Nixon administration for working to "frustrate tax justice" and "thwart any effort toward meaningful tax reform" by opposing loophole-closing reforms and expanding business tax breaks. Abel advocated "tax justice" by "overturning the business giveaways of the 1971 Revenue Act" and "the elimination of those tax preferences and loopholes which are found almost exclusively in the realm of the well-off," especially taxing capital gains at the same rate as ordinary income. "It is well to recall that before World War II, 'earned income'…enjoyed a more favored status under federal income tax [laws] than 'unearned' income…," Abel noted. "But since then, this situation has been completely reversed. The tax burden has been more and more shifted from corporations and wealthy families to those whose incomes are modest and whose taxpaying ability is limited." There now was, Abel said, a "triple standard" for income. "One applies to ordinary income…which are taxed in full…. The second applies to income from so-called capital gains…[and] [o]nly one-half of these profits is taxed. A third standard is applied to income which never even appears on the tax form, such as the interest on state and local bonds or the income that is washed out by phantom, nonexistent costs, such as oil depletion, fast depreciation writeoffs, and bookkeeping farm losses," Abel testified. According to the AFL-CIO's calculations, a family of four with an income of $10,000 would pay $905 if it came in the

[1039] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)

form of wages or salary, $98 if it came from capital gains, and nothing if it came from interest on state and local bonds. Abel called that arrangement "shocking," particularly since "almost all of the types of income that are sheltered from the heavy burdens of 'ordinary' income are those enjoyed essentially by the very rich." The union leader also slammed "unjustified tax loopholes" for corporations, such as the investment tax credit and accelerated depreciation.[1040] The press interpreted the AFL-CIO's testimony as "siding squarely with Democratic presidential nominee George S. McGovern in advocating sweeping tax reform."[1041] News agencies and papers across the country reported that the AFL-CIO was "back[ing] McGovern" – at least when it came to tax reform. Abel's arguments about the unfairness of the capital gains preference, in particular, received extensive coverage.[1042]

Throughout the JEC hearings, left-distributionist reformers repeatedly linked the tax distribution with larger issues of income inequality. "I am disturbed by the comparison of the figures from the Federal Reserve…of the shares of the national income in 1968 and 1970," Reuss told Cohen. "Whereas for a generation before 1968, the income shares of the five-fifths of the American people were getting more egalitarian, the discrepancy between the rich and poor was decreasing, something happened in 1968 and thereafter, so that in 1970, the last year for which we have figures, according to the Federal Reserve…the top fifth, the wealthiest families, went up a whole percentage point in their shares, and the other four-fifths of the American families went down in their shares, with the man in the middle hurt the worst." To explain the new phenomenon of rising economic inequality, the Wisconsin Democrat pointed to both larger economic forces and tax policy. "Until somebody demonstrates to the contrary, I think what has been happening in this country – and I suspect it has gotten worse since 1970 – is that between

[1040] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)
[1041] "AFL-CIO Back McGovern in Advocating Tax Reform," *Sarasota Herald-Tribune*, June 20, 1972
[1042] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)

1968 and 1970, unemployment almost doubled, inflation greatly increased in its rate, and the share of total taxes paid by the progressive federal income tax was going down, while regressive local property and state sales and social security payroll taxes were increasing." If that trend continued, Reuss predicted, "there [are] going to be some of the taxpayers' revolts that we are talking about," as well as a weaker economy, generally, because of reduced "purchasing power" for the majority of the public.[1043]

Conservatives struck back against the tenor of the congressional tax debates. In a letter of protest to JEC chair William Proxmire, the National Association of Manufacturers derided hearings that NAM argued were "couched in terms of income distribution, tax equity, raising large amounts of addition revenue, and granting relief from existing tax rates." NAM told Proxmire that it would reserve its formal recommendations until tax reform hearings in 1973, but the business group argued that true "tax reform" should be focused on "provid[ing] a better climate for productive enterprise." As it did in 1969, NAM also defended the "so-called 'preferences'" that were "under attack" by left reformers, arguing that they "were designed specifically to relieve the burden of high marginal rates on some activity." NAM would only support reducing those "preferences" if overall tax rates were reduced dramatically "across-the-board." Specifically, though, NAM advocated immediate cuts to reward "capital formation and productive investment." It touted "the investment credit, ADR, the DISC tax regime, [and] lower rates of capital taxation" as existing examples of what NAM advocated. But the current system did not go far enough, in NAM's view. "We believe tax policy should encourage job-creating, private sector investment, and indeed, should go further in such encouragement," NAM argued. In an oblique reference to McGovern's economic plan, the business group urged attention to "the

[1043] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)

economic effects of any major redistributions by reason of tax reform," such as the "'feedback' effects" of a "slower general economy," which NAM predicted if capital-friendly tax presences were curbed. It also lambasted portrayals of the tax system as regressive or too-easy on business.[1044]

Appearing before the JEC, C. Lowell Harriss, a conservative Columbia University affiliated with the business-backed Tax Foundation, defended the rich against accusations that they benefitted from loopholes. "The top 20 percent pay half the tax," Harris argued, without specifying the percentage of income received by that 20 percent or that he was referring only to the federal personal income tax. Harris accompanied his testimony with a table of the total income tax paid by each quintile, without reference to other forms of taxation or the percentage of income received by each quintile. But Harris hung his attack on McGovern and the Democrats, who Harris did not mention by name, on this table. "As the campaign proceeds…there will apparently be two kinds of arguments from at least one side – that because of loopholes *some* people in upper income groups are not paying as much as others and that the group as a whole ought to pay more," Harris summarized. This was wrong, according to Harris, because the Americans who made most of the income paid most of the taxes – even though his data said little about either income tax rates on each quintile or the distribution of the entire tax burden. Harris opposed graduated rates in all forms, which he called "discrimination *against* those with high incomes." As a result, he lambasted the very idea of tax "reform." "Let us not be tyrannized by words…," Harris told the JEC. " 'Tax subsidy' or 'tax expenditure'…almost appear to imply…'government could take anything' [so] the implication seems to be 'its decision not to take what it could is a sort of act of grace.' What government does not demand is a

[1044] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)

subsidy." Talking about "tax reform" and "tax expenditures" in the context of an election was particularly harmful, in Harris's view, because such discussion might create cause resentment or "unrealistic expectations" on the part of the public. "Political campaigns invite emotionalism and exaggeration…. Taxes offer tempting opportunities. Inequalities can be cited…," Harris claimed. "But attitudes generated will not be entirely harmless…. Unjustified conclusions may add to the sense of divisiveness in our society. Self-pity, anger, frustration, animosity will be enlarged perhaps among more than a tiny fraction of the public. The spirit of society will suffer…."[1045]

The status of investors' pocketbooks and businesses' bottom lines worried Harris even more than the "spirit of society." "Almost any conceivable increase in taxation, corporate or personal, would reduce private saving and capital formation…," Harris argued. "Heavier taxes on capital gains…would also bear heavily, per dollar of revenue, on net capital formation." Harris articulated a supply side vision of tax policy. "Aggregate demand…we are told (and teach), holds the key to employment. But wrong!..," he told the JEC. This emphasis on stimulating demand, Harris said, was born in "depression conditions." The prosperity of the postwar era, though, called for different policies, in Harris's view. Now, the economy needed to encourage capital formation, not demand stimulation, he argued, in order to both stimulate continued growth and fight inflation by spurring technology-based increases in productivity. "Tax policy, I repeat, should give more attention than has been fashionable for years to the supply of new capital," Harris concluded. But, rather than moving towards more capital-friendly tax policies, the country was moving towards such left-distributive reforms as closing loopholes in the corporate income tax and taxing capital gains at the same rates as ordinary incomes. Harris fretted at the possibility of these reforms, arguing that they "bode[d] ill for ourselves and our

[1045] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)

children," and blamed the left for pushing what he called "fashionable attitudes." "Anti-business and anti-capital attitudes seem to me to be spreading. In spite of the evidence!...," Harris argued. "'Consumerism' and 'environmentalism' account for some of what seems to be a rise in anti-business sentiment. Such attitudes can spill over into tax policies which will impede, rather than help, business do the job for which we expect more and more." The fact that the U.S. policy was anti-business was self-evident to Harris. But he "dream[ed]…of a time in which, with good justification, the business would could feel that government was really on its side," a time when "the open, announced, and sincerely felt attitudes of government – lawmakers, policy officials of the Executive Branch, and the bureaucracy – were truly favorable to the productive system," when "something in the tax world favorable – or less unfavorable – to the business system was not thought of as a 'giveaway,' a disreputable outcome of selfish transfer to the few at the expense of the many[.]"[1046]

Taxes on the only capital owned by most working- and middle-income Americans did not worry Harris, however. Americans concerns over rising property taxes were unjustified, in Harris's view. Such complaints did "not warrant a second recognition," since they paid for "community services and facilities which make the location more valuable" and "will have been deducted for income tax purposes" – arguments that assumed both that services were increasing the value of the property owner's land and that the property owner was itemizing deductions, two assumptions that did not hold for many low- to middle-income Americans. Not surprisingly, Harris denounced left-distributionists' calls for property tax reform. "The lurking hope for Santa Claus, or Robin Hood, the search for ways to make the 'other fellow' pay pervades too much public discussion," he argued in a paper on local school finance crises submitted to the JEC. "It

[1046] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)

fosters irresponsibility. ‘State assumption of the costs of education’ or ‘Federal revenue sharing’ *can* change the kinds of taxes and the distribution of total burdens among kinds of taxpayers. But there is one thing neither will do – reduce taxes.” Harris was skeptical of plans that would call for higher-income taxpayers to pay for the schooling of poor- and working-class children. He was more concerned about the tax burden on the former than the latter. “Many an American in the upper middle income group is troubled by present taxes…,” Harris said. “They are more likely to do so [pay more taxes], I suggest, the more they expect their children to benefit.” The idea of equalizing funding to schools was anathema to Harris. Forcing rich parents to pay to educate children in poor communities was unfair in Harris’s view and would affect “incentives.” Unlike owners of corporate stock or other forms of capital, the gains that resulted from property increases deserved to be taxed, Harris said “In contrast…[to other] type[s] of capital gains, increases in land values may result from rising population, income growth, and governmental spending on streets, schools, and so on,” Harris argued before Congress. “The justification for taxation [of property] seems to me much stronger [than taxation of other capital gains].” As a result, Harris argued that the current push to cut property taxes and raise capital gains taxes was completely incorrect. Rather, Harris claimed, the opposite should be done. In fact, Harris praised Nixon’s unpopular ADR provisions, arguing that more such incentives were needed.[1047] By mid-1972, though, ringing endorsements of Nixon’s tax policies from business groups and conservative economists did little assuage the president’s fears about the Democrats’ populist threat from the left and a discontented public in the midst of a bottom-up “tax revolt.”

At the mid-July Democratic National Convention in Miami Beach, Florida, McGovern and the Democrats struck the tone of left-distributionist tax populism, both in its criticism of

[1047] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)

Nixon's record and its tax proposals. "The tax system today does not reward hard work: it's penalizes it. Inherited or invested wealth frequently multiplies itself while paying no taxes at all. But wages on the assembly line or in farming the land, these hard-earned dollars are taxed to the very last penny. There is a depletion allowance for oil wells, but no depletion for the farmer who feeds us, or the worker who serves as all," McGovern declared in his acceptance speech. "The administration tells us that we should not discuss tax reform and the election year. They would prefer to keep all discussion of the tax laws in closed rooms where the administration, its powerful friends, and their paid lobbyists, can turn every effort at reform into a new loophole for the rich and powerful. But an election year is the people's year to speak, and this year, the people are going to ensure that the tax system is changed so that work is rewarded and so that those who derive the highest benefits will pay their fair share rather than slipping through the loopholes at the expense of the rest of us."[1048] The tone of Democratic platform was just as strong. It reminded voters that Nixon "fought serious reform in 1969" and "favor[ed]…the well-off" with "corporate tax giveaways like accelerated depreciation." The platform also suggested that Nixon had failed to offer comprehensive reform proposals in the election year because he had "no program, only promises, for tax reform." The future of taxes under Nixon, the platform charged, would include "a hidden national sales tax (Value Added Tax) which would further shift the burden to the average wage earner and raise prices of virtually everything ordinary people buy." Even replacing the local income tax with the VAT was insufficient, the platform argued, dismissing such a proposal as "reliev[ing] one bad tax, the property tax, by a new tax which is just as bad." The platform also implicitly critiqued the tax policies of Kennedy and Johnson when noting, "The last ten years have seen a massive shift in the tax burden from the rich to the

[1048] George McGovern, "Address Accepting the Presidential Nomination at the Democratic National Convention in Miami Beach, Florida," July 14, 1972, American Presidency Project (http://www.presidency.ucsb.edu/ws/index.php?pid=25967%5D) working people of America. This is due to cuts in federal income taxes simultaneous with big increases in taxes which bear heavily on lower incomes – state and local sales and property taxes and the payroll tax." The Democrats also promised to use the federal government to reduce local taxes beyond revenue sharing. "Greater fairness in taxation at the federal level will have little meaning for the vast majority of American households if the burden of inequitable local taxation is not reduced," the platform read. On the federal level, the party called for the implementation of the Mills-Mansfield loophole-closing legislation as a first reform step, along with making the payroll tax more progressive. Indeed, left-redistributive justice and fairness was Democratic platform's overarching theme when it came to taxes. "The cost of government must be distributed more fairly among income classes," it declared. "We reaffirm the long-established principle of progressive taxation – allocating the burden according to ability to pay – which is all but a dead letter in the present tax code."[1049]

The strong platform emerged not only from McGovern's own inclinations and the clear popularity of progressive tax reform in the Democratic primaries, but also from the continued pressure of left-distributionists. Prior to the convention, Alinsky organizer-turned-journalist Nicholas von Hoffman critiqued McGovern's tax plans as too timid. Von Hoffman scoffed at the idea that McGovern was a radical. McGovern was, von Hoffman argued, a "son of the middle of the road." McGovern's "radical" tax plan was, von Hoffman noted, simply to "return the corporation tax to the level of the last year of the Eisenhower administration" and, when it came to individual rates, "it turns out his big, radical reform is essentially nothing more than to collect the taxes" already enshrined in law by closing looholes.[1050] Von Hoffman was not alone in longing for an even more radical tax plan. The Democratic National Convention featured a

[1049] *Democratic Party Platform of 1972* (July 10, 1972)
[1050] Nicholar von Hoffman, "Meet a Wild-Eyed Moderate," *Chicago Tribune*, June 26, 1972

spirited debate on minority planks dealing with tax reform offered by everyone from George Wallace to Fred Harris. The latter's plank, in particular, proved to be popular – and controversial. The former DNC chair and soon-to-be-former Senator was already transitioning into the roll of tax activist. Branching from his own short-lived and underfunded presidential campaign, Harris pushed what he called the "New Populism" for Democrats and organized the "Tax Action Committee," which in the years to come would coordinate with local left-leaning grassroots tax groups around the country. Harris, who served as a floor managed for McGovern, and his Tax Action Committee came to the convention armed with armed with 5,000 buttons and 10,000 pamphlets denouncing the loophole-ridden tax code and declaring "Take the Rich Off Welfare."[1051] Indeed, the buttons were "perhaps the most popular button passed around the Democratic National Convention," as one press report explained, because "it was clear that they [delegates and other convention attendees] felt the same way about its message."[1052] Harris also came armed with his own "Robin Hood" tax plank, that, among other things, called for removing nearly every tax preference in the internal revenue code. Speaking on behalf of the Harris plank, which he coauthored, California's Fortney "Pete" Stark cited the recent revelation that California Governor Ronald Reagan had made millions tax free as a reason not just for tax reform, but for the Harris plank, in particular. "Let's take the rich off welfare and let us go ahead and show that our tax reform will mean something to everyone," he said. Civil Rights lawyer Wes Watkins of Mississippi also spoke for the minority plank, declaring, "The most crucial need in this country today is equitable taxation."[1053]

[1051] Richard Lowitt, *Fred Harris: His Journey from Liberalism to Populism* (Rowman and Littlefield, 2002) 233-234.
[1052] "Take the Rich Off Welfare," (Lexington, NC) *Dispatch*, July 18, 1972
[1053] Sheila Hixon and Ruth Rose, eds. *The Official Proceedings of the Democratic National Convention, 1972* (1972)
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The most eloquent proponent of the tough plank was Harris himself. "I personally am for George McGovern," Harris told the delegates, "but whether you are for George McGovern or whether you are for George Wallace, whoever you are for, if you are an average taxpayer, average working person in this country, you are paying too much tax because a lot of rich people are not paying their fair share of taxes" – the last declaration delivered to applause. Harris, however, dubbed the official platform's tax proposal "unacceptably weak," since it called for the Mills-Mansfield plan, which Harris viewed as little more than a study to devise reform proposals. Citing U.S. Steel's zero tax rate and the 122 people making more than $200,000 who paid no income tax, Harris argued that the time for study was over. "Sixty-three percent of all Americans lately said yes when asked if they would join in a tax revolt. I say the Democratic Party should not join in a tax revolt, it ought to lead a taxpayers' revolt in 1972," Harris declared to yet more applause. "Let's give George McGovern a plank that he can go to the people with. The biggest issue in this country in 1972 is taxes. After all, if the way we finance government is not fair, what else is fair? I say let's stand up now and vote for income and power for the people and take the rich off welfare." Opponents of the Harris plank argued that the majority plank was already strong enough and that the Harris plan, which called for the immediate elimination of all tax loopholes and preferences, was too broad and invited controversy, since it would eliminate popular items, like the personal exemption, along with unpopular ones. Skittish McGovern advisers ensured that the Harris plank was controversially – and debatably – defeated by a voice vote.[1054] But the fact that the key platform debate was between the leftmost tax plank ever proposed by the Democrats – at least in the post-WWII era – and one even more radical demonstrated just how far the Democratic Party had moved from JFK era.

[1054] Sheila Hixon and Ruth Rose, eds. *The Official Proceedings of the Democratic National Convention, 1972* (1972)
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Nixon continued to feel his own pressure, both from the left and from so-called "Middle Americans." The White House knew that tax policy was its biggest weakness in a race with McGovern. "In spite of his waffling and careless tax analysis, the recent Harris Survey indicated that McGovern was slightly ahead of the president on only one of 16 key issues – tax reform," Lew Engman wrote to John Ehrlichman in July.[1055] Not only were the polls telling Nixon that the public preferred left-distributionist reforms, but Americans were telling Nixon themselves with the tax-themed letters pouring into the White House. "I consider myself a loyal American, a child of the depression, now a middle aged frightened American, as is the case of many I have spoken to," one woman – a 45-year-old "divorcee supping a 15 year old son" – from New Jersey wrote to Nixon. "I was brought up with the belief that one must work to attain and la that way to gain pride…. Only once in my life was I forced to collect unemployment and still felt like a charity case." Despite working, she was having trouble paying for necessities, let along luxuries like "a vacation." "What I don't understand is why our property taxes have to be so high," she told Nixon. "If I don't make it, they will be the reason…. [W]ith the cost of living as it is…I am unable to save. My son is in the second year of high school and if he is capable of [going to] college, I will be unable to help him…. The future indeed looks very grim."[1056] "The time has come to stop paying mere lip service to the necessity of protecting the elderly," a New York homeowner wrote to Nixon, "and to make a real commitment to support specific legislation to ease the burden of property taxes for the older homeowners based on their ability to pay." The letter writer suggested federal tax relief for property taxes based on a "sliding scale" for elderly making less than $10,000.[1057] The White House responded to such letters by explaining that "the President recognizes the deficiencies in the property tax and knows that this tax has placed a

[1055] Engman to Ehrlichman, July 27, 1972, WHCF-EX FI 11, F 15, B 60, RNPL
[1056] Edgley to Nixon, July 20, 1972, WHCF-F1, B 72, F Taxation/Real-Personal [3 of 3], RNPL
[1057] Lyons to Nixon, July 11, 1972, , WHCF-F1, B 72, F Taxation/Real-Personal [3 of 3], RNPL

regressive and inequitable burden on taxpayers" and promising that that he was "committed" to pursuing legislation that provided property tax relief.[1058] Convincing these voters that Nixon would address their left-leaning tax concerns as well as, or better than, McGovern became one of the Nixon team's main priorities during the general election.

Despite the fact that Nixon had already clearly moved to the left on taxes by selling revenue sharing as a partial solution to regressive state and local taxes, many conservatives still hoped that the president would return to traditional Republican economics. By feeding the president a flurry of memos and carefully selected articles, conservatives like Pat Buchanan and Arthur Burns renewed their efforts to convince Nixon that his turn to the left on taxes was a mistake. Beginning with the Democratic primaries, Burns worried that the president would follow the Democrats' lead on issues like taxes. "The Democratic primaries carry a message that needs to be taken seriously: namely, there are many unhappy, disenchanted, confused, frustrated citizen in our midst…," Burns wrote to Nixon in June. The Fed chair cautioned against copying the Democrats tax appeals, though, by making the tradition conservative argument that taxes were merely a small part of a larger milieu of social, economic, and cultural grievances. "[P]eople…are unhappy about taxes, about Vietnam, about privileges of the rich, about the integrity of government, about abuses of power by the trade unions, about military budgets, about inflation, about business, about the narcotics problem, and so on," Burns told Nixon. "That is why McGovern and Wallace have done so well at the polls." The Fed chair commented that Nixon would surely be receiving advice, from both the left and the right, on how to counter the Democrats. The key for Nixon, he said, would be to show "decisive leadership," whatever the specific policies. However, Burns did tip his hand by noting, "Any tax reform plan that you

[1058] Elliott to Lyons, August 1, 1972, and other responses, WHCF-F1, B 72, F Taxation/Real-Personal [3 of 3], RNPL might present will look pale and unconvincing to the millions who are flocking to the McGovern and Wallace banner" – a point Nixon underlined.[1059] Buchanan, for his part, insisted that McGovern, Muskie, and Wallace were really pushing a conservative tax politics – not a left-distributonist one – meaning that Nixon needed to do little more than reassert the GOP's tradition low-taxes, small-government hymn. Buchanan cited Democrats' tax appeals in the Wisconsin primaries as proof of the party's move to the right. "The old GOP argument of cutting taxes instead of increasing spending has now caught the imagination of the entire country," Buchanan wrote to Nixon in April, "and the Democrats are starting to run away with what was our issue…talking about reducing the tax burden of the working man."[1060]

Nixon also read with interest Erving Kristol's article, "Of Populism and Taxes," in the summer 1972 issue of *Public Interest*. Kristol's article was a pure distillation of the conservative interpretation of the tax revolt. It portrayed left-distributionist tax "populists" as "yesterday's quasi-Marxist radicals" and argued that they had mistaken the cause of the public's tax anger. "It seems generally agreed that a major cause of the present populist discontent is taxation," Kristol wrote. "[T]he tax issue, it [populistm] proclaims, arises out of the manipulation of our tax laws by 'vested interests' so that the rich are getting away scot-free while the common man bears the whole tax burden. The answer, obviously, is to soak the rich." This view was completely wrong, Kristol wrote. "The average American, no matter what he may sometimes say or what is said in his name, is not rebelling against tax inequities. *He is rebelling against taxes, period*," Kristol wrote, in a passage noted by Nixon. But even this seeming anger at taxes was illusory in Kristol's view. It was not taxes themselves that angered Americans, but "the ways in which the

[1059] Burns to Nixon, June 22, 1972, WHCF-Confidential, F [CF] PL [Political Affiars] [1971-74] [1 of 2], PNWH-AU
[1060] Buchanan to Nixon, April 3, 1972, WHCF-Confidential, F [CF] TR 55-1 Philadelphia, Pennsulvania, National Catholic Education Association, PNWH-AU

welfare state is spending its tax revenues – for ever-growing welfare rolls, for an educational system that seems to be falling apart, for a police force that cannot cope with increased criminality, for low-income housing that converts itself into instant slums, for Medicaid to the poor which inflates medical costs for the non-poor, etc." They were all, the neoconservative made clear, "expenditures that benefit primarily the minority who are poor."[1061]

Harkening back to the right's original interpretation of the tax revolt, Kristol argued that it was a classic case of cultural anger masquerading as an economic complaint. "In short, he resents the present structure of the welfare state," Kristol concluded, "and his 'tax rebellion' is an expression of this resentment." Politicians were sometimes fooled into thinking otherwise because many blue-collar voters did, indeed, support elements of the welfare state. That working-class voters liked many of the other "benefits of the welfare state," however, did not matter, in Kristol's view. "This [embrace of benefits but rejection of taxes] may be short-sighted on the part of the working-class – but, then, it is in the nature of working-class people to be more short-sighted (to have a shorter 'time horizon') than middle-class people…" Kristol wrote. Ultimately, Kristol predicted, blue-collar workers would forego the welfare state if it also freed them from taxation. "The populace doesn't want to be fed," Kristol wrote in another passage marked by Nixon, "it wants more freedom to grace on its own." The public's anger was actually "directed *against* liberal politics – even when it [the public] votes for an 'anti-establishment' liberal politician." The rest of Kristol's article outlined why attempts at income redistribution were bound to fail – namely that the rich were not truly rich and that closing the capital gains loophole or raising taxes on corporations would "slow economic growth…and ultimately…diminish the tax revenues….." It was a message unmistakably written by Kristol in

[1061] Kehrli to Ehrlichman, and attached, July 19, 1972, WHCF-Special/Confidential, F Taxation [1971-74], B 18, RNPL; Annotated "Of Populism and Taxes," Undated [July 1972], PNWH-2 response to McGovern's *New York Review of Books* article and aimed at Nixon. Indeed, the president heavily marked-up Kristol's article and forwarded to Ehrlichman seeking his views on the article with the comment that Kristol's article "may raise questions re[garding] our property tax 'reform'" and a request to seek further input from Shultz, Connally, and Colson.[1062]

Curiously, the primary – and really, only – evidence offered by Kristol for the correctness of his view was a *New York Times* article on New Jersey Governor William Cahill's attempt to cut local property taxes by 40 percent by instituting a progressive state income tax. Nixon pointed Ehrlichman to this section of Kristol's article. Kevin Phillip's study of Cahill's 1969 election victory had interested Nixon a few years earlier and now, it seemed, the New Jersey Republican offered even more instruction to the president. However, the section of the *Times* article emphasized by Kristol – and underlined by Nixon – actually featured the observations of state legislator Anthony Imperiale, an Independent from Newark known for his racial demagoguery, including advocating white vigilantism. The *Times* observed that Imperiale believed – "probably rightly," as the newspaper editorialized – that virtually all residents of "blue collar neighborhoods who stand to benefit most" from the tax reforms actually "opposed any kind of new taxes regardless of the higher benefits involved an regardless of any accompanying reduction in local taxes." Indeed, reflecting on the tax issue, the paper drew a parallel to "working-class Democrats in New Jersey" supporting George Wallace. But however much that conclusion may have aligned with the skewed view of Imperiale and, perhaps, the *Times*, it did not accord with the facts. Indeed the Rutger's New Jersey Poll found that a majority of New Jersians supported a progressive state income tax, generally, while two-thirds of respondents supported it if revenue from the income tax would be used to reduce other taxes, like

[1062] Kehrli to Ehrlichman, and attached, July 19, 1972, WHCF-Special/Confidential, F Taxation [1971-74], B 18, RNPL; Annotated "Of Populism and Taxes," Undated [July 1972], PNWH-2 the state property or sales tax. Indeed, the poll shoed that majorities of every income class supported the income tax plan. When the state assembly rejected Cahill's tax plan in July, it was defeated by Republicans – along with the Independent Imperiale, who vocally opposed the bill on the floor.[1063] Once again, politicians' perceptions of what the public believed – or willful misinterpretations of public sentiment – stymied tax reform. This time, at least, national conservatives did not have the intellectual firepower to sway Nixon from a more materialist, distributionist understanding of the "tax revolt."

In his acceptance speech at the Republican National Convention, Nixon touted his record as a tax reformer, pledged to reduce local property taxes, and argued that McGovern would actually increase average Americans' taxes. "Our Administration, as you know, has provided the biggest tax cut in history, but taxes are still too high," Nixon argued. "That is why one of the goals of our next Administration is to reduce the property tax which is such an unfair and heavy burden on the poor, the elderly, the wage earner, the farmer, and those on fixed incomes." Referring to McGovern's proposals, without mentioning the Democrat by name, Nixon portrayed his opponent as a welfare-loving, tax-raising radical, suggesting that his policies would be costly for American taxpayers. "The proposal that they have made to pay $1,000 to every person in America insults the intelligence of the American voters…," Nixon said. "Their platform promises everything to everybody, but at an increased net in the budget of $144 billion,

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[1063] Notably, Cahill had consulted with Pennsylvania's Milton Shapp on tax reform. "New Jersey Governor, Shapp Hold Meeting," *Reading Eagle*, December 7, 1970; Kehrli to Ehrlichman, and attached, July 19, 1972, WHCF-Special/Confidential, F Taxation [1971-74], B 18, RNPL; Annotated "Of Populism and Taxes," Undated [July 1972], PNWH-2; Author's analysis of New Jersey Poll data, Polls 003 (February 1972) and 004 (October 1972) available at (http://eagleton.libraries.rutgers.edu/pollDate.php); Ronald Sullivan, "Cahill Aides Hail Tax Poll Results," *New York Times*, March 19, 1972; Ronald Sullivan, "Jersey Assembly Rejects Proposal For Income Tax," *New York Times*, July 18, 1972; Ronald Sullivan, "They Don't Like Taxes, But then Who Does?" *New York Times*, June 18, 1972; "Jersey Labor to Reconsider Rejection of Tax Reform," *New York Times*, June 13, 1972; David M. Halbfinger, "Anthony Imperiale, 68, Dies; Polarizing Force in Newark," *New York Times*, December 28, 1999; Rick Perlstein, *Nixonland* (Simon and Schuster, 2010), 237; Komozi Woodard, *A Nation Within a Nation* (University of North Carolina Press, 1999) but listen to what it means to you, the taxpayers of the country. That would mean an increase of 50 percent in what the taxpayers of America pay. I oppose any new spending programs which will increase the tax burden on the already overburdened American taxpayer."[1064] Like McGovern, Nixon faced pressure on taxes from the left within his own party. Liberal GOP Senator Mark Hatfield proposed a progressive plank to the Republican Platform Committee that would eliminate all deductions and loopholes, except for the personal exemption, which would be converted into a tax credit. Under his "Simpliform" plan, a family of four making $5,000 would pay no income taxes, while rates would rise to 50 percent above $1 million. Hatfield estimated that 85 percent of all families – those making below $20,000 per year – would pay less under his system. "Under the present law the 'middle income' American is really subsidizing the rich," he argued.[1065] Needless to say, it was a proposal far to the left of most Republican delegates.

In media appearances, congressional testimony, and speeches leading up to the election, the White House and the Nixon campaign tried to walk a fine line in appealing both to a public clearly sympathetic to left-"distributionist" vision of tax reform and to a Republican base still wedded to conservative tax ideology. Overall, the Nixon team leaned more towards accomplishing in the former than the latter. But many of its early attempts to tout Nixon's tax record backfired. "We would to like warn against too ready acceptance of the idea that our impending budget problems can be solved by increasing taxes," Herbert Stein told the JEC. "Probably the greatest delusion is to think that the problems can be solved by increasing taxes on other people – and particularly on a few other people – and most particularly on people who are not paying their fair share." Yet, Stein continued, the administration did support such reforms.

[1064] Richard Nixon, "Remarks on Accepting the Presidential Nomination of the Republican National Convention," Public Papers of the President, August 23, 1972
[1065] *Congressional Record*, August 16, 1972, 28519-28521

"The president has said that the administration would propose a program of tax reform before the year is out," Stein noted, contradicting the president's past statements. "One of the objectives we seek in developing such a system is to increase the equity of the tax system."[1066] The Nixon administration was now eager to claim credit for the reforms in the TRA69. Appearing before Congress in July, Nixon's Assistant Treasury Secretary for tax policy, Edwin Cohen, pointed to the TRA69 as evidence of the administration's commitment to progressive tax reform. "The Tax Reform Act of 1969, on which the administration and the Congress collaborated throughout almost the entire year 1969, was a landmark in the long history of tax legislation," Cohen claimed, with a quite generous definition of "collaborate…," considering the administration's opposition to the TRA69. "[I]t represented a major achievement in improving the equity and efficiency of the tax system."[1067] Likewise, George Shultz explained to Congress that Nixon's "revenue sharing is a form of tax reform that is a substitution in a sense of the federal tax structure for the state and local tax structure," which he viewed as a "good measure."[1068]

In its zealousness to claim the mantle of working- and middle-class friendly tax reform, however, the Nixon White House exaggerated Nixon's past achievements on taxes. During his appearance before the JEC, both Cohen and Shultz presented a table that Shultz claimed showed a "gigantic shift" in taxes away from low- and middle-income Americans and toward the rich between 1968 and 1972. It was a similar tactic to that used by Ehrlichman in his May press conference. This time, however, both Democrats in Congress and the political press pounced on the White House's misleading table. By using the years '68 through '72, the table combined the mildly downwardly redistributive TRA69 with the business friendly, upwardly-redistributive

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[1066] *The 1972 Midyear Review of the Economy*, Hearings before the Joint Economic Committee, July 24-27, 1972 (GPO, 1972)
[1067] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)
[1068] *The 1972 Midyear Review of the Economy*, Hearings before the Joint Economic Committee, July 24-27, 1972 (GPO, 1972)

Revenue Act of 1971, which had the effect of concealing the latter within the former. Even worse, the numbers in the Nixon table were purposely skewed for effect. Using adjusted gross income as its base, the table effectively ignored numerous loopholes, including the capital gains preference. Cohen used the table's questionable data to push back at those who "in the heat of a political campaign year…indicate that the rich somehow manage to avoid paying taxes." Cohen said that, despite there being 112 taxpayers with adjusted gross incomes of over $200,000 paying no tax, that upper-income Americans were, in fact, "paying heavy federal income taxes." Cohen pointed to the table, which showed sharp falls tax rates for low- and middle-income Americans and steep rises in taxes on those with incomes above $100,000 between 1968 and 1972. "[T]he income tax burden has been reduced in the zero to $3,000 income class by 82 percent, and has been reduced in gradually decreasing percentages in each higher income class to the $50,000 to $100,000 level," Cohen told Congress. "But in the income level above $100,000, the liability has been raised 7.4 percent." Americans making more than $200,000 paid an average rate of 44.1 percent in income taxes, according to Cohen.[1069]

The administration's tax distribution figures immediately came under attack. Henry Reuss questioned the administration's use of adjusted gross income as the basis for its figures. "Well, that sounds reassuring to somebody who doesn't know what adjusted gross income is," Reuss quipped. "But is it not a fact that adjusted gross income is one of those lovely Treasury terms which deliberately excludes the very loophole income we are talking about – capital gains, oil depletion, tax exempt bonds, interest on life insurance savings, and so on? So that these people did make millions, taken together, on which they paid no tax whatever, and this 44 percent figure merely related to that portion of their income which wasn't loophole income, isn't

[1069] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)

that so?" Cohen agreed that "the use of adjusted gross income has great defects" and acknowledged that it "may be a defective concept," but claimed the Nixon Treasury used it in its study because "the term adjusted gross income is found in the Internal Revenue Code." He also suggested that using a fuller measure of income would be unlikely to increase the number of rich taxpayers paying no income tax. But Reuss argued that tax-free millionaires were not the whole story. "Let me suggest that I don't think the real question which gets us tax reforms outraged is so much, as you suggest in your statement, that the rich manage to avoid paying income taxes entirely…," Reuss told Cohen. "What does concern me is that a great number of very well-to-do people pay a pittance in federal income taxes while the average person pays much more." A March IRS study, Reuess noted, had found that, even under the new minimum tax requirements in the TRA69, the wealthy paid an average rate of four percent on their "preference income" – income from "loophole" sources, like capital gains. "I don't see how we can tell our constituents that they should stop their taxpayer's revolt, that all is well, with that going on," Reuss argued.[1070] The next week, Reuss released his own report charging that Edwin Cohen had purposely used misleading statistics to make it seem that the rich were paying higher rates than they actually were by computing rates after "loophole income" had been deducted.[1071] Reuss's report was picked up by the Associated Press and received widespread media coverage.[1072] Making matters worse for the Nixon administration, George Shultz used the same distribution data offered by Cohen when Shultz appeared before the JEC the following week. Facing the same criticism as Cohen, Shultz sheepishly agreed, "Some things don't get into adjusted gross income and that is a problem." JEC chair William Proxmire also criticized the administration for

[1070] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)
[1071] Reuss Release, July 22, 1972, HRP, B 83, F 7 WHS
[1072] "Data on Taxes Paid by Rich Called Wrong," *Milwaukee Sentinel*, July 25, 1972; "Loophole Income Left Out of Treasury Report," *Reading Eagle*, July 26, 1972

not including payroll taxes in their table, either, arguing that – instead of the image the administrations' table painted – taxes had become "less progressive and more regressive than before" over the past several years.[1073]

The Nixon White House's dubious tax claims also offered Nader's tax warriors a chance to pounce, too. Thomas H. Stanton, the director of Nader's Tax Reform Research Group wrote to JEC Chair William Proxmire, challenging Cohen's portrayal of the progressivity of the federal tax system as "incomplete and possibly misleading." In addition to reiterating Reuss's criticism of using adjusted gross income in distribution tables, the TRRG criticized Cohen's data on tax expenditures. Cohen's tables did not include data on the number of taxpayers in each adjusted gross income class, making it appear as though low- and middle-income taxpayers received more benefits from "loopholes" than they actually did, given that more taxpayers fell into those groups than the upper-income groups. "Thus, for example, Mr. Cohen's data showed that taxpayers in the $10-$15,000 income group receives $230 million in benefits from [preferential] capital gains treatment, while taxpayers in the $100,000+ group receive $2.9 billion – a ratio of 10:1, which is inequitable enough," Stanton wrote in a letter reprinted by the JEC. "But the inequity is actually much worse than Cohen would admit. The 9% of all taxpayers in the $10-$15,000 group averaged only $16.31 in benefits from the capital gains loophole, while the 1/10th of 1% of all taxpayers in the $100,000+ group averaged over $38,000 each." According to the TRRG's analysis, the preferential treatment of capital gains was the single biggest loophole for the rich on a per-taxpayer basis. Other large preferences included the deductibility of charitable contributions, which netted $11,373 per return, and the property tax deduction, which netted $1,758 per return, respectively, for the nearly 78,000 taxpayers with incomes of over $100,000.

[1073] *The 1972 Midyear Review of the Economy*, Hearings before the Joint Economic Committee, July 24-27, 1972 (GPO, 1972)

For the 27 million middle-income taxpayers making between $7,000 and $15,000, the combined benefits of both of those exemptions was less than $100 per return, and for the poor, their value was even smaller, netting less than $10 each for taxpayers making between $3,000 and $5,000.[1074] Like Reuss, the TRRG also argued that the Nixon administration should have calculated the tax distribution using gross income, rather than adjusted gross income, in order to reflect tax preferences included in adjusted gross income.[1075] Stanton and the TRRG's Alan Kamin slammed Cohen's portrayal of the tax system in a letter to the *Washington Post*. "Mr. Cohen presented the deceptive figures in an attempt to disparage as 'political rhetoric' assertions that the wealthy are under-taxed," they wrote. "In fact, the figures he omitted cogently make the case for tax reform: There is much revenue to be gained by closing loopholes, and many of these excessively favor the wealthy."[1076] The *New York Times* also covered the TRRG's criticisms of Cohen's testimony and figures. "The study by the tax reform group showed that even tax benefits that have been kept in the law primarily out of concern for persons of overage income benefit the wealthy more," reporter Eileen Shannon noted in the *Times* report. The TRRG's proposal to remedy the situation was the elimination of unnecessary tax preferences and the conversion of others into credits, instead of deductions, since credits benefitted all taxpayers equally, while deductions were more valuable to upper-income taxpayers.[1077]

The Nixon administration's early attempts to discredit McGovern's tax reform proposals proved to be as troubled as its assertions that the president had already delivered progressive reform. In a strategy that would be sustained throughout the campaign, Nixon spokespersons attempted to portray all of McGovern's tax plans as little more than an extension of welfare,

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[1074] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)
[1075] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)
[1076] Tom Stanton and Alan Kamin, "Another Look at Taxes of the Wealthy," *Washington Post*, August 1, 1972
[1077] Eileen Shanahan, "Nixon's Tax Data Disputed in Study," *New York Times*, August 29, 1972

hoping to spread the unpopular taint of "welfare" to the Democrat's tax plans, too. In a June speech to the Virginia Banker's Association that William Proxmire later called "a direct attack on Senator McGovern," Nixon's CEA chair, Herbert Stein, lambasted the presumptive Democratic nominee's tax and welfare reform plans "using a mix of sarcasm and detailed figures," as the *New York Times* put it.[1078] McGovern's plans for tax reform and a universal guaranteed income were anything but "universal," in Stein's view. "What the new politician seeks is not the consensus issue, but the divisive issue," Stein charged. "He seeks the issue on which he can divide black against white, young against middle-aged, poor against rich, and women against men." What was so "divisive" about McGovern's proposals, according to Stein? The fact that he was raising issues like welfare reform, tax reform, and income redistribution. Like many conservative critics of McGovern, both within the Nixon administration and outside of it, Stein portrayed McGovern's proposal as one that would give to the poor and take from everyone above the poverty line. "The fact with which all income redistribution plans must contend is that there is a limit to the willingness of the non-poor to give income to the poor," Stein argued. This "willingness" was necessary, Stein argued, because "the nonpoor greatly outnumber the poor and dominate the political process."[1079]

Like the White House's JEC appearances, Stein's speech faced a swift backlash. Syndicated columnist Mitlon Viorst lambasted Stein's criticism of McGovern, presenting Stein as little more than a traditional conservative defender of the rich. "Stein is furious that McGovern is promising a redistribution of income and a reform of taxation…," Viorst continued. "What Stein seems philosophy incapable of contemplating is that there is a question of equity in the

[1078] Edwin L. Dale, Jr., "McGovern Income Plans Ridiculed by a Nixon Aide," *New York Times*, June 18, 1972; Robert L. Bartley, "Mr. Stein's Arithmetic Lesson," *Wall Street Journal*, July 26, 1972; *The 1972 Midyear Review of the Economy*, Hearings before the Joint Economic Committee, July 24-27, 1972 (GPO, 1972).
[1079] Milton Viorst, "In Defense of Economics," (Hayward, California) *Daily Review*, June 23, 1972; "Nixon Administration Hits at McGovern Plan," *San Antonio Express and News*, June 18, 1972

presence of poverty amidst plenty, and of fairness in a tax system that permits the rich to pay far less than they should." The columnist argued that McGovern's proposals harkened back to an earlier conception of economics. Rather than concerned only with fiscal management, McGovern was concerned also with distribution. "What Stein is complaining about is that these Democrats no longer are satisfied with the economic issues which have dominated debate over the last decade or two – unemployment, inflation, and growth," Viorst wrote. "These issues begin with the premise that, as the national economic pie grows larger, everyone gets a fatter slice. The economist's job [in this view] is to find the way to make a bigger and bigger pie. In these terms, there is nothing divisive about economic policy, whether it is Democratic or Republican. What irritates Stein is that Democrats are returning to a more traditional conception of economics, in which they ask: In a pie of limited size, who gets what? He is quite right that the question is divisive. It raises all sorts of moral issues that his own economic premises ignore." The idea that issues of distribution and fairness should not enter the discussion of economic policy was "the current economic philosophy of the Republican party," Viorst argued. Though he did not use these terms, Viorst was distinguishing between fiscalist and distributionist visions of taxes. The public was moved by distributionism, not fiscalism, Viorst wrote. "He [Stein] seems unaware that people respond less to the intricacies of economic analysis than the injustices of economic reality," Viorst concluded. "When Stein argues that it's not worth the trouble to close some tax loopholes because it would bring in only a billion or two, I think he misses the point. It's not the accountancy that bothers Americans; it's the immorality." [1080]

As the election approached, the White House refined both its boasts on behalf of Nixon and its attacks on McGovern's economic proposals. The Nixon campaign's goal was to "keep

[1080] Milton Viorst, "In Defense of Economics," (Hayward, California) *Daily Review*, June 23, 1972

McGovern on the defensive," as Colson put it, "preven[ing] him from mounting a sustained attack on us" by "keep[ing] him defending his issues rather than attacking ours." Specifically, they needed to target McGovern's strengths, by "counter attack[ing] on taxes and welfare."[1081] The president and his advisers saw "3 major issues" on which McGovern was weak, as Ehrlichman noted during a meeting with Nixon, Colson, and Haldeman. They were "welfare (black-white)," "taxes (income redistrib[ution])," and the "social issue."[1082] Nixon personally instructed his staff to slam McGovern's tax plans by linking taxes and welfare. The "McGovern Budget," Nixon and Ehrlichman strategized, should be labeled one of "higher prices and higher taxes and recession/unemployment."[1083] The "simple points" to emphasize were "more on welfare," "pay more to loafer," "raise taxes [and] prices," and "cause recession." The White House's goal was to "keep McG on the defensive" and "ignore his [attacks]."[1084] "Obviously every effort should be made to keep reminding people of his [McGovern's] extreme welfare plans and his high budget which would result in an increase in taxes," Haldeman wrote to Colson in one strategy memo. "It is vitally important to keep the ball on his side of the court – in other words have the debate be about his plans and not about our tax reform plans which may come later on in the campaign."[1085] The Nixon campaign's easiest strategy on that count was following the pioneered by Hubert Humphrey in the California primary and attempting to link McGovern's popular tax plans to the specter of an unpopular "welfare" handout. It was an attack the McGovern team anticipated. "[Humphrey] provided the Republicans with all the ammunition to destroy McGovern," McGovern adviser Gordon Weil argued after the campaign. "Humphrey had made charges which suck, so the Republicans needed merely to make them bipartisan issues.

[1081] Colson to MacGregor, September 9, 1972, Contested B 37, F1
[1082] JDE Notes, September 6, 1972, SMOF-Ehrlichman, F JDE Notes 8/7/72-12/13/72 [5 of 9], B 6, RNPL
[1083] JDE Notes, September 5, 1972, SMOF-Ehrlichman, F JDE Notes 8/7/72-12/13/72 [4 of 9], B 6, RNPL
[1084] JDE Notes, September 6, 1972, SMOF-Ehrlichman, F JDE Notes 8/7/72-12/13/72 [5 of 9], B 6, RNPL
[1085] Haldeman to Colson, September 6, 1972, Contested B 37, F1

It seemed to be of no importance to either Humphrey or the Republicans that most of these charges were totally false. And it did not concern Humphrey that he was providing the Republicans with ammunition bearing his own seal of approval."[1086] Indeed, Nixon did not miss the chance to use the welfare attack that had already been perfected by Humphrey to his own advantage, including using the Senate Finance Committee numbers touted by Humphrey in the first California debate. One of the most famous commercials run with Democrats for Nixon began with the wail of a factory whistle. As a voiceover begins, a white, middle-aged, hard-hatted construction worker ambles onto a beam overlooking a city street and begins eating a sandwich from his lunch pail. "Senator George McGovern recently submitted a welfare bill to the Congress," the voiceover intoned. "According to an analysis by the Senate Finance Committee, the McGovern bill would make 47 percent of the people in the United States eligible for welfare. Forty-seven percent. Almost every other person in the country would be on welfare…. And who's going to pay for this? Well, if you're not the one out of two people on welfare, you do." With these final words, the camera zoomed in close on the worker's distraught, haggard face before fading to the Democrats for Nixon logo.[1087] "The combined effects of the original Humphrey charges and their repetition by the so-called Democrats for Nixon was to be devastating [to McGovern]," Weil argued, somewhat exaggeratedly. "And at no time during the fall campaign would Humphrey withdraw his original charges."[1088]

The flip side of the Nixon campaign's emphasis on welfare was slandering McGovern's tax plans as little more than a hike on the great "Silent Majority" that would be used to fund spending on the – presumably poor, black – minority. "McGovern's 'income redistribution'

[1086] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 117
[1087] Democrats for Nixon, "McGovern Welfare" commercial (http://www.livingroomcandidate.org/commercials/1972/mcgovern-welfare)
[1088] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 117

program amounts to a declaration of economic war against the American Middle Class, on behalf of the welfare class," a Buchanan-penned attack treatise declared. "Politically, George McGovern has given a promissory note for $1000 to every welfare client, hippie and loafer In the Nation – payable on demand at the United States Treasury if McGovern is elected. And who will provide the Treasury with the billions required to make good on the McGovern promissory note[?] – the average taxpayer in this country every family in America that makes $12,000. The McGovern proposal – $1000 per person to everyone in the country – would end up leaving 85 million more Americans on the welfare rolls, according to the Democratically-controlled Senate Finance Committee of Russell Long."[1089] Keeping with this "keep McGovern on defense" welfare-and-tax game plan, the CRP created "weekly attack themes" designed to allow the Nixon campaign to focus their McGovern attacks on a single issue each week, including a "Welfare Week" and a "High Taxes Week," designed to hammer home how "McGovern's proposals mean high taxes for the working man."[1090] The administration believed that Middle Americans would not tolerate McGovern's tax proposals once they understood how "redistributive" they were. "[W]e are probably fairly close to the present limits of the toleration of the transfer of income from the non-poor to the poor," Herbert Stein argued. McGovern's loophole-closing reform plans, he said, would ultimately hurt "the great mass of taxpayers who supply the great mass of revenue [and who] do not want their taxes raised but are instead quite eager to see their taxes reduced."[1091] Likewise, Edwin Cohen publicly declared that tax-and-welfare programs like McGovern's would necessarily harm the middle class. "[W]hen you increase government expenditures and you have to finance them, you have roughly three groups, a lower income group, a middle income group, and an upper income group," he argued. "And no matter how

[1089] Higby to Buchanan and attached, August 31, 1972, Contested, B 9, F 28, RNPL
[1090] Failor to MacGregor, September 13, 1972, Contested, B 38, F 5, RNPL
[1091] Edwin L. Dale, Jr., "McGovern Income Plans Ridiculed by a Nixon Aide," *New York Times*, June 18, 1972

heavily you tax the upper income group you can only get so much out them, because it is just not that large a group. And you can't tax heavily the low-income group. So…you [tax]…the large body of middle class persons."[1092]

Nixon campaign mailings and speeches likewise attempted to paint McGovern's populist economic proposals as simply distribution from the middle class to the poor. The White House argued directly that middle-income Americans would see their federal income taxes rise under McGovern.[1093] "He says he will just take it from the rich. But, even with the most extreme, confiscatory taxation of the wealthy, the revenue would not be anywhere near enough," one letter claimed. "The truth is it would have to come from greatly increasing taxes on middle and lower income working people, removing the incentive among the great majority of American workers to work harder, to compete, to save, and to get ahead. In fact, if the McGovern spending and tax programs were enacted as a whole, achievement and success would be penalized. Private enterprise would be stifled…. Senator McGovern pays elaborate lip-service to tax reform but the only real 'reform' he proposes is increased taxes."[1094] Speech instructions for Nixon surrogates lambasted McGovern as a feckless tax hiker. "The question is not, Will Sen. McGovern mean higher taxes? The question is only, How much higher will those taxes be?" the suggested language read. "I offer you two estimates. The first is Senator Hubert Humphrey's estimate of what George McGovern's $1,000 per person welfare proposal alone would cost a single secretary making $8,500 per year….more than $500 in federal income taxes. Second, I offer an estimate by an economic study group. Their calculations conclude that if George McGovern were successful in putting into law every spending proposal he has mode in this campaign, the

[1092] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)
[1093] RNC Talking Paper, September 18, 1972, SMOF-Ehrlichman, B 18, F 1972 Election Strategy, RNPL
[1094] MacGregor to Supporter and attached, October 12, 1972, Contested, B 39, F 1, RNPL

taxes on a family of four earning $12,500 per year would be increased by $1,038 a year. That would nearly double what that family pays in federal taxes today." The speech suggestions also argued that McGovern's policies would stoke inflation which, though "not a direct tax" was "an indirect tax" that "would be paid by America's working families."[1095] Nixon campaign talking points included shots against McGovern's "New Left" "tax-the-rich" proposals, which the White House argued would "actually hit middle income groups," "stifle incentives," and were "actually massive tax increase," despite being framed as "tax reform."[1096] In its campaign materials, the Nixon team also used a Wilbur Mills quote wherein the Ways and Means chair wondered money would come from for McGovern's proposed programs, as well as a particularly devastating Hubert Humphrey quote: "Everyone who earns between $8,000 and $20,000 would be socked in the proverbial jaw with the tax load from McGovern's ambitious programs."[1097] "[McGovern] hopes to buy the votes of the bottom half of American society with the tax dollars of the top half of American society," Buchanan quipped. [1098]

This line of attack on McGovern found some success, but, ultimately, failed. Just as with the dubious graphs presented by the Nixon White House during throughout the summer, the question of how McGovern's tax plans would impact the middle class could easily be answered by math. And, once again, the answer did not comport with the Nixon White House's assertions. In an attempt to put firm numbers behind the Nixon team's repeated assertions that McGovern would doom the middle class, Herbert Stein outlined the critique in detail during a speech to the Virginia Banker's Association. In his speech, Stein hypothesized that McGovern would finance his tax and welfare plans with a flat-rate tax. "To do [McGovern's plan]…," Stein told the

[1095] "Speech Insert – McGovern Tax Increase," Undated [1972], Contested, B 39, F 1, RNPL
[1096] "Tax Reform," [Undated 1972], May 25, 1972, SMOF-Ehrlichman, B 66, F May 25, 1972, RNPL
[1097] Concerned Citizens, August 22, 1972, Contested, B 36, F 1, RNPL
[1098] Higby to Buchanan and attached, August 31, 1972, Contested, B 9, F 28, RNPL

Virginia Banker's Association in June, "would require a flat federal income tax rate of 46 percent of taxable net income in addition, of course, to the income rates now in force." This shocking claim was designed to garner media attention, and, indeed, it succeeded. The press seized on the shocking 46 percent claim, which seemed to prove that McGovern was, in fact, going to sock not only the rich, but "Middle Americans" with a drastic tax hike.[1099] This prompted debunking articles by economics reporters Leonard Silk and Hobart Rowen, among others, to explain that McGovern's plan did not actually call for dramatic tax hikes on lower- and middle-class Americans. Speaking for McGovern, Joseph Pechman explained why Stein's headline grabbing was wrong. Closing loopholes would increase the tax base, allowing for lower rates. Moreover, Stein did not account for the fact that the grant was replacing the current personal exemption and standard deduction – a proposal (as noted in previous chapters) long favored by progressive reformers – and there was no reason to assume that McGovern planned to levy a flat-rate.[1100] In fact, Stein's critique was self-contradictory. He said that McGovern's "plan amounts to shuffling around $210 billion for the sake of giving something like $5 billion or $10 billion to the poor people." The rest, Stein noted, would go to families making between $5,000 and $15,000 per year – families in the same middle-class the White House was claiming would be hurt, not helped, by McGovern's tax plans.[1101] As the *Washington Post*'s Rowen put it, "What Stein fails to say is that McGovern's proposal is designed to help not only the poor, but less affluent families above the $4,300 poverty level."[1102] "It should be remembered," Rowen added, "that the McGovern plan, although much more ambitious and costly, has a lot in common with

[1099] Robert L. Bartley, "Mr. Stein's Arithmetic Lesson," *Wall Street Journal*, July 26, 1972
[1100] Leonard Silk, "McGovern Tax Proposal," *New York Times*, June 28, 1972
[1101] Edwin L. Dale, Jr., "McGovern Income Plans Ridiculed by a Nixon Aide," *New York Times*, June 18, 1972; Robert L. Bartley, "Mr. Stein's Arithmetic Lesson," *Wall Street Journal*, July 26, 1972
[1102] Hobart Rowen, "Stein Goes Political in McGovern Tax Critique," *Washington Post*, July 2, 1972

Nixon's Family Assistance Plan."[1103] That simple reminder was the McGovern campaign's best defense. "Is it a radical proposal or is it simply a more liberal variant of the negative income tax originally proposed by the conservative University of Chicago economic Milton Friedman?" economics reporter Leonard Silk asked, rhetorically. Joseph Pechman's answer was, essentially, "yes," to both questions, but especially to the latter. Under a NIT, Pechman explained, everyone received a minimum income, but that income – and all other income – was subjected to tax. The tax rate for under the House version of Nixon's FAP was 66 2/3 percent. So, with a guaranteed allowance of $2,400 for a family of four, the break-even point was $3,600. McGovern's plan was similar, Pechman argued. "What is new about Senator McGovern's idea is that the negative income tax part of the plan is integrated with the positive income tax," Pechman told the *New York Times*. The key was loophole-closing tax reform, which would increase the taxable income base, thereby funding the grants. "[O]ne of the crucial elements of the whole plan is tax reform…," Pechman noted. Rather than confiscatory, as critics argued, McGovern's plan could even provide enough revenue through loophole closing reforms to both fund the grant and lower top marginal rates. [1104]

For all the Nixon campaign's attacks on McGovern's tax plans, little disagreement actually existed about its effects. Rather, any confusion – genuine or willful – over McGovern's plans stemmed from the divergent meanings of terms like "middle class" and "break even." For example, Sylvia Porter gave the Nixon administration some of the little help it got from the mainstream press by summarizing the Democrat candidate's plans thusly: "Higher taxes and not much, if any, cost of living relief for you, the middle income family. Lower taxes or elimination of taxes for you, the family in the bottom ranges. Substantial relief from property taxes for you,

[1103] Hobart Rowen, "Stein Goes Political in McGovern Tax Critique," *Washington Post*, July 2, 1972
[1104] Leonard Silk, "McGovern Tax Proposal," *New York Times*, June 28, 1972

the homeowner." This description followed from Porter's quixotic definition of "middle-income." "As a family earning $20,000 to $25,000 and up – middle to upper middle – the redistribution of wealth would mean it's your wealth being redistributed," she wrote.[1105] Given that median household income in 1972 was less than $10,000, Porter's description of those making more than twice the median as "middle to upper middle" seemed debatable, at the very least.[1106] Pechman argued, in contrast, that McGovern's plan could easily be financed with rates on the first $12,000 of income at 33 1/3 percent and a top marginal rate as low as 45 percent. Tax increases even for those in a generous definition of the middle-class would be tame. According to Pechman's calculations, a family of four making $20,000 – nearly twice the median family income in 1972 – would pay only $90 more in federal income taxes than it did under existing law – a point that Porter, in fact, conceded in her series.[1107] An additional part of art of the conflicting portrayal of McGovern's plans arose from what exactly "break even" meant.

Indeed, the break-even point in McGovern's combined "Demogrant"-tax reform proposal proved to be too confusing a concept for the often policy-challenged political press. Aided by the McGovern campaign's own prevarications, campaign reporters could not understand whether those making more than $12,000 would pay higher taxes, or whether those making over $18,000, $20,000, $22,000, or some other number would.[1108] For various reasons, McGovern's hypothetical $12,000 family of four cutoff – as described by McGovern and Lontief meant in their initial *New York Review of Books* treatise – opened the candidate's plan up to confusion and political attacks. McGovern and Lontief likely based their 20-80 tax increase-to-benefit ratio

[1105] Sylvia Porter, "Redistribution of Wealth Proposed by Senator," *Milwaukee Sentinel*, June 30, 1972
[1106] U.S. Bureau of the Census, *Current Population Reports* 60:89, "Household Money Income in 1972 and Selected Social and Economic Characteristic of Households "(GPO, 1973). See also, U.S. Bureau of the Census, *Current Population Reports* 60:90, "Money Income in 1972 of Families and Persons in the United States"(GPO, 1973).
[1107] Leonard Silk, "McGovern Tax Proposal," *New York Times*, June 28, 1972
[1108] See, for example, Hobart Rowan, "McGovern Proposes Traditional," *Washington Post*, August 30, 1972

calculations on 1970 income data. However, because of inflation and growth, family income – which always exceeds household income – was $11,116 in 1972, up approximately $1,200 since 1970.[1109] This made the $12,000 appear closer to some families than perhaps was McGovern's intent. Moreover, the media's understanding of the cutoff – and even McGovern's own explanation of it – often created the impression that families making more than $12,000 would pay more in taxes under his plan. But that was not the case. What McGovern and Lontief actually meant in their initial *New York Review of Books* treatise was that $12,000 was the point at which the "Demogrant" would phase out for a family of four, not the point at which families would begin paying higher taxes. Rather, a family of four making $12,000 under McGovern's hypothetical plan would pay *no federal income taxes* at all. Indeed, even a cursory glance at the federal taxes – income and payroll, combined – paid by a family of four in 1972 indicated that McGovern's "Demogrant" would more than offset its federal tax burden.[1110] That the $1,000-per person grant would cancel out the family's taxes was demonstrated in the example presented by McGovern and Lontief in the *New York Review of Books*, which used the 33 1/3 percent flat-rate income tax proposed in Tobin's plan.[1111] Regardless of the precise cutoff, it was clear that McGovern's plan would benefit even the highest paid of the coveted blue-collar demographic. For example, a coal miner working fulltime 50 weeks out of the year would make less than $12,000 in 1972, while an average manufacturing nonsupervisory worker would make less than $8,000 per year.[1112] This federal tax savings, proponents noted, could then be used to help offset Americans' rising state and local tax bills, which McGovern also promised to attack directly with

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[1109] U.S. Bureau of the Census, *Current Population Reports* 60:90, "Money Income in 1972 of Families and Persons in the United States"(GPO, 1973).
[1110] See, for example, Table 38 of Advisory Commission on Intergovernmental Relations, "Federal-State-Local Finances: Significant Features of Fiscal Federalism," M-79 (1974)
[1111] George McGovern and Wassily Leontief, "On Taxing & Redistributing Income," *New York Review of Books*, May 4, 1972
[1112] BLS, *Employment and Earnings* 18:12 (GPO, June 1972)

subsequent legislation.

Even the Nixon White House's own studies of McGovern's proposals found that they were much more generous to middle-income Americans than even McGovern and Lontief had claimed. A private analysis of the plan by Nixon OMB found that every family making less than $18,500 – which the administration calculation as representing approximately 70 percent of families – would be better off under McGovern's $1,000-per person grant program than under the current tax system, or under Nixon's own welfare reform proposals. Moreover, because of McGovern's vagueness in his proposals, the Nixon OMB team assumed that McGovern would adopt the 33 1/3 percent flat-tax rate contained in Tobin's proposals, which the Nixon team acknowledged was unlikely. More likely, they noted, would be McGovern keep some type of graduated rate schedule – an outcome that would likely make McGovern's plan even more beneficial to low- and middle-income taxpayers than the Nixon OMB's estimates.[1113] In a little-commented upon section of Stein's Virginia speech, Nixon's CEA chair acknowledged that, with loophole-closing tax reform to expand the tax base, the tax rates necessary to fund McGovern's plan would be much lower than the widely-quoted additional 46 percent on top of existing tax rates. With loophole closing reforms, Stein noted briefly, McGovern's $1,000 per person plan "would have a break-even point of about $18,000 for a family of four."[1114]

The OMB's numbers were not the only ones to show the viability of McGovern's plan. The Nixon OMB's calculations were supported by outside studies, too. For example, a University of Wisconsin-Madison Institute for Research on Poverty study estimated the cost and distributional effects of the tax plan outlined by McGovern in the *New York Review of Books* and assumed that $12,000 for a family of four was the break even point at which the family neither

[1113] Torrey and Zentay to O'Neill, June 9, 1972, WHCF SMOF Harper, B 50, F McGovern, Senator [2 of 2], RNPL
[1114] Robert L. Bartley, "Mr. Stein's Arithmetic Lesson," *Wall Street Journal*, July 26, 1972

paid taxes nor received the grant, since its tax burden and grant allotment – both $4,000 – would cancel each other out. And, like the OMB study, the UW estimates used Tobin's 33 1/3 tax rate, even though McGovern had not committed to tax brackets and a true 33 1/3 percent flat-tax rate seemed unlikely, since it would provide a large tax cut to taxpayers making more than $50,000, which was undoubtedly the opposite of McGovern's intention, given his stated goals and the tide of public opinion. Despite these shortcomings in the estimates, the UW study found that McGovern's plan would create a huge $55 and $60 billion federal shortfall if imposed on the existing federal tax code. But, if broad loophole closing reforms were completed, McGovern's "demogrant" plan would cost only $5.5 billion, in federal terms. However, since the "demogrant" would save the states $4.5 billion in welfare outlays, the total cost of McGovern's plan actually would be a paltry $1 billion. In terms of its distributional effects, the UW study found, similar to the OMB study, that families of four making well into the $20,000-per-year range – more than 4/5ths of all U.S. households in 1972 – would be better off under McGovern's plan than under the current tax code.[1115]

Independent studies commissioned by the McGovern campaign painted an even rosier picture. In what would, by the final months of the campaign, become a seemingly endless string of revisions to McGovern's initial fiscal proposal, the McGovern campaign hinted at a potential revision in the Democrat's welfare and, by proxy, tax plans in June. A Mathematica study, completed at McGovern economic adviser Edwin Kuh's suggestion proposed Demogrants" in varying amounts – rather than a flat $1,000 – ranging from $440 for children under six to $1,560 per year for Americans over age 64, with two steps in between. The Mathematica study also included a flat 33 percent tax rate for all income groups, much like Tobin's initial NIT

[1115] Russell Lidman, "Cost and Distributional Implications of a Credit Income Tax Plan," *Institute for Research on Poverty Discussion Papers* 131:72 (June 1972).

proposals.[1116] Poor and working-class Americans would be much better off under McGovern's proposed system than under current U.S. law, according to the Mathematica study. "If a family of four had a yearly income of $9,000, it would pay, assuming a flat tax rate of 44 percent, $3,000 in income taxes, but would receive approximately $4,000 in government grants," the *Washington Post* explained. "Thus, the family's total income, after taxes, would be $10,000 rather than its $9,000 pre-tax income, or approximately $7,5000 in after-tax income under the present system. Crucially, the Mathmetica study also found that – even without the additional brackets –middle-class Americans, by any reasonably definition of the group, would pay much less in taxes under McGovern's plan than under the current tax system. "For a family of four, an income of $12,000 would be the point at which it neither gained nor lost income under the proposed [grant] system," the paper continued. "Those earning more than $12,000 but less than approximately $16,000 would have a net loss of income, *although not as much as they now pay under the present tax system* [emphasis added]." A family of four with an income of $15,000 would pay $5,000 in taxes, under the Mathematica study's hypothetical revised McGovern plan, while it would receive $4,000 in grants, meaning that it would only pay approximately $1,000 in federal income taxes, compared to approximately $1,500 under existing law.[1117] When reports of the Mathmatica study hit the press, McGovern's press secretary was quick to point out that the candidate had not adopted the proposals and might be especially likely to object to the flat tax rate. Indeed, other economic advisers hinted that, even if the 33 percent rate were adopted at the bottom of the income range, additional higher brackets above $50,000 and $100,000, in

[1116] Charles Krause, "McGovern Advisers Propose Cash Grant Based on Age," *Washington Post*, June 26, 1972
[1117] Charles Krause, "McGovern Advisers Propose Cash Grant Based on Age," *Washington Post*, June 26, 1972; Table 38 of Advisory Commission on Intergovernmental Relations, "Federal-State-Local Finances: Significant Features of Fiscal Federalism," M-79 (1974); Emmanuel Saez and Thomas Piketty, "How Progressive is the U.S. Federal tax system? A Historical and International Perspective," Journal of Economic Perspectives 21:1 (Winter 2007), complete tables (http://eml.berkeley.edu/~saez/jep-results-standalone.xls)

particular, were likely to be added.[1118] Regardless, between the Mathematica study and Stein's subtle revelation of the OMB figures, it was clear that Nixon's claims that McGovern's tax-and-welfare plans would slam the middle class were outright falsehoods.

With their middle-class tax hike claims gaining little traction, some conservatives, both within and outside of the Nixon White House, decided – perhaps unwisely – to attack McGovern's platform for proposing an effective increase in taxes on capital income, portraying such policies as growth-killing big government. Treasury Secretary George Shultz publicly argued that raising taxes on capital gains would hurt investment, the stock market, and the economy as a whole."[T]his is the engine that makes the economy go," Shultz said. Thanks to inflation, Shultz contended, taxing capital gains at 48 percent would actually be taxing them at 80 percent.[1119] Nixon adviser Pierre Rinfret agreed, saying that McGovern would "penalize the capital formation without which we don't grow."[1120] Patrick Buchanan pushed the White House to go even further, claiming that McGovern would turn the U.S. into a "super-socialist society along the lines of Sweden…. The free enterprise system…simply could not survive…. The enormous tax bite would remake American society with intrusive government now everywhere visible…."[1121] Some of McGovern's fellow Democrats undercut his tax reform plans, too. Connecticut Senator Abraham Ribicoff, otherwise a reliable liberal, echoed the Nixon administration, said that taxing capital gains at the same rates as ordinary income would "discourage investment." Ribicoff, a member of the Senate Finance Committee, was quick to point out that he agreed with McGovern "on the closing of many of the loopholes," but argued

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[1118] Charles Krause, "McGovern Advisers Propose Cash Grant Based on Age," *Washington Post*, June 26, 1972
[1119] "Shultz Hits McGovern on Capital Gains Tax," *Los Angeles Times*, September 1, 1972
[1120] "Capital Gains Under Fire," *Time*, September 18, 1972; "Shultz Hits McGovern on Capital Gains Tax," *Los Angeles Times*, September 1, 1972; Joseph Pechman, "Money Made by Money," *New York Times*, September 14, 1972
[1121] Higby to Buchanan and attached, August 31, 1972, Contested, B 9, F 28, RNPL

that, as a member of the Senate Finance Committee, he "wouldn't buy" either McGovern or Nixon's tax proposals – hardly a ringing endorsement of his party's candidate.[1122] In its monthly journal, the Chamber of Commerce lambasted McGovern's tax plans as "redistribution of wealth" with "about as much substance as cotton candy." Nonetheless, the Chamber was "concern[ed]" by "the serious and determined drive any candidate to destroy sensible tax incentives than have carefully been built into our tax structure over the years, or to create the impression that corporations and the well-to-do are deep reservoirs of revenue potential." Loopholes did not exist, in the Chamber's view, and the tax code certainly did not need to be made more progressive. "Tax provisions that allow different treatment for some taxpayers have been not loopholes but, in fact, relief or incentive amendments deliberately enacted to keep high tax rates from being too burdensome for some taxpayers or to encourage such economic necessities as saving or investing…."[1123] Other Wall Street insiders, like Merrill Lynch chair Donald T. Regan – who would later become President Ronald Reagan's first Secretary of the Treasury – argued that capital gains taxes were already too high.[1124]

McGovern's advisers quickly – and seemingly, happily – defended McGovern's proposal to raise capital gains taxes. Responded to the fiscalist, growth-related critique, Joseph Pechman argued that investment levels were ultimately driven by growth, not vice versa. "The effect of tax rates on investment is, in my opinion, very small," Pechman argued. "In a full employment economy, there are more than enough incentives for business to invest."[1125] "The effect of tax

[1122] "McGovern Tax Plan Can't Pass – Ribicoff," *Washington Post*, September 16, 1972
[1123] Tait Trussell, "How to Listen to Politicians," *Nation's Business* (October 1972)
[1124] Robert Metz, "Tax Cut Sought on Capital Gain," *New York Times*, August 3, 1973
[1125] "Capital Gains Under Fire," *Time*, September 18, 1972; "Shultz Hits McGovern on Capital Gains Tax," *Los Angeles Times*, September 1, 1972; Joseph Pechman, "Money Made by Money," *New York Times*, September 14, 1972

rates on investment is, in my opinion, very small," Pechman concluded.[1126] Other McGovern surrogates went further, lambasting the White House's arguments as absurd and untrue. "Although I have never met a computer that could laugh, or weep tears, or love, we apparently today have Republican and Democratic Computers," Paul A. Samuelson quipped to the Joint Economic Committee. "A Chase Bank computer will tell you that McGovern economics will stop GNP growth in its tracks; a Wharton School or Data Resources computer will tell you that this [McGovern's economic program] just what the doctor ordered for good health of the GNP vector."[1127] Even if higher taxes on capital would cut growth, Samuelson argued that it would not necessarily be an altogether negative outcome. "We don't want growth just as growth…," he said. The GNP did not measure social welfare. Rather, Samuelson continued, the effect of the growth on society and its distribution was what was most important. "[W]hat I am saying now is that the modern, if I may coin a phrase, affluent society," Samuelson said, with a humorous nod to Galbraith, "can afford a slower rate of the old-fashioned growth, and a faster rate of welfare growth."[1128] The difference between the two perspectives, *Time* summarized, was that "broadly speaking, Nixonians view investment as the most important force powering economic growth, while McGovernites give priority to consumer spending."[1129]

But McGovern's economic advisers and supporters went further, echoing their candidate's moral and distributional criticism of the preferential rate on capital gains. According to figures prepared by the Nixon Treasury at the request of Democrat Henry Reuss, 83 percent of

[1126] "Shultz Hits McGovern on Capital Gains Tax," *Los Angeles Times*, September 1, 1972
[1127] *The 1972 Midyear Review of the Economy*, Hearings before the Joint Economic Committee, July 24-27, 1972 (GPO, 1972)
[1128] *The 1972 Midyear Review of the Economy*, Hearings before the Joint Economic Committee, July 24-27, 1972 (GPO, 1972)
[1129] "Capital Gains Under Fire," *Time*, September 18, 1972; "Shultz Hits McGovern on Capital Gains Tax," *Los Angeles Times*, September 1, 1972; Joseph Pechman, "Money Made by Money," *New York Times*, September 14, 1972

all the individual capital gains went to taxpayers making more than $20,000 a year in 1971, a group that represented roughly 10 percent of the population.[1130] Under JEC questioning, Cohen acknowledged the factuality of those figures, calling capital gains "the biggest item affecting the upper income group by far, the one we have been dating for 30 or 40 years."[1131] To continue treating income earned by selling stocks differently from income earned making cars or teaching children, McGovern's campaign argued, was not only discriminatory, it also made little practical sense. "The ultimate fact is that however a man is enriched by a give amount, he is damned well enriched by that amount. And whether it comes to him from capital gains or [other sources]…he has the money. We should apply the same rate of taxation to the given amount of enrichment…," John Kenneth Galbraith quipped. "The notion that a dollar is a dollar is something we need now to accept. "The kind of licensed discrimination we now have in favor of the affluent is something that we must bring to an end in the taxation."[1132] Once again, the dollars and cents calculations were on McGovern's side. "An executive who earns $30,000 in salary this year could easily wind up paying $5,180 in federal income tax. His neighbor who also makes $30,000, but gets it entirely in the form of profit on the sale of stock, could pay less than half as much," *Time* explained to its readers September. "Is that fair? To Richard Nixon's economists, the lower tax on the stock profit is both a just reward for capitalist risk taking and a necessary stimulant to investment. To George McGovern's followers, the preference is the biggest 'loophole' in the tax

[1130] Data in Appendix E of Cohen's testimony, *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972). Estimate of income percentile from U.S. Bureau of the Census, *Current Population Reports* 60:89, "Household Money Income in 1971 and Selected Social and Economic Characteristic of Households "(GPO, 1972); Emmanuel Saez and Thomas Piketty, "Income Inequality in the United States, 1913-1998" *Quarterly Journal of Economics*, 118:1 (2003) supplementary tables (http://eml.berkeley.edu/~saez/TabFig2012prel.xls)
[1131] *Tax Subsidies and Tax Reform*, Hearings before the Joint Economic Committee, July 19-21, 1972 (GPO, 1972)
[1132] *The 1972 Midyear Review of the Economy*, Hearings before the Joint Economic Committee, July 24-27, 1972 (GPO, 1972)

code."[1133] Indeed, such explanations became a go-to portion of McGovern campaign speeches. "Money made by money should be taxed at the same rate as money made by men," McGovern repeatedly argued. "Tax justice demands equal treatment for Americans who earn their living with a shovel or a slide rule and Americans who live on stock market and property gains."[1134]

In short, while few of Nixon's attacks on McGovern's tax plans stuck, the president's vulnerability on tax issues remained. Indeed, the public's dislike for Nixon's stances on pocketbook issues, in general, and taxes, in particular, was stressed by analysts both within and outside the White House throughout the election year. Perhaps the key warning for the White House on economic issues came in the form of July memo, titled simply "Inflation and Taxes," by Nixon's pollster Robert Teeter. "The President's ratings on inflation and taxes have fallen sharply since January and he appears to be vulnerable…," Teeter reported. "Should McGovern begin to gain strength and segments of the Democratic coalition begin to come back together, inflation and taxes appear to be the issues that could be most effectively be used against us." Whereas Americans had once given Nixon middling ratings on pocketbook issues like inflation and taxes, the president now received poor marks on both. Even worse, they were strengths for McGovern. Nor was this an effect of simply blaming the president for conditions in the country. Rather, most Americans genuinely preferred McGovern's positions to Nixon's on their merits. "Tax reform may be especially important in the campaign because it is an issue on which McGovern's perceived position is closer to the general population's position than Nixon's," Teeter reported. The pollster illustrated the phenomenon with a series of graphs of data from key states. On a left-to-right scale of tax reform, with one being the most liberal and seven the most conservative, Ohioans, for example, rated themselves a 2.3, McGovern a 2.7, and Nixon a 4.3. "I

[1133] "Capital Gains Under Fire," *Time*, September 18, 1972
[1134] "Capital Gains Under Fire," *Time*, September 18, 1972

think that the President should take some action dealing with the inflation problem immediately and that the tax reform problem should be handled some time early in the campaign before McGovern has a chance to get a hold of it…," Teeter argued. "Inflation and tax reform are problems the President should handle personally."[1135] As he put it in another memo to Haldeman, "In terms of issues we should concentrate on the major national issue[s] [of] Vietnam, the economy, taxes, drugs, and crime…. His ratings on inflation and taxes are poor and down sharply from January. These issues are closely related and important to Presidential vote."[1136] State-level polling found much the same. "On ability to handle the issues, RN receives a negative on only unemployment and taxes," a New York state report noted. "McGovern has a positive rating on unemployment, and scores better than RN on taxes and drugs…."[1137]

Perhaps even more discouragingly for the president, even Nixon's own campaign team rated the president's pocketbook platform poorly. When the Nixon team aggregated advisers' views on Nixon and McGovern's respective "best/worst" issues, 11 of 15 surveyed advisers listed "international issues" as Nixon's best, with the rest rating "incumbency" as his "best issue." None gave the president high marks on the economy or domestic issues, generally. In fact, only five rated the economy as Nixon's second or third best issue. In contrast, Nixon's advisers uniformly rated Vietnam, the economy, and the broader issue of "the haves and have-nots" as strengths for McGovern. For example, Bill Safire listed McGovern's "best (positive)" as his message that "the average man will get a better deal through tax reform." In the view of his own advisers, Nixon's weaknesses were broad and varied. Six listed "credibility, trust, ethics" as his number one weakness. Five picket Vietnam first, and three picked the economy first, with another 10 listing it in the top four. McGovern's weaknesses seemed prosaic, in contrast. All but

[1135] Teeter to MacGregor, July 31, 1972, Contested, B 16, F 10, RNPL
[1136] Teeter to Haldeman, August 1, 1972, Contested, B 26, F 92, RNPL
[1137] Price to Nixon, October 18, 1972, Contested B 53, F 47, RNPL

three Nixon advisers listed McGovern's greatest weakness as either "the candidate himself" or "radicalism (non-specific issues)."[1138]

Like the 1970 midterms, Nixon hoped to woo blue-collar Democrats in 1972. But this time his strategy was markedly different. A more nuanced view of working-class white voters' motivations replaced the crude cultural appeals of 1970. Colson aide Douglas Hallett studied Nixon's 1960 and 1968 campaigns to draw lessons from their successes and failures. Rather than tending to the hard hats' cultural grievances, Hallett concluded that Nixon needed to "be holding down food prices, fighting inflation, taking after a big corporation or two, working on tax reform, solving pollution problems, bleeding a bit for the poor, and – although not as importantly since it has already been accomplished P.R. wise – bringing about a new structure of peace – and he should be doing all these things visibly, actively and dramatically."[1139] "The target voter…makes $10,000 to $15,000 a year and probably his wife works," an unnamed Nixon official told the *Washington Post*'s Lou Cannon in August. "He's anti-welfare, or at least thinks that he doesn't get the proper share for his own efforts. He's not a hawk on the war – nobody is anymore – but he doesn't want to bug out, either." Replacing – or, at least, joining – the issues of welfare and busing in the Nixon appeal was "tax reform." Likewise, Nixon tempered the GOP's anti-union message. "[R]ight-to-work isn't in the platform and for a damn good reason," the Nixon official quipped. "The president didn't want it there." Cultural appeals were not enough to build the "New Majority," the midterms had made clear to Nixon. Now, the White House sought to make erstwhile Democratic voters confident that Nixon would not harm their pocketbooks. The complex Nixon outreach plan included a phone bank to target potential "New Majority" voters, along with follow-up mailings on issues mentioned by the undecided voter, including

[1138] Strachan to Higby, August 10, 1972, Contested, B 36, F 4, RNPL; Safire to Higby, August 9, 1972, Contested, B 36, F 4, RNPL
[1139] Hallett to Haldeman, June 28, 1972, Contested B 20, F 14, RNPL

ones on busing and taxes.[1140]

Quickly, progressive tax reform assumed center stage in Nixon's new positive agenda to woo working- and middle-class voters on pocketbook issues. It was a strategy endorsed by innumerable Nixon advisers and confidants. Teeter and Colson, among other advisers, urged Nixon to put tax reform front and center in the campaign in an attempt to turn it into a positive issue for the president.[1141] Reviewing requested memoranda from a cross-section of Nixon advisers on strategy for the 1972 campaign, Dwight Chapin likewise concluded that Nixon's "activities should concentrate on special voter bloc efforts, as well as key domestic efforts – in particular, taxation."[1142] Perhaps even more influentially, George Meany privately told George Shultz to advise Nixon to "say more about taxes." On the one hand, Meany explained to Shultz, unionists associated welfare with high taxes, "because our guy thinks he's paying his taxes so that somebody else can get welfare so cracking down on that is tax reform." But that conservative interpretation of tax resentment would not suffice on its own. "[Meany] thinks that the President has got to show that he's willing to tackle the people who don't pay a tax but are rich," a memo to Nixon noted. High-income tax avoiders were assumed to be Republicans and Nixon needed to show that he was "willing to take on these people who are assumed to be in the president's corner." Both concerns – with underserving welfare recipients below and tax avoiders above – drove shared the "psychology of somebody getting away with something," according to Meany.[1143]

The road to victory, many Nixon advisers now concluded, was paved with the tax worries of the working class. While it would be "hard [for Nixon] to shed" the "big business label,"

[1140] Lou Cannon, "Nixon Committee Aims Campaign at 'Ethnics,'" *Washington Post*, August 27, 1972
[1141] Strachan to Higby, August 10, 1972, Contested, B 36, F 4, RNPL
[1142] Chapin to Haldeman, June 22, 1972, Contested B 20, F 14, RNPL
[1143] Ehrlichman to Nixon, August 25, 1972, Contested, B 36, F 4, RNPL

Nixon's "hard hat" Svengali Charles Colson conceded, it would be possible for Nixon undertake "a number of blue collar initiatives" to blunt the effect. On taxes, Colson saw particularly great potential for meaningfully shifting the administration's image prior to the election. "There is no way politically that we can defend the present tax structure, nor should we. Either Humphrey or McGovern will attack it hard…," he argued. "[W]e should quite candidly acknowledge that the present system is deficient, inequitable, overly complex, that the heaviest burdens are on middle-class people, that people shouldn't get away scott-free without paying any taxes and that property taxes are the, most regressive and onerous of all." Colson saw the latter, in particular, as a fruitful issue that had so far been little more than a missed political opportunity for Nixon. "Curbing property taxes is a natural issue," Colson argued. "It should be ours; but we have skirted all around it. We made an unsuccessful attempt to equate revenue sharing with property tax relief and we hit the issue hard in this year's State of the Union, but there has been almost no substantive follow-up." The need to claim the high ground on taxes could not be more pressing, in Colson's view. "We should proclaim it [tax reform] the number one priority of the second Nixon term," he wrote. In order to keep Nixon from being forced to "reac[t] defensively throughout the months of September and October," the White House needed to show it was actively moving forward on reform proposals that would communicate that "the rich must pay their fair share of taxes"[1144] It was a strategy the Nixon reelection team would follow closely.

While the Nixon team identified early in the presidential campaign that Nixon would need to shore up his support when it came to taxes, the events of the Democratic primary and the mountain of polling data that followed forced Nixon to move further and further to the left on the issue, both substantively and by adopting the rhetoric of left-distributionism. Indeed, early

[1144] Colson to Haldeman, May 17, 1972, SMOF Colson B 4 F HRH Memos, RNPL.

campaign strategy drafts largely overlooked the TRA69 as an achievement without hesitating to praise the RA71 – a stance that flipped as the campaign wore on. However, even at this early stage, the campaign's "Taxation Issue Paper" noted that, while no one liked taxes, "the real issues arise both with respect to the best sources of the revenue needed and the relative tax burdens which should be borne by various segments of our society."[1145] By the summer of 1972, public comments and campaign materials prepared by administration staffers sought to clarify both Nixon's plans going forward and tout his record as a tax reformer. The "theme" when it came to taxes during the election year was that "the president cares about the inequities of the tax system."[1146] Nixon aides did their best to publicize this theme. "You can trace the direction of the president's cast of mind about taxes [by looking at his record]….," Ehrlichman told reporters. "[In TRA69] some 9 million people were dropped off the tax rolls entirely…at the low end of the income brackets…. And $5 billion was added to the tax bill that corporations pay. That gives you a sense of the thrust. In addition, in the 1969 Act, the president proposed a minimum tax to make sure that no taxpayer escaped paying a substantial portion of the total load by reason of any shelter or preference."[1147] Though the White House had opposed the tax reductions in the TRA69 and had initially envisioned RS as a small-government initiative, now Nixon embraced the former and framed the latter as a way to combat rising state and local taxes. "Since 1969 taxes for the poor and middle income families have <u>decreased</u> and taxes on the wealthy and corporations have <u>increased</u>," a sheet of "Key Facts on Tax Reform" touted. Nixon was "committed to tax reform," the materials argued, both in his previous actions and moving

[1145] "Taxation Issue Paper," December 12, 1971, SMOF Ehrlichman, B 23, F 1972 Platform, RNPL; "General Revenue Sharing Issue Paper," [Undated 1971], SMOF Ehrlichman, B 23, F 1972 Platform, RNPL
[1146] Selling the Domestic Programs, April 13, 1972, WHCF-Special/Confidential, F Domestic Council [1971-74], B 16, RNPL
[1147] Ehrlichman Press Conference, September 7, 1972, SMOF-Ehrlichman, B 67, F Speech and Briefing File, 1970-1973, RNPL

forward into the second term. "Although these facts indicate that the administration has already achieved a significant amount of tax reform," one sheet noted, "there is a continuous effort to make our tax system more fair and more simple for the average taxpayer." The White House promised to review all tax loopholes with an eye towards lowering the tax burden on the "average taxpayer." Campaign materials also argued that eliminating unnecessary spending was a form of reform, noting, "federal spending is a major tax loophole." The administration tentatively defended ADR and the investment tax credit contained in the RA71 as ways to "make U.S. business competitive and stimulate [the] economy." [1148]

Nixon campaign literature used income tables to claim that low- and middle-income Americans had received bigger tax cuts than upper-income Americans during Nixon's presidency. Indeed, they were strikingly similar to the tables lambasted by Democrats, Nader's TRRG, and the press during the JEC hearings.[1149] Other CRP materials bragged that, under Nixon, "the largest tux cuts in U.S. history have returned power to the people in the most fundamental sense, particularly in the lowest income brackets, while taxes for corporations and the wealthy have increased."[1150] Sounding startlingly like materials normally expected to be released by a liberal Democrat, one Nixon campaign flyer summarized the president's tax accomplishments as "Individuals Pay Less While Corporations Pay More." "Equally important," the flyer noted, "is the fact that the greatest percentage reductions have been made in the low income groups, substantial reductions have been made in the middle income groups, and significant increases have been made in the highest income groups." This was all part, the literature explained, of Nixon's continuous effort to make our tax system more fair and more

[1148] Michel to Ehrlichman and attached, June 19, 1972, WHCF-EX FI 11, F 15, B 60, RNPL
[1149] "Key Facts on Tax Reform," Undated [1972], Contested, B 37, F 71, RNPL
[1150] MacGregor to State Chairmen and attached, undated [1972], Contested, B 39, F 95, RNPL

simple for the average taxpayer."[1151] Nixon "has done more than speak of tax reform; he has actually delivered it," CRP talking points explained, pointing to the TRA69, especially the tax cuts for middle-income taxpayers, which the White House had actually opposed at the time. [1152] Likewise, letters and brochures aimed at seniors, Democrats, Jewish voters, as well as other targeted interest groups, included a variation of the claim that Nixon "has decreased federal income tax for a family of four earning $10,000 by an average of $320[,] [a]nd has proposed federal-state revenue sharing that would slash your property taxes," which campaign literature also noted "affects not only homeowners but, eventually, many tenants too, through increased rents." Some – especially those aimed at Democrats – also contrasted Nixon's tax cuts for individuals with his supposedly tough stance on corporation, claiming, "Under president Nixon, Americans are paying $22 billion less in taxes and corporations are paying $10 billion more" – a statement underlined in red (the only such statement given that treatment in the pamphlet) for emphasis [1153]

The administration's main emphasis on in its campaign tax materials was not on federal reforms, however. Like Democratic candidates from Muskie to McGovern, the local property tax revolt loomed large in Nixon's tax strategy during the 1972 campaign. Indeed, the Democrats' own plans factored into the White House's strategy even before they became public. The CRP came into possession of a "stolen" memo – part of a pattern of "sabotage," as Carl Berstein and Bob Woodward would later report – from Muskie pollster, Anna Navarro.[1154] The memo argued that polling indicated that "property taxes are all important in this crucial state, and that capturing the issue is worth a gold mine to any candidate." Focus on the property tax, they argued, would

[1151] "The Administration Position on Tax Reform," Undated [1972] Contested, B 39, F 1, RNPL
[1152] "Tax Reform," [Undated 1972], May 25, 1972, SMOF-Ehrlichman, B 66, F May 25, 1972, RNPL
[1153] September Mailing and other letters and brochures, 1972, Contested, B 36, F 1; Democrats for Nixon Brochure, August 17, 1972, Contested, B 21, F 7, RNPL
[1154] Carl Bernstein and Bob Woodward, "Muskie Details 'Sabotage' Incidents," *Washington Post*, October 14, 1972

pay dividends nationwide. "[C]apturing the property tax issue would be great in places other than California – think of all the schools that have closed in the last two years because citizens refuse to tax themselves anymore," they wrote.[1155] The White House hoped to beat Muskie and other Democrats at their own game. Thanks to revenue sharing, Nixon could argue persuasively that he had long been concerned about rising local property taxes.

Though the popularity of tax appeals during the Democratic primaries drastically increased Nixon's attention to the issue, as well as pushed him even further to the left, the Nixon administration began framing tax reform, in general, and property tax relief, in particular, as a key issue in his reelection campaign beginning in late-1971. Early drafts of Nixon's reelection platform suggested pairing revenue sharing legislation with "some form of encouragement to the states and local governments to move away from the property tax as a primary source of local revenue," as well as for the president to keep his pledge to offer "proposals to provide for property tax relief."[1156] Private polling by the Nixon team in January 1972 found that his new rhetoric on revenue sharing and property taxes was exceedingly popular. Following Nixon's SOTU statement that "soaring property tax rates now threaten both our communities and schools" and pledge to use federal tax dollars to fund local education, 75 percent of respondents said that they agreed "with the President that property taxes are now a major threat and must be reduced by federal action."[1157] The proof was not just in the surveys, but at the polls. "Voters in increasing numbers have been rejecting new property tax millage proposals," one Nixon tax reform position paper noted.[1158] Even if most surveys showed that the public preferred

[1155] Magruder to Strachan, November 30, 1971, Contested, B 27, F 4, RNPL; Navarro and Louis to Mitchell and Cutler, Undated, Contested, B 27, F 4, RNPL
[1156] "Taxation Issue Paper," December 12, 1971, SMOF Ehrlichman, B 23, F 1972 Platform, RNPL; "General Revenue Sharing Issue Paper," [Undated 1971], SMOF Ehrlichman, B 23, F 1972 Platform, RNPL
[1157] Strachan to Haldeman and attached, February 4, 1972, Contested, B 13, F 4, RNPL
[1158] Michel to Ehrlichman and attached, June 19, 1972, WHCF-EX FI 11, F 15, B 60, RNPL

McGovern on the issue, it seemed clear that staying on the property tax reform issue could only help the president.

Now, Nixon not only essentially touted revenue sharing as a "Property Tax Relief Act," as Colson had once suggested, but also promised *new* federal legislation to further cut local property taxes for poor, working-, and middle-class Americans. Throughout 1972, administration domestic policy staffers collected news clippings and letters from around the country analyzing state and local taxes, as well as citizen protests of the rising tax burden, particularly when it came to property taxes.[1159] Some Nixon advisers, like Charles Colson, worried that promising property tax relief without any firm proposals was a political mistake. "I am told that a decision has been made to do nothing in this [property taxes] area this year [1972]," Colson wrote. "If this is so, talking about it is the worst thing we can do because it will only lead to further credibility problems. We only want to hammer issues when, in fact, we can back it up with specific substantive recommendations." In contrast to the administration's stance in the 1970 midterms, Colson cautioned that mere "PR" was not the solution to the public's tax anger. Instead, policy was.[1160] But the Nixon campaign pushed forward, hoping that the strength of revenue sharing and the promise of bolder property tax reforms in the future would attract skeptical voters. "General Revenue Sharing will provide immediate tax relief," the RNC argued during the campaign.[1161] Or, as the Nixon campaign declared, "The President is committed to help the States find ways to relieve their property tax burden."[1162]

The White House was not simply promising further property tax relief as a political stunt. Rather, the administration had been quietly working on property tax proposals for more than a

[1159] See clippings and letters in WHCF-F1, B 72, F Taxation/Real-Personal [1 of 2], RNPL; WHCF-F1, B 72, F Taxation/Real-Personal [2 of 2], RNPL.
[1160] Colson to Cole, April 10, 1972, WHCF-F1, B 72, F Taxation/Real-Personal [1 of 2], RNPL
[1161] RNC Talking Paper, September 4, 1972, Contested, B 37, F 5, RNPL
[1162] Michel to Ehrlichman and attached, June 19, 1972, WHCF-EX FI 11, F 15, B 60, RNPL

year and intended to pursue them in Nixon's second term. Indeed, many of Nixon's closest advisers, such as Charles Colson and Lew Engman, had encouraged the president to go public with his plans before the start of the Democratic campaign so that Nixon could clearly mark.[1163] As Chuck Colson wrote to John Ehrlichman after reviewing January 1972 news summaries outlining Nader and Muskie's property tax arguments, "[We] need to make this issue ours before Muskie or someone else really seizes upon it."[1164] The goal, Colson said, was to make federal relief of local property taxes "clearly identifiable as a presidential initiative." Such an initiative, he wrote, should be progressive. "[It] must possess maximum appeal to middle income Americans and clearly relieve lower income groups of any tax burdens it may impose," Colson explained.[1165] The political dividends for Nixon would be immense in Colson's view. "We should proclaim it the number one priority of the second Nixon term," he wrote to in a subsequent memo.[1166]Nixon had failed to follow this advice, since other advisers, such as John Connally, believed that any specific tax reform proposals would simply open the president up to criticism. But now the Democrats and the grassroots left had, indeed, claimed the issue, at least in the context of the 1972 elections. If Nixon had his way, the revelation of the administration's real proposals would see the president overtake Democrats like McGovern as the true hero of the "tax revolt." But, in the meantime, the best the administration could do was remind voters of the progressive tax effects of revenue sharing, promise bolder reforms in Nixon's second term, and try to position Nixon as a leader, rather than a follower, when it came to left-distributionist solution to the "tax revolt." Hinting at Nixon's 1973 plans, Ehrlichman told reporters, "We will continue to work on the very difficult plight of the residential property owner who sees his

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1163 Colson to Ehrlichman, November 12, 1970, SMOF-Colson, F [Unlabeled], B 119, RNPL; Engman to Ehrlichman, December 22, 1971, WHCF-Special/Confidential, F Taxation [1971-74], B 18, RNPL
1164 Colson to Ehrlichman, January 13, 1972, SMOF Engman, B 41, F Taxation: School Finance [2 of 2], RNPL.
1165 Colson to Ehrlichman, January 17, 1972, SMOF-Colson, F [Unlabeled], B 119, RNPL
1166 Colson to Haldeman, May 17, 1972, SMOF Colson B 4 F HRH Memos, RNPL.

property taxes spiraling, being particularly difficult for the fixed-income citizen."[1167] The administration's goal in 1973, Ehrlichman publicly announced, was to reduce local property taxes by 50 percent, which would cost about $16 billion.[1168] Nixon had tasked the ACIR with devising ways to provide "property tax relief," CRP literature explained.[1169] Nixon also met with ACIR chair Robert Merriam in order to "emphasize the long-standing nature of the President's commitment to reduce property taxes, …reduce political pressure to reveal our 'secret' tax reform proposals (the ACIR's final recommendations are not due until after the election)…," as one memo put it.[1170] Nixon, not McGovern, the White House insisted, was the one who had recognized the importance of the "tax revolt" first. One piece of campaign literature even audaciously claimed that, compared to Nixon, McGovern was actually "jumping on the [property tax relief and reform] bandwagon."[1171]

Much to Nixon's consternation, the White House's studied attempts to avoid proposing specific plans did not shield the president from embarrassing revelations and criticism. In an ill-considered attempt to underline the fact that, unlike McGovern, Nixon would never raise taxes on the middle class, the White House publicly pledged that Nixon would not raise taxes in his second term. "The president's plans for the next four years call for no general tax increase," one campaign press release declared. "But he plans to build on his first term's record by reducing the regressive property tax and continuing to make the tax burden mare fair for all." The difference between Nixon and McGovern, the president's campaign explained, was that the latter was

[1167] Ehrlichman Press Conference, May 25, 1972, SMOF-Ehrlichman, B 66, F May 25, 1972, RNPL
[1168] Ehrlichman Press Conference, September 7, 1972, SMOF-Ehrlichman, B 67, F Speech and Briefing File, 1970-1973, RNPL
[1169] "The Administration Position on Tax Reform," Undated [1972] Contested, B 39, F 1, RNPL; "Key Facts on Property Tax Relief," Undated [1972], Contested, B 39, F 1, RNPL
[1170] Engman via Chapin, September 12, 1972, WHCF-F1, B 72, F Taxation/Real-Personal [2 of 2], RNPL
[1171] "Tax Reform," [Undated 1972], May 25, 1972, SMOF-Ehrlichman, B 66, F May 25, 1972, RNPL

calling for a "tax increase," while the former was calling for "tax reform."[1172] One RNC flyer – titled simply "Tax Reform or Tax Increase?" – reiterated this point. It touted the TRA69's removal of low-income taxpayers from the federal income tax rolls, as well as its tax increases on corporations. "President Nixon plans to build on his first term's record by ultimately reducing property taxes by 50% and continuing to make the tax burden more fair for all," it explained. "In addition he will continue to keep taxes down by cutting wasteful Federal spending programs. In short, tax reform in the second Nixon Administration spells tax fairness, not tax increase."[1173] In September Ron Ziegler again stressed the "tax reform"/"tax increase" distinction, at least in the White House's framing, by arguing that Nixon wanted reforms in 1973 "aimed at making the tax system more equitable in this country, and doing so in ways such as easing the burden of property taxes that plague many citizens of the country."[1174] The problem for Nixon, however, was that few in the press or among Democrats believed the math would allow Nixon to provide a $16 billion, 50-percent property tax cut – as Ehrlichman had speculated – without raising taxes in some way. Unfortunately for Nixon, the only element of the administration's private debates about specifics of future property tax reform legislation was that some conservatives in the administration were pushing for the use of a Value Added Tax to finance it – a politically embarrassing revelation for a president attempting to signal his displeasure with regressive taxes and one that led to repeated Democratic attacks throughout the campaign.[1175] The administration immediately downplayed the VAT, noting that it was just one option under consideration and that the president had not committed to using it. Regardless, the Nixon campaign noted, striking

[1172] RNC Talking Paper, September 18, 1972, SMOF-Ehrlichman, B 18, F 1972 Election Strategy, RNPL
[1173] Tax Reform or Tax Increase?, [Undated 1972], SMOF-Ehrlichman, B 18, F 1972 Election Strategy, RNPL
[1174] Ehrlichman Press Conference, September 7, 1972, SMOF-Ehrlichman, B 67, F Speech and Briefing File, 1970-1973, RNPL
[1175] Conally to Nixon, February 4, 1972, WHCF-EX FI 11, F 8, B 58, RNPL; Ehrlichman to Connally, February 5, 1972, WHCF-EX FI 11, F 8, B 58, RNPL

a left-distributionist tone, “One thing which the president has made clear is that he will not recommend the replacement of the regressive and unfair property tax with another unfair tax.”[1176]

But the denial that a VAT would be used again begged the question: How could Nixon cut property taxes so substantially without raising taxes? The *Washington Post* mocked Nixon’s pledge not to raise taxes in an editorial headlined “No* New Taxes for Four Years!” Below the headline, the asterisk read “Except in an ‘emergency,’ as that term may be defined after the election, and also excepting any value added tax, or substitution of new taxes for existing ones or loophole closing or reform of any sort whatsoever, and also excepting any case in which the Congress exceeds the budget, or in the event of serious inflation, or any other unforeseen circumstances requiring a reevaluation.”[1177] Indeed, the paper’s mocking editorial was not far from the truth. The real answer, as the White House revealed, was that Nixon planned a downward redistribution of income, pure and simple. Taxes would not be raised overall, but they would be raised on upper-income taxpayers in order to fund cuts of an equal dollar amount for low- and middle-income Americans. Ehrlichman clarified to reporters that the White House’s promise not to raise taxes did “absolutely not” mean that Nixon would abandon property tax relief or tax reform. “The president favors property tax relief, particularly for the residential property owner. It is a particularly cruel and regressive form of taxation that penalizes the elderly, penalizes those on fixed incomes particularly. We will continue to press for some mode of substitution of a progressive and fair type of taxation to meet the expenses now covered by that regressive and unfair tax,” Ehrlichman explained. “Now, that will not involve any increase in taxation. That is simply a substitute. It may be a partial substitute of some federal tax for a tax

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[1176] Michel to Ehrlichman and attached, June 19, 1972, WHCF-EX FI 11, F 15, B 60, RNPL
[1177] “No* New Taxes for Four Years!” *Washington Post*, September 10, 1972

that is now being paid locally. It may be, to some extent, a redistribution. But we have always attempted and will continue to attempt to replace regressive and unfair taxes with equitable taxes wherever the opportunity presents itself." Pressed further, Ehrlichman explained that Nixon was not actually pledging to hold the line on federal taxes "for the foreseeable future." Instead, the president might seek an increase in federal taxes, though it would be used to reduce local taxes, meaning that "the net effect" would be neutral. When a reporter continued to push, asking if the president promised not to raise taxes "throughout the income scale," Ehrlichman made the redistributive goal clear. "No," Ehrlichman answered. "I won't say throughout the income scale." Rather, the ultimate goal was "considerable tax relief to those least able to pay taxes," while upper-income taxpayers could see a tax increase. "[T]he people who now are most difficultly affected by property taxes are in the income range of $15,000 and below," Ehrlichman explained. "It is possible to construct a system of assumption of local expenses by federal revenues which will actually result in a net saving in pocket dollars to those below $15,000, with a very modest…increase in taxes paid by those in brackets above $15,000, through a system of credits and rebates." "Semantically," Ehrlichman conceded, this was actually a tax increase, at least for upper-income Americans. Asked about the VAT, Ehrlichman said it was "one possibility" among many, including income tax increases, to raise federal revenue for local tax relief. The goal, Ehrlichman stressed throughout the press conference, was to lower taxes on those making below $15,000 and possibly raise them on those above.[1178] Asked again in a subsequent press conference how Nixon could promise relief of local property taxes without a tax increase, Ehrlichman was even more candid. The White House wanted to "substitute" some federal revenue for state and local revenue, while leaving the overall level of taxation between

[1178] Ehrlichman Press Conference, May 25, 1972, SMOF-Ehrlichman, B 66, F May 25, 1972, RNPL the two levels the same. "The essence of this is redistribution, obviously," Ehrlichman conceded.[1179]

Just as Nixon suddenly became a fan of the TRA69 and bragged that he had raised taxes on corporations, his property tax reform literature assumed a markedly left-distributionist tone throughout the campaign. Talking points touted Nixon's "proposed property tax reforms in the 1972 State of the Union Message," as well as the president's "support increased state use of income taxes" as incentivize in the Revenue Sharing bill that (a provision that, as noted earlier, the White House had actually opposed).[1180] "The public clamor for tax reform is not only directed to the federal income tax, but to a great extend it is addressed at the local property tax…," a programmatic Nixon campaign statement on his tax platform argued, noting that ACIR polls showed that Americans viewed the property tax as "least fair." "The property tax has more than doubled in the past 10 years, and it is very regressive – placing the heaviest burden on senior citizens, low income families, families with fixed incomes, and farmers." If reelected, the release explained, Nixon would use the power of the federal government to cut local property taxes. Another release, titled "Key Facts on Property Tax Relief," argued that "the president has long recognized people's problem with the property tax," including its rising rates, its regressivity, and its unfairness, both as a form of financing schools and because "people in similar circumstances often pay property tax bills which are very different."[1181] In a late-August *U.S. News and World Report* interview, Erlichman reiterated that Nixon was committed to reducing local property taxes by 50 percent. "The property tax is what the experts call regressive, which is to say it falls heaviest on the people of fixed income and in the lower-income brackets,"

[1179] Ehrlichman Press Conference, September 7, 1972, SMOF-Ehrlichman, B 67, F Speech and Briefing File, 1970-1973, RNPL
[1180] "Tax Reform," [Undated 1972], May 25, 1972, SMOF-Ehrlichman, B 66, F May 25, 1972, RNPL
[1181] "The Administration Position on Tax Reform," Undated [1972] Contested, B 39, F 1, RNPL; "Key Facts on Property Tax Relief," Undated [1972], Contested, B 39, F 1, RNPL

Ehrlichman explained. "The federal income tax, as an example, is a progressive tax, which rests heaviest on those better able to pay. So the thought here would be to substitute a regressive tax with a progressive tax." Though he cautioned that Nixon had yet to commit to any particular plan, Ehrlichman noted that one study indicated that taxpayers making less than $25,000 per year would see a tax reduction by substituting federal income tax revenue for local property tax revenue.[1182] "[H]is Revenue Sharing plan would send federal tax dollars into states and localities to ease the tax burdens there which have risen out of all proportion in recent years," another release bragged. [1183]

By late summer, Nixon campaign materials represented a relentless reiteration of the president's commitment to left-distributions tax reform. A Nixon campaign mailing, dubbed "The Record," framed revenue sharing as a program designed to cut regressive taxes. "In order to relieve the burden of taxes at the state and local level – property, sales, income, and other taxes – the president has proposed a program to make more monies available to local governments by sharing a portion of federal revenues with them."[1184] Another mailer, "The Clearest Choice of the Century," declared, "President Nixon has cut federal income taxes by $22 billion and is pushing Congress for a program to return more tax money to the states so that property taxes increases will stop."[1185] Following in the footsteps of McGovern and Muskie, The Committee to Reelect the President ran property tax-themed television ads, touting how Nixon's Revenue Sharing program cut property taxes. "The whole purpose of this is to get property taxes down," Nixon tells Ehrlichman in one commercial's staged Oval Office scene. Then, a voiceover intones, "The president is determined to do something about property taxes. That's why we need

[1182] Ehrlichman Interview, August 28, 1972, WHCF-Confidential, F Ex. FG 6-11-1: Ehrlichman [6 of 8], PNWH-AU
[1183] RNC Talking Paper, September 18, 1972, SMOF-Ehrlichman, B 18, F 1972 Election Strategy, RNPL
[1184] "The Record," 1972, Contested B 37, F1
[1185] "The Clearest Choice of the Century," 1972, Contested B 37, F1

President Nixon now more than ever."[1186] Even some of Nixon's own staff saw the property tax commercial as dishonest, given that revenue sharing had not initially been formulated as a property tax relief measure and included no guarantee that RS funds would be used to reduce property taxes.[1187] But, by now, Nixon was committed to making himself appear to be a progressive property tax reformer at all costs. Another Nixon commercial, titled "Older Americans," explained that the president "know[s] how unfair property taxes are to older Americans." So, the commercial explained, "he created a bold revenue sharing plan" to "retur[n] [federal tax revenues] to the states to help stop the rise in property taxes."[1188]

The White House was very conscious of the fact that, in proposing progressive property tax relief, it was going up against many, often conservative, economists who argued "that the property tax is a good tax and is not burdensome," as Lew Engman summarized. Instead, the president's official position was that "property taxes are regressive."[1189] Administration conservatives bristled at this stance, however. Pat Buchanan fed Nixon a speech by Hoover Institution economist Roger Freeman. Keeping with his longtime stance, Freeman argued that the regressivity of the property tax was exaggerated. He also debated whether the rise in the property tax was as dramatic as critics noted. The real reason the public was in revolt against the property tax, Freeman argued, was that "the taxpayer knows that he is paying it, what he is paying for, and who is taxing him" – though his explanation, notably, failed to explain why the tax revolt was a recent phenomenon. Nonetheless, Buchanan called Freeman's speech "close to brilliant" – noting that it argued "against the prevailing notion that the property tax has suddenly become an onerous burden" – and Nixon read and heavily marked the copy of the speech provided to him

[1186] Nixon 1972 TV Commercial #00358, JKPA.
[1187] Schurtz to Colson, October 13, 1972, Contested, B 15, F 3, RNPL
[1188] Older Americans, August 18, 1972, Contested, B 36, F 5, RNPL
[1189] Engman to Ward, September 15, 1972, WHCF-Confidential, F [CF] SP5: FG [Other Government Officials], 1971-74, PNWH-AU

by Buchanan.[1190] But ACIR chair Robert Merriam cautioned Nixon against defending the property tax, despite what conservative economists might say in its favor. "The property tax…is by far and away the most unpopular of all taxes," Merriam noted, pointing to ACIR polling data. "Part of it, of course, is its visibility. You pay it in one or two lump sums." When Nixon interjected, pointing to studies by conservative economists arguing that the property tax was not an issue, Merriam noted that such studies were "not a poll." The ACIR head cautioned against the "Roger Freeman syndrome." "Milton Friedman and Roger Freeman and some of these fellows say the property tax is a nifty tax," Merriam explained. "And I'm sure from a theoretical standpoint…[some economists] believe that," but, Merriam explained, the public said it was the "least fair" tax and the ACIR's statistics confirmed the dramatic rise not only the property tax, but all state and local taxes.[1191] Nixon was, at least publicly, leaving the conservative interpretation of the tax revolt in the dust. However, outflanking McGovern on the issue proved to be a near-impossible task for the Republican president.

McGovern's general election campaign continued the fiery left-distributionist rhetoric of the Democratic primaries. When syndicated columnist Nick Thimmesch turned over his column to party spokespersons in early September, McGovern submitted his own response, while CRP chair McGregor wrote the GOP column. McGovern's entry proved to be a tour de force display of the increasingly popular argument on the left that working-class voters discontent represented a logical complement to, and extension of, the 1960s' protests by students and African Americans, among others. "For the last decade or so, it has been fashionable to imagine that the source of creative political energy in America are the black, the poor, and the young….,

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[1190] Kehrli to Ehrlichman, and attached, May 2, 1972, WHCF-Confidential, F [CF] SP-6 Non-Government Officials, PNWH-AU

[1191] Nixon Tapes, September 26, 1972 (#787, Part 5); Engman to Hoopes, September 28, 1972, WHCF-F1, B 72, F Taxation/Real-Personal [2 of 2], RNPL

McGovern wrote. “But what I discovered in the textile mills of New Hampshire, and found confirmed on assembly lines from Ohio to California, is that the grievances of the workingman and woman create just as much political energy for America as the grievances of the poor, the black, and the young did in the 1960s and continue to do today.” The issues motivating workers, McGovern argued, were kitchen table issues. “Pensions are not transferrable, or sometimes entirely disappear. Insurance rates are too high…Taxes cost the average citizen too much and deliver too little…. [Y]ou have to run harder just to stay in place,” he wrote, continuing to list grievances like high food prices and rising educational costs. McGovern’s argument was that the Democratic Party was uniquely positioned to address theses issues. He argued that Nixon and the Republicans were the party of the rich, citing GOP tax policy as a proof. “Mr. Nixon cannot help working people even if he wants to, for his basic constituency is corporate power and corporate interests…,” McGovern argued. “What can he do about tax relief for workers when his first obligation is to subsidize ITT, Lockheed, and Penn Central?... Democratic leadership will see to it that workingmen and women obtain a higher share of profits – and that corporations pay a fairer share of taxes.”[1192]

McGovern argued that the tax revolt was driven by rising regressive taxes and an unfair, loophole-ridden tax code. McGovern made fairness the theme of his economic agenda. The solution to the problems of both “taxation and public assistance is to place far greater emphasis on fairness,” McGovern argued. No politician should expect the citizens to tolerate the mess of the American tax system. “The next President must go to Congress with a sweeping tax reform program or we will have a taxpayers’ revolt in this country. The United States is now socialism for the rich and free enterprise for the worker. The rich and powerful are heavily subsidized by

[1192] George McGovern, “The Party of Workingmen and Women,” September 7, 1972, Contested B 21, F 5, RNPL; Clark MacGregor, “The President Deserves to Win a Second Term,” *Sarasota Herald-Tribune*, September 16, 1972; George McGovern, “The Party of Workingmen and Women,” *Sarasota Herald-Tribune*, September 16, 1972 the government, while the working man is left to his own devices," McGovern campaign materials argued, quoting the candidate. "Tax loopholes for the wealthy and for corporations force low-income and middle- income families to pay far more than their fair share of income taxes. In 1970, 112 persons with incomes over $200,000 paid no income tax. U.S. Steel had sales of $5 billion and net profits of $151 million, yet paid not a single dime in income taxes. Men who work in factories and earn $7,000 or $8,000 a year are paying more taxes than men in Boston and New York who earn more than $200,000 a year."[1193] One theme that McGovern returned to again and again was that the dysfunction in the U.S. tax system was emblematic of the larger erosion of fairness throughout the country. "Americans Are Speaking Out," one McGovern flyer declared. "Against the policies that led to Viet Nam. Against unemployment. Rising food prices. Unfair property taxes. Government waste. And especially some politicians. Politicians who give special favors to the special few…. U.S. Steel didn't report any federal income taxes last year. Most giant international oil companies paid lower tax rates than American workers. Some millionaires didn't pay any taxes at all. Meanwhile, middle-income families have trouble making ends meet. That's why George McGovern is fighting to change the tax system. He is working to close billions of dollars in tax loopholes for special interests-and to insure that every American pays his fair share…. McGovern says present property taxes are unfair to millions of homeowners. He wants to move some school expenditures to the federal level, so that property taxes can be cut."[1194] The class-based analysis offered by McGovern was that the well-off and well-connected were getting over on average, hardworking Americans. "Corporations take deductions for executive jets, executive retreats in exclusive resorts,

[1193] "The Issue: School Taxes," Contested B 20, F 6, RNPL; "The Issue: Tax Reform," Contested B 20, F 6, RNPL; "The Issue: The Economy," Contested B 20, F 6, RNPL
[1194] "This Year," Undated [1972], Contested B 20, F 6, RNPL

executive sales conferences in European capitals, executive lunches in gourmet restaurants," McGovern quipped. "A factory worker can't deduct the wax paper on his ham sandwich."[1195]

For McGovern, the school levy crisis served as a campaign rallying cry, as well as an entre into the larger issue of tax reform. Rather than view them as separate, the Democrat's campaign stressed that the tax code needed to be revised from the local to the federal level. "I believe to help the economy we must first help people," McGovern argued. "We need to reform our total tax structure. The ordinary citizen is now being asked to pay heavier taxes while many of the rich and powerful escape through loopholes'- in some cases, paying no, taxes at all, Further more, we must reduce property taxes across the board. Excessive reliance on property taxes has made home owner- ship impossible for millions of families." [1196] Given this dysfunction, McGovern explained, it was no wonder that citizens were revolting against the local property tax. Rather than criticize them as anti-government conservatives depriving schools and law enforcement of much-needed funds, McGovern treated those who voted against local property tax initiatives sympathetically. McGovern's California campaign literature, for example, criticized the declining share of state funding for local education and offered a sympathetic take on the levy and bond crisis. "As a result, a larger amount of the school-finance burden has been thrown back on the shoulders of local property taxpayers, who rejected 60% of school tax increases last year. (Nationwide bond rejection is up from 11% in 1960 to 52% in 1970.)...," it explained. "It is wholly improper to blame this sad state of affairs on the people who must bear the property tax burden. They are, for want of other sources of funds, stuck with a system which places the heaviest load on those who can least afford to pay it. Families with incomes under $2,000 pay, in pro- portion to their earnings, roughly three times as much as

[1195] "McGovern Blast," *San Antonion Light*, August 6, 1972
[1196] "The Issue: School Taxes," Contested B 20, F 6, RNPL; "The Issue: Tax Reform," Contested B 20, F 6, RNPL; "The Issue: The Economy," Contested B 20, F 6, RNPL

families earning more than $15,000. There is no more regressive form of tax." The flyer listed McGovern's answers to the school finance crisis, including calling for the federal government to pay 100 percent of welfare costs and one-third of the cost of local schooling and various incentives within the funding system and revenue sharing to encourage equalization of per-pupil funding as well as of assessment rates.[1197]

While McGovern was on firm ground when it came to taxes, the candidate recognized that Nixon's attacks on his welfare reform proposals – though misleading – were hurting the Democrat in the polls. Just as Nixon distanced himself from his earlier conservative tax plans, now McGovern unwisely distanced himself from the "Demogrant." As late as early August, McGovern pledged, "We will fight to assure a living income to all our people. And do not believe it when they tell you that average Americans will have to pay the bill. That is a lie. We can raise every citizen above the poverty level without raising the taxes of any family earning under $22,000 a year."[1198] But the GOP's attacks on the "Demogrant" did not abate. Later in August, the House GOP released a study that it claimed proved McGovern's proposals would not simply be a "body blow to Middle America," but would "wipe out the middle class." The conclusions of the study were presented by minority leader Gerald Ford, of Michigan, and Representative John Anderson, of Illinois. They claimed, once again, that to balance his budget McGovern would need to double taxes on families of four making $12,000.[1199] McGovern's advisers urged him to decouple his welfare reform plans, which polled poorly, from his tax reform plans, which were his most popular issue. However, that proved to be easier said than done. As McGovern and Lontief had explained earlier in the year, the "Demogrant" and tax

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[1197] "The Issue: School Taxes," Contested B 20, F 6, RNPL; "The Issue: Tax Reform," Contested B 20, F 6, RNPL; "The Issue: The Economy," Contested B 20, F 6, RNPL
[1198] William Chapman, "Dakotan Sees 'Contagious' Faith in Party," *Washington Post*, August 9, 1972
[1199] Peter Milius, "McGovern Plan Would Jump Taxes, GOP Study Charges," *Washington Post*, August 17, 1972

reform were one in the same. Now, in moving away from the "Demogrant" plan, McGovern offered a welfare reform program – dubbed "National Income Insurance" – comprised of public service jobs, expanded Social Security, and a backstop of $4,000 for a families of four unable to work.[1200] This revision seemed designed to assuage those who – convinced by Nixon's campaign – saw him as an economic radical, ready to vastly expand the number of Americans on the dole. McGovern was careful to note that this revised plan ensured that "no man or woman would receive less when working than on welfare" and declared that "jobs are the cornerstone of my policy."[1201] The "very fuzzy" program, as *Washington Post* reporter Hobart Rowan put it, "at first reading seemed to be less generous than Mr. Nixon's for a family whose head is employable but was not working."[1202] Such an outcome was hard to believe, given McGovern's previous enthusiasm for a guaranteed income, but, then again, with McGovern's quickly changing welfare proposals, nothing seemed certain. Indeed, even after these August revisions, however, many of the nitty-gritty details of how his proposals remained unclear.[1203]

With the "Demogrant" gone, McGovern was forced to tweak his tax reform proposals, too. Joseph Pechman and Stanley Surrey, two of the most lauded tax experts in the country, urged McGovern to focus his new proposals on loophole closing, rather than his previous, more complex, 75-percent-of-statutory-rate minimum tax. In particular, they argued, any serious

[1200] Hobart Rowan, "McGovern Proposes Traditional," *Washington Post*, August 30, 1972; Norman Miller, "In Wall Street Speech McGovern Calls for End to Firms' Tax Breaks," *Wall Street Journal*, August 30, 1972; Peter Milius, "McGovern Reshaping Tax Reform," *Washington Post*, August 25, 1972

[1201] Hobart Rowan, "McGovern Proposes Traditional," *Washington Post*, August 30, 1972; Norman Miller, "In Wall Street Speech McGovern Calls for End to Firms' Tax Breaks," *Wall Street Journal*, August 30, 1972; Peter Milius, "McGovern Reshaping Tax Reform," *Washington Post*, August 25, 1972; James N. Naughton, "McGovern Offers New Tax Program in Wall St. Talk," *New York Times*, August 30, 1972

[1202] Hobart Rowan, "McGovern Proposes Traditional," *Washington Post*, August 30, 1972; "McGovernomics: A More Modest Proposal," *Time*, September 11, 1972

[1203] C. Lowell Harris, "McGovern's Complex Tax Program Is Clear and Yet Murky," *Sarasota Herald-Journal*, September 10, 1972 reform plan needed to tax capital gains at the same rate as ordinary income.[1204] McGovern's new tax proposals were drafted with the help of longtime Democratic economists Pechman, Surrey, Tobin, Heller, and Arthur Okum, among others.[1205] Restating the slogan "money made by money should be taxed at the same rate as money made by men," McGovern abandoned the Thurow minimum tax plan and embraced one closer to the original Pechman-Okner proposals of 1971. The new platform called for the gradual closing of all loopholes and using the revenue raised to lower rates.[1206] Instead of leaving existing tax rates intact and imposing the minimum tax on incomes above $50,000, McGovern now proposed to eliminate all loopholes – including the preferential rate for capital gains – while lowering tax rates down to a top marginal rate of 48 percent.[1207] This new proposal would benefit middle- to upper-middle class singles, in particular, compared to his previous plan. "The single secretary making $9,00 a year who would have been hit hard before neither gains nor loses [under the new plan]," an unnamed McGovern economist explained to the *Washington Post*.[1208]

McGovern announced this shift in an August speech before the New York Society of Security Analysts, which was covered heavily by the press.[1209] Despite McGovern's many platform revisions, his new tax proposals still "pulled no punches," as Rowan put it. Likewise, the *Wall Street Journal* called the Democrat's speech "bearding his Wall Street critics in their

[1204] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 84-86; "McGovernomics," *New York Times*, August 30, 1972; "McGovernomics: A More Modest Proposal," *Time*, September 11, 1972
[1205] Peter Milius, "McGovern Reshaping Tax Reform," *Washington Post*, August 25, 1972
[1206] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 84-86; "McGovernomics," *New York Times*, August 30, 1972; "McGovernomics: A More Modest Proposal," *Time*, September 11, 1972
[1207] Hobart Rowan, "McGovern Proposes Traditional," *Washington Post*, August 30, 1972; Norman Miller, "In Wall Street Speech McGovern Calls for End to Firms' Tax Breaks," *Wall Street Journal*, August 30, 1972; C. Lowell Harris, "McGovern's Complex Tax Program Is Clear and Yet Murky," *Sarasota Herald-Journal*, September 10, 1972
[1208] Peter Milius, "McGovern Reshaping Tax Reform," *Washington Post*, August 25, 1972
[1209] Hobart Rowan, "McGovern Proposes Traditional," *Washington Post*, August 30, 1972; Richard E. Mooney, "Trapped: McGovern and the Analysts," *New York Times*, September 3, 1972; Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 84-86; "McGovernomics," *New York Times*, August 30, 1972; "McGovernomics: A More Modest Proposal," *Time*, September 11, 1972

den" by "pitch[ing] 'tax justice' for working people" instead of pro-business tax measures.[1210] "Money made by money should be taxed at the same rate as money made by men," McGovern said, "and tax justice demands equal treatment for Americans who earn their living with a shovel or a slide rule and Americans who live on stock market and property gains. You cannot justify to him the fact that there are millionaires who pay little or no taxes at all, the fact that Standard Oil pays a lower percentage of its income in taxes than he does, the fact that many of the wealthy enjoy tax preferences most Americans cannot share, and it is those facts that have fueled the fires of frustration and discontent across this land."[1211] Fairness remained McGovern's theme. "I think you can probably explain a tax loophole to client," he told those gathered at the NYSSA, "but it's awfully hard to justify to a steelworker, and I've found that out over these last few years."[1212] The new revisions, with its greater focus on loophole-closing, allowed McGovern to amplify his "tax justice" appeals, at least in some ways. "Let us treat all taxpayers alike, no matter how they make their living," McGovern concluded. "Let there be no more mythical tax paupers who in fact receive hundreds of thousands of dollars in real income but pay little or nothing in taxes."[1213] Despite the new tax reform plan, McGovern's larger goals remained the same. Neither McGovern's speech nor his tax plan revisions saw him backing down from his promise to push steep inheritance taxes, a reduction in the investment tax credit, and the repeal of Nixon's new accelerated depreciation rules.[1214] The Democratic nominee also stressed in the NYSSA speech

[1210] Peter Milius, "McGovern Reshaping Tax Reform," *Washington Post*, August 25, 1972

[1211] "Excerpts from Senator McGovern's Address Explaining His Economic Program," *New York Time*, August 30, 1972

[1212] "Excerpts from Senator McGovern's Address Explaining His Economic Program," *New York Time*, August 30, 1972

[1213] "Excerpts from Senator McGovern's Address Explaining His Economic Program," *New York Time*, August 30, 1972

[1214] Hobart Rowan, "McGovern Proposes Traditional," *Washington Post*, August 30, 1972; Norman Miller, "In Wall Street Speech McGovern Calls for End to Firms' Tax Breaks," *Wall Street Journal*, August 30, 1972; Peter Milius, "McGovern Reshaping Tax Reform," *Washington Post*, August 25, 1972; James N. Naughton, "McGovern Offers that he would use $15 billion of the revenue raised from his tax reforms to provide federal funding for schools and cut local property taxes.[1215] McGovern argued that his proposed military cuts and tax reforms would raise $54 billion – enough to fund all of his proposed programs.[1216] McGovern also used the NYSSA speech as an opportunity to hit Nixon on the idea of a VAT, which he said "would leave all the loopholes [in the federal income tax] wide open." "[The VAT] would hit hardest the working class, the poor, the older people, and middle-income families," McGovern said. "To take the sting out of it it will be called in all probability a 'value added tax.' But a sales tax by any other name smells just the same."[1217] Property tax relief funded by a VAT was no relief at all, in McGovern's view. "The Nixon answer to the grievances of taxpayers is to substitute one regressive tax for another," he said.[1218]

Reactions on the left and right to McGovern's new plan were predictable. Liberal economist Paul Samuelson praised the new program, calling it "more feasible" than his initial proposals, while retaining the mantle of tax reformer. McGovern, Samuelson argued, had "stolen the [tax reform] thunder from President Nixon with his tremendous tax simplification program." McGovern need not rely on idealism to sell his program. Rather, it was one that most Americans "can vote for out of self interest," Samuelson said.[1219] In contrast, the Nixon campaign's criticisms remained just as unsparing. "Number one, I think McGovern's [new] economic

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New Tax Program in Wall St. Talk," *New York Times*, August 30, 1972; "Excerpts from Senator McGovern's Address Explaining His Economic Program," *New York Time*, August 30, 1972

[1215] Hobart Rowan, "McGovern Proposes Traditional," *Washington Post*, August 30, 1972; Norman Miller, "In Wall Street Speech McGovern Calls for End to Firms' Tax Breaks," *Wall Street Journal*, August 30, 1972; Peter Milius, "McGovern Reshaping Tax Reform," *Washington Post*, August 25, 1972

[1216] "Excerpts from Senator McGovern's Address Explaining His Economic Program," *New York Time*, August 30, 1972

[1217] "Excerpts from Senator McGovern's Address Explaining His Economic Program," *New York Time*, August 30, 1972

[1218] "Excerpts from Senator McGovern's Address Explaining His Economic Program," *New York Time*, August 30, 1972

[1219] Edmond LeBrenton, "McGovern Bolsters Bid to Moderates," *Free Lance Star*, August 30, 1972; "Wall Street Cool to McGovern's Special Tax Plan," *St. Petersburg Times*, August 30, 1972 proposals are socialistic in character," Pierre Rinfret declared following the NYSSA speech. "Number two, they will produce stagnation in the American economy. Number three, it means tax increases for the American people, and number four, it means a material rise in unemployment." [1220] Likewise, most businesspersons and investors were unmoved by McGovern's NYSSA speech. Though some noted that his proposals were neither new nor "radical," most still regarded McGovern with a combination of fear and contempt. One "major executive at a major Wall Street firm" told the *New York Times* that even McGovern's revised plans "would destroy the American dream as it is understood by the investment community in general" – not that Wall Street's dream was the same as that of the voters McGovern hoped to woo. In fact, the proposition that received the most scorn form business was, universally, the provision to tax capital gains at ordinary income's rates.[1221] Despite McGovern's icy reception from most in business after the NYSSA, others on Wall Street defended McGovern's capital gains proposals. Because McGovern's revised proposals called for a top tax rate of 48 percent on income from all sources, brokers interviewed by the business press believed that taxing capital gains at the same rates as earned income "wouldn't be likely to have much effect on the stock market at all," nor did they think it would discourage investment, even among venture capitalists.[1222] Perhaps most surprisingly, unlike the previous plan, it was a hit in the press, garnering "more coverage in the national media than any single proposal he ever made," in one adviser's estimate. *Time*, like many publications, praised the plan. "Even if he goes down to the crushing defeat now so widely predicted," the magazine noted, "he has crystallized questions

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[1220] Edmond LeBrenton, "McGovern Bolsters Bid to Moderates," *Free Lance Star*, August 30, 1972; "Wall Street Cool to McGovern's Special Tax Plan," *St. Petersburg Times*, August 30, 1972

[1221] Richard E. Mooney, "Trapped: McGovern and the Analysts," *New York Times*, September 3, 1972; John Allan, "Wall Street Remains Skeptical After Nominee's Speech," *New York Times*, August 30, 1972

[1222] Leonard Silk, "McGovern Tax Proposals Examined," *Wall Street Journal*, July 5, 1972; John Allan, "Wall Street Remains Skeptical After Nominee's Speech," *New York Times*, August 30, 1972;
Economists Disagree on Impact," *Palm Beach Post*, August 31, 1972

about the equity of the tax system and the nation's spending priorities that will not fade away."[1223]

Indeed, as election night demonstrated, perhaps the only thing about the McGovern campaign that seemed poised not to fade away was the Democrat's tax priorities. Nixon delivered a historic landslide defeat to McGovern. The president defeated McGovern 61 to 38 in the popular vote and won every state in the Electoral College, save Massachusetts. Much had gone wrong in the campaign for McGovern. The Democrat's most notable mistake proved to be the selection of Senator Thomas Eagleton as his running mate – a decision McGovern first stood by then, uncharacteristically, reversed after it was revealed that Eagleton had once undergone electroshock therapy. It was a flip-flop that badly damaged McGovern's image. As Buchanan noted just days before McGovern's ill-fated selection of Eagleton, the Democratic campaign "consistently contrasts Mr. McGovern as an honest, open, straightforward, consistent candidate," while Nixon was "portrayed as deceitful, closed, secretive, distrustful." This posed a problem for the Nixon campaign, Buchanan argued. "[O]ne of or problems is to contradict this idea that, whether you agree or disagree with McGovern, you 'know where he stands,' and you know he can be trusted."[1224] Buchanan encouraged the president to make attacking McGovern's image as an honest, empathetic straight-shooter a priority for the Nixon reelection campaign. With the selection, then abandonment, of Eagleton, McGovern did Nixon's work for him. This feeling that McGovern was a different kind of candidate would evaporate quickly thank to the "Eagleton affair."[1225] Such dramatic campaign events can be overplayed, however. Like most presidential campaigns, both party's fortunes rose and fell with the state of the country and, in particular, the

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[1223] Gordon Weil, *The Long Shot: George McGovern Runs for President* (Norton, 1973), 84-86; "McGovernomics," *New York Times*, August 30, 1972; "McGovernomics: A More Modest Proposal," *Time*, September 11, 1972

[1224] Buchanan to Nixon and Haldeman, July 12, 1972, Contested, B1, F13, RNPL

[1225] ADD McG BOOKS

economy. As noted above, Nixon worked hard to pressure the Federal Reserve to stoke the economy in the run-up to the election.[1226] Likewise, the president's fiscal policies were designed to err on the side of growth, rather than inflation-fighting. While this pro-growth, pro-employment stance helped generate the rising inflation that necessitated Nixon's controversial wage-price controls, it also stoked remarkable growth and falling unemployment.[1227] Indeed, with the controls holding down inflation to three percent by the end of 1972, GDP growth was soaring and unemployment had dropped to less than six percent.[1228] Despite the focus on the ups and downs of the 1972 campaign – like "acid, amnesty, and abortion" or the "Eagleton affair" – elections are often about such economic fundaments and, ultimately, McGovern did about as well as could be expected, given the soaring economy that buoyed Nixon's fortunes.[1229] Leaving nothing to change, in official campaign outlays alone, Nixon also outspent McGovern two-to-one.[1230] Ultimately, McGovern's defeat was not surprising.

Though later critics would argue that McGovern's economic radicalism, particularly on taxes, sank the Democrat's campaign, taxes remained McGovern's strong suit up through Election Day. In fact, as noted above, taxes were the only issue on which McGovern consistently outpolled Nixon. McGovern's advantage on taxes – regarded by both Nixon and McGovern as a key issue, and perhaps the key domestic issue, in the presidential contest – was readily apparent

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[1226] Burton A. Abrams, "How Richard Nixon Pressured Arthur Burns: Evidence from the Nixon Tapes," *Journal of Economic Perspectives* 20:4 (Fall 2006)
[1227] Robert M. Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford 2000), 68-131; Allan Matusow, *Nixon's Economy: Booms, Busts, Dollars, and Votes* (University Press of Kansas, 1998), 149-181
[1228] FRED Graph
[1229] For accessible summaries of this notion, see Nate Silver, "What Do Economic Models Really Tell Us About Elections," *New York Times*, June 3, 2011 (http://fivethirtyeight.blogs.nytimes.com/2011/06/03/what-do-economic-models-really-tell-us-about-elections/); John Sides, "Underemphasized Points about Economy and Elections," *Monkey Cage*, November 18, 2011 (http://themonkeycage.org/2011/11/18/underemphasized-points-about-the-economy-and-elections/); Kevin Drum, "The Real Truth About Elections," *Mother Jones*, July 12, 2010 (http://www.motherjones.com/kevin-drum/2010/07/whos-going-win-year); Douglas Hibbs, "Bread and Peace Model" (http://www.douglas-hibbs.com); Larry Bartels and John Zaller, "Presidential Election Models: A Recount" (http://www.sscnet.ucla.edu/polisci/faculty/zaller/Pres.%20Election%20Models.pdf)
[1230] Ben A. Franklin, "Nixon Outlay Tops McGovern by 2 to 1," *New York Times*, October 25, 1972

throughout the campaign. “One of the political issues that cuts deeply with voters in this 1972 election is the revolt of taxpayers across the nation,” pollster Louis Harris reported in October. “The complaints are twofold: By 67 to 26 percent, voters feel that ‘ the tax laws are written for the rich and not for the average man. By 58 to 32 percent, a majority also feel they ‘do not receive a good value for their tax dollars.’” When it came to addressing their complaints, the Harris study – echoing the earlier conclusions of Nixon’s pollster, Robert Teeter – found that Americans preferred McGovern. “Significantly, at a time when he was running 28 points behind President Nixon in the presidential trial heats, Sen. George McGovern was considered more dependable on the issue of tax reform…,” Harris noted, calling McGovern’s margin on taxes “remarkable.” [1231]

According to polls, McGovern’s general economic program was dragged down by his welfare plans. Many voters, according to pollster Louis Harris, believed McGovern wanted to raise taxes in order to fund higher welfare expenditures. Indeed, their negative view towards his “Demogrant” idea was unsurprising, given the campaign’s own poor explanation of its workings. [1232] Yet, surprisingly, the popularity of McGovern’s tax proposals was so overwhelming that public’s suspicion of McGovern’s welfare program did not poison their views of his tax proposals. Largely, this was a result of the public’s left-oriented tax views. A majority of Americans felt that Nixon was “too close to big business.” Moreover, voters supported “closing tax loopholes for high-income people (88 to 6 percent), “raising the taxes of the rich and

[1231] Louis Harris, “President Trailing on Issue of Taxes,” *Chicago Tribune*, October 9, 1972; Louis Harris, “McGovern’s Tax Program One of His Strong Points,” *Bangor Daily News*, October 11, 1972
[1232] Louis Harris, “President Trailing on Issue of Taxes,” *Chicago Tribune*, October 9, 1972; Louis Harris, “McGovern’s Tax Program One of His Strong Points,” *Bangor Daily News*, October 11, 1972

lowering them for lower income people" (71 to 18 percent), and ensuring that "corporate profits [are] taxed at a higher rate" (68 to 16 percent).[1233]

Rather than opposing all tax hikes, the 1972 presidential election made clear, voters' opinion of tax increases varied, depending on how the tax increases – and the related spending – were distributed. While the vast majority of the public opposed an across-the-board tax increase by the same percent on all taxpayers, they supported "raising federal income taxes with higher-income people paying higher rates" by 63 to 24 percent. Likewise, even if a VAT on its own was unpopular, a VAT tied specifically to the lowering of local property taxes received the support of 55 percent of the public. "[A] national sales tax by itself is not a popular idea, but if that is the way property owners can get some relief from local property taxes, then in the trade-off a majority of the public says it is willing to abide one," Harris explained. "Raising the federal income tax might be palatable only if high-income individuals had their taxes raised at a sharper rate than the rest of the public." In other words, distribution mattered above all else. The takeaway from the polls, as Lewis Harris put it, was that "the American people obviously now want substantial changes in tax laws." "The prime targets for this tax reform," Harris continued, "are rich individuals and corporations. The public is willing to see new taxes imposed, but the necessary precondition is that the rich and business be soaked first and hardest."[1234]

Regardless of which candidate won the presidency in 1972, tax reform seemed to be heading in an undeniably left-redistributionist direction.

[1233] Louis Harris, "President Trailing on Issue of Taxes," *Chicago Tribune*, October 9, 1972; Louis Harris, "McGovern's Tax Program One of His Strong Points," *Bangor Daily News*, October 11, 1972
[1234] Louis Harris, "President Trailing on Issue of Taxes," *Chicago Tribune*, October 9, 1972; Louis Harris, "McGovern's Tax Program One of His Strong Points," *Bangor Daily News*, October 11, 1972

Conclusion

As the calendar turned to 1973, commentators seemed confident that Americans would see historic reforms. Indeed, most had predicted that the election was almost irrelevant when it came to taxes, given how conservatives like Wilbur Mills and President Nixon had tacked to the left under the pull of Nader, McGovern, and other left-distrbutionist reformers. "The movement in the U.S. for tax reform is now so powerful and has so much momentum that a massive overhaul of our tax laws is a certainty – no matter who occupies the White House next year," Sylvia Porter predicted." And a closing of loopholes which permit the wealthy to escape most if not all taxes is a sure thing too."[1235] Likewise, the *Boston Globe* argued, "[I]t seems certain that some examination of the capital gains tax will be made in the near future regardless of who wins the election [this] November."[1236] Even the most cynical experts agreed. "[T]ax reform, a much discussed topic in the past months, seems certain to become a subject of concern for the 1973 Congress," University of Virginia tax law professor Michael J. Graetz argued in late-1972. "In spite of the myriad nature of the [1972] proposals, a consensus on goals of tax reform is fairly easily obtained. President Nixon, Senator McGovern, and Congressman Wilbur Mills all agree that reform should simplify the tax laws, produce greater equity in taxation, and promote economic growth." Though the legislative process had never favored reform, Graetz suggested that both the mood of the public and pressure from new groups like Taxation with Representation and Nader's Tax Reform Research Group could finally turn the legislative tide.[1237] Indeed, despite his withdrawal from the presidential race, Wilbur Mills still promised that tax reform would be "the first order of business" in 1973, regardless of who won the

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[1235] Sylvia Porter, "McGovern's Economic Policies: Part II, For the Wealthy," *Santa Fe New Mexican*, June 27, 1972

[1236] Bruce Davidson, "McGovern or Not, Capital Gains Tax Is Due for Review," *Boston Globe*, September 17, 1972

[1237] Michael J. Graetz, "Reflections on the Tax Legislative Process: Prelude to Reform," *Virginia Law Review* 58:8 (November 1972) election.[1238]

The 1972 election, though, for its undeniable thrust to the left on taxes, contained a few cautionary messages, too. To be sure, the events pointing to the strength of left-reform included not only the grassroots efforts of CAP, CCC, and Nader, but also the victory in 1972 of the progressive income tax backed by Ohio Governor John Gilligan. At the same time that Ohioans were election Richard Nixon to presidency, they were also defeating a ballot measure submitted attempt by well-funded conservative and business forces to overturn the graduate-rate levy passed by Gilligan, as promised in his 1970 campaign. But the very strength of anti-income tax coalition still concerned left-distributionist reformers. In fact, in Massachusetts, at the same time Bay State voters were making themselves the only ones to select McGovern for president, they were also voting against constitutional amendment to allow a graduated income tax in Massachusetts. Prior to the election, polls showed that more than 90 percent of Bay State residents believed the graduated income tax was fairer than the current flat-rate one, and in the summer before the election 59 percent of Massachusetts residents told pollsters that they supporter the graduated income tax.[1239] Yet, opponents of the ballot measure, the Committee for Jobs and Government Economy, outspent the pro-tax coalition, the Coalition for Tax Reform, by $120,000 to $7,000 and convinced most voters than the amendment was really a backdoor tax increase.[1240] The initiative failed by a nearly two-to-one margin. It was an abject lesson in the continuing power of well-funding business groups and a cautionary tale for left-distributionist

[1238] Hobart Rowan, "McGovern Proposes Traditional," *Washington Post*, August 30, 1972; Norman Miller, "In Wall Street Speech McGovern Calls for End to Firms' Tax Breaks," *Wall Street Journal*, August 30, 1972; Peter Milius, "McGovern Reshaping Tax Reform," *Washington Post*, August 25, 1972

[1239] Elliott Sclar, et al., "Taxes, Taxpayers, and Social Change: The Political Economy of the State Sector," *Review of Radical Political Economics* (April 1973); Ted Behr, et al., "Perspective on Tax Organizing," CAP, B 7, F 58, UIC

[1240] *First National Bank of Boston v. Bellotti* 435 U.S. 765 (1978) activists who – though they were still growing in numbers and seemed to have public opinion on their side – would also be facing a resilient and deep-pocketed web of conservative anti-tax groups.

In the next chapter, we turn to the clashes between the expanding grassroots tax left and newly founded right-leaning tax groups, the continuing federal push for local property tax relief, and the ideological chaos wrought within both parties following McGovern's defeat and Nixon's resignation.

CHAPTER 4

The "New Democrats" versus the Distributionists

By 1973, tax justice activists and left-distributionist reformers seemed to be in their strongest position yet. After all, Nixon and every major Democratic presidential candidate had dedicated themselves to reform of both local property and federal income taxes in 1972. Indeed, even those who had opposed George McGovern's campaign proposals conceded the near-inevitability of tax reform, given the nearly unanimous view among presidential candidates of reform's desirability. Moreover, on the state and local levels, the grassroots "tax justice" left was expanding its numbers and increasing its coordination. However, the political and economic disturbances that followed the 1972 election – Watergate and "stagflation" – would permanently alter the direction not only of the tax justice movement, but also of American politics, economic and otherwise. Perhaps most significantly, these disruptions would shift the balance of power in both parties.

For the grassroots left, the shifts within the Democratic Party were devastating. Following Nixon's 1972 landslide, an increasingly vocal minority of moderates within the Democratic would blame McGovern's sweeping loss not on the White House-stoked economy or Nixon's "dirty tricks," but on McGovern's left-leaning stances on pocketbook issues. The unprecedented electoral opportunity created by Watergate and the rise of "stagflation" would allow these more economically conservative "New Democrats" – who generally had few connections with, and little allegiance to, "tax justice" groups – to sweep to power and influence in both Congress and at the state level. In the GOP, the more economically conservative Gerald Ford would temporarily fill the moderate Nixon's shoes. In the long run, the right-distributionist Ronald Reagan would shake off both personal tax scandals and the embarrassing defeat of his own tax-slashing initiative in California to fill the leadership vacuum in the Republican Party. In the short run, however, these shifts within the parties meant that the grassroots left now would find itself butting heads with Democrats almost as much as Republicans, a dynamic that placed tax reform in question at all levels of government.

The emergence of "stagflation" as a pocketbook issue – and policy problem – compounded the political shifts occurring in the mid-1970s. Beginning in late-1973, inflation and unemployment began moving upward simultaneously. The Consumer Price Index peaked at more than 12 percent in December 1974, while unemployment reached a height of nine percent in May 1975.[1] According to conventional economic theory embodied in the "Phillips Curve," inflation and unemployment should exist in a tradeoff. When one rose, the other should fall. Stagflation changed all that. Moreover, there was then – and continues to be – heated debate about the causes of stagflation. Unintentional miscalculations by the Federal Reserve, political manipulation of the money by Arthur Burns, Nixon's wage-price controls, and, perhaps most persuasively, supply shocks wrought by the OPEC oil embargo and agricultural failures were all offered as explanations.[2] Average Americans, however, cared little about stagflation's precise causes. Rather, they wanted to know what policymakers in Washington were going to do to

[1] FRED Graph

[2] Alan S. Blinder, *Economic Policy and the Great Stagflation* (Academic Press 1979); Alan S. Blinder and Jeremy B. Rudd, "The Supply Shock Explanation of the Great Stagflation Revisited," NBER Great Infaltion Conference Paper (September 2008); Robert B. Barsky and Lutz Kilian, "A Monetary Exlanation of the Great Stagflation of the 1970s," Working Paper (2000); J. Bradford DeLong, "America's Peacetime Inflation: The 1970s," in *Reducing Inflation: Motivation and Strategy*, Christina D. Romer and David H. Romer, eds. (University of Chicago Press 1997); Allan H. Meltzer, "Origins of the Great Inflation," *Federal Reserve Bank of St. Louis Review* (March/April 2005); Cristina D. Romer, "Commentary," *Federal Reserve Bank of St. Louis Review* (March/April 2005); Robert J. Samuelson, *The Great Inflation and Its Aftermath* (Random House 2010); Paul Krugman, "The Stagflation Myth," *New York Times* (June 3, 2009)

combat the increasingly tight pocketbook squeeze. However, the combination of fiscal conservative Gerald Ford in the White House and the New Democrats in Congress stymied meaningful action.

Both Ford and the New Democrats viewed stagflation through a fiscalist lens. The most pressing element of stagflation, many conservative Democrats and Republican agreed, was soaring inflation, and the only solution, they concluded, was balanced-budget austerity – not the type of tax reforms proposed by Nixon or Muskie, let alone grassroots activists. However, perhaps the most significant element of the inflation spikes of the mid-to-late 1970s came in the form of inflation's effect on taxes. Inflation hit lower- and middle-income worst, as studies throughout the decade showed. Moreover, the two elements of the pocketbook squeeze – taxes and inflation – had an additive effect, as rising inflation pushed taxpayers into higher income tax brackets and exacerbated sales and property taxes by raising retail prices and property values. Taxes, therefore, proved to be central to average Americans' experience of stagflation. This incongruence between policymakers' and Americans' views of stagflation, ensured that one of the great ironies of the mid-to-late 1970s economic crisis would be that soaring inflation made mainstream policymakers less likely to consider tax relief and reform, even as it increased Americans' demand for it.

The ongoing pocketbook squeeze, combined with new headlines of high-profile tax scandals involving celebrities and politicians, ensured that the tax revolt remained unabated as the country approached its bicentennial. Meanwhile, the power shifts within the parties meant that the prospects for reform remained contingent upon which grassroots movement – the left or the right – could align with party leaders to enact their preferred policies.

D.C. Turns to Local Property Tax Inequities

Despite his defeat in the Democratic primaries, Edmund Muskie followed through on the property tax hearings that Ralph Nader had requested in mid-1972. More than simply inspired by the grassroots left, these hearings would prove to be a showcase both for the left-destructionist arguments advanced by these activists and for activists like Nader, CAP, and CCC themselves. Montana Democrat Lee Metcalf made the thesis that animated the property tax hearings abundantly clear in his introductory statement. "During these hearings," Metcalf declared, "we will see that 'property taxpayers' revolt' is not merely empty rhetoric. We se evidence of this revolt everywhere." The intertwined sources of the revolt, the Montana senator argued, were the pocketbook squeeze created by rising tax rates and the resentment and cynicism generated by inequities in assessments. "In the last 10 years, property taxes have risen by 80 percent, while personal income – a good mearsure of family's ability to pay – has grown less than half that fast," Metcalf said. "And recently, homeowners and other concerned citizens have become aware that property taxes are not only too high, but are also unevenly and unfairly administered. According to the Bureau of the Census property tax assessments across the country are common in error by 20 percent." Fittingly, then, given Nader's role in inspiring the hearings, it seemed that the operating assumptions guiding them were the every same ones held by left-distributionist grassroots activists. The point of the hearings, Metcalf continued, was to "focus on the role the federal government can play in encouraging reform of the local property tax," reform which, the committee hoped, would quell the spreading revolt.[3] It was an argument that everyone from Nader to CAP to McGovern would agree with.

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[3] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

The hearings, which stretched into late-1972, were long in the making. Beginning in mid-1971, the Intergovernmental Relation Subcommittee staff, led by Ty Brown and Al From, worked with "Nader's Raiders" like Jonathan Rowe and various other economists in activists in drafting property tax reform legislation planning the Senate hearings. Scheduling the hearings, however, proved to be a challenge.[4] The initial idea for the hearings was for the subcommittee to hold hearings in select locations throughout the country. This plan would not only allow average citizens to vent their property tax frustrations, but also provide the weight of Senate investigations into local property tax administration, giving official credence to the charges of corruption and inequities alleged by CAP and CCC. Nader's August 1970 letter to Muskie calling for Senate Intergovernmental Relations Subcommittee hearings into the local property tax had unleashed a deluge of letters from average Americans to Muskie's office backing Nader's call for property tax hearings. Evidencing the widespread sense that property taxes were unfair everywhere, letter writers from California to Florida to Maryland nominated their own cities and towns for hearings.[5]

Muskie's conducted preliminary investigations into numerous sites for the hearings. Edwin "Ike" Webber compiled a long memo outlining the possibilities. The "Chicago-Gary region" was Webber's top recommendation. Webber noted that "Nader reports that he has received more mail – requests for help, suggestions of abuses, documentation of underassessments – from this region than from any other area of the country." The main "issues" noted for the region included "undersassessment of large commercial properties…[and] large industrial plants." Other recommended locations included: Pittsburgh, which also suffered from "underassessment of large industrial properties"; the Savannah-Augusta, Georgia, region, which

[4] From to McEvoy, January 3, 1972, EMP, B 1180, F 16, BCASC; From to Lewis, November 26, 1971, EMP, B 1180, F 16, BCASC
[5] "Property Taxes (Nader)" Form Responses, EMP, B 967, F 10, BCASC

likewise featured “underassessment of land held by large corporations” and “negotiated tax shelters offered to attract industry”; Southern Wisconsin, because of the “existence of a statewide taxpayers revolt with the possibility of a taxpayers strike within a year”; the West Virginia-Kentucky “coal region,” because of its “underassessment and under taxation or large coal deposits”; the Austin-Houston-Dallas “Texas Triangle,” which allegedly featured rampant “underassessment of commercial…oil…timber…[and] industrial properties”; Northern Minnesota, due to “poor quality administration” and favoritism toward mining properties; “any area of the state” of California, which, though it was generally seen as having good property tax administration, had high property taxes and “substantial citizen discontent”; and the “New Jersey-New York region,” because of their cities’ “diminishing tax bases,” use of “negotiated tax breaks” to lure industry, and “probably corruption.” For good measure, Muskie’s home state of Maine was added.[6] The abundance of dysfunction across the country, however, did not mean that Muskie’s subcommittee actually had an abundance of location options. The selection of a site, or sites, for hearings would have serious “political ramifications,” Webber noted. Regardless of the city, the subcommittee would have to “confront the local power and political base,” and in some cases that base was very powerful, indeed. Muskie and the subcommittee would need to be “diplomatic” in scheduling the hearings.[7]

Concerns about the political pitfalls associated with on-site hearings divided Muskie’s staff. Webber and others advocated remote hearings, arguing that they would make the maximum impact.[8] But other Muskie staffers saw things differently. John McEvoy, Muskie administrative assistant, told the senator that he had “serious reservations” about the property tax hearings. “[D]ifficult political questions exist about stirring up local hornets nests all over the

[6] Webber to Muskie, February 16, 1971, EMP, B 1180, F 16, BCASC
[7] Webber to Muskie, February 16, 1971, EMP, B 1180, F 16, BCASC
[8] Webber to Muskie, February 2, 1971, EMP, B 1180, F 16, BCASC

country by hearings which fixate solely on the real scandal of property taxation practice," McEvoy wrote Muskie.[9] Indeed, many politicians viewed the on-site hearings as an opportunity to score points against their local political opponents. Muskie's Senate colleague, Illinois Republican Charles Percy pushed Chicago as a location. Percy echoed CAP's claims that assessor P.J. Cullerton was underassessing steel plants and racetracks. Al From, though, recommended that Muskie not pursue Chicago as an option. Percy, From believed, was angling for a hearing that would embarrass Illinois Democrats in an election year. Besides, From continued, the IGR "staff resources" necessary to investigate the Daley machine would be enormous.[10] A vague fear of politicizing the property tax hearings hung over their planning – a fear made odder by the fact that, as CAP, CCC, Nader, and other activists surely would argue, property tax inequities were inherently political. Ultimately, the Muskie staff's hesitancy to politicize scuttled ideas that seemed primed to emphasize the property tax crisis. When California was under consideration as a site for the hearings, Al From and the committee's California contact scuttled a "walking tour" of Los Angeles to examine properties and their assessments as a "TV-oriented gimmick." Better to stick to traditional hearings, they decided.[11]

Despite Intergovernmental Relations Committee staffers' studied timidity, the taint of politicization found the property tax hearings, anyhow, thanks to Nixon's "dirty tricks." The same memo from Muskie's pollster, Anna Navarro, that had found its way into the hands of Nixon's CRP staff (as discussed in the previous chapter) also ended up in the hands of columnists Rowland Evans and Robert Novak, who published excerpts of it in a December 1971 column. Navarro had cited polls showing the importance of the property tax in California and

[9] McEvoy to Muskie, February 4, 1971, EMP, B 1180, F 16, BCASC
[10] From to Muskie, June 12, 1972, EMP, B 1180, F 16, BCASC
[11] From to McEvoy, January 3, 1972, EMP, B 1180, F 16, BCASC; From to Lewis, November 26, 1971, EMP, B 1180, F 16, BCASC

encouraged the Intergovernmental Relations Subcommittee to hold hearings in California before Muskie announced for president “to take advance of free TV time before it is too late.” The hearings, Navarro argued, would be “brilliant visual event, particularly if we can dramatize the effects of the property tax on elderly homeowners and school children in poor neighborhoods.”[12] Reporting on the memo, Evans and Novak charged that “the purely political motive of the hearings shines like gold.”[13] The Evans and Novak column scuttled the plans for California hearings.[14] Muskie staffers pressed on, however. Following the California debacle, Muskie staff turned to Wisconsin, since Navarro’s polls showed “that taxes – and property taxes in particular – are the third most significant issue in Wisconsin, behind the war and the economy” – an undeniable conclusion for those following the Wisconsin Democratic primaries (as discussed in the previous chapter).[15] These plans quickly fell through, too.

By early summer, staffers on Muskie’s Intergovernmental Relations Subcommittee settled on Gary, Indiana, as their target. Gary had first come to Muskie’s attention thanks to the efforts of CCC and Nader. Rather than simply rely on the data provided by CCC and Nader, however, the subcommittee staff conducted its own investigation of assessments in Gary. This investigation uncovered “substantial new evidence that the industrial properties owned by U.S. Steel and other large steel companies in the Gary area are grossly underassessed in relation to their real value,” as a comprehensive report delivered to Muskie in May explained. Indeed, the study by the Intergovernmental Relations subcommittee confirmed all of CCC and Nader’s allegations. The subcommittee investigators calculated Gary Works’ assessment under “every responsible standard.” All revealed the same pattern. Using data from U.S. Steel’s own

[12] Navarro and Louis to Mitchell and Cutler, Undated, Contested, B 27, F 4, RNPL
[13] Rowland Evans and Robert Novak, “Nixon and Mrs. Gandhi,” *Washington Post*, December 12, 1971
[14] From to McEvoy, January 3, 1972, EMP, B 1180, F 16, BCASC
[15] From to McEvoy, March 3, 1972, EMP B 1180, F 16, BCASC

documents, which were obtained by committee investigators from the Indiana Secretary of State's office, the investigators calculated the plant's 1971 assessment at between 21.9 and 23.7 percent. Using the same method, the investigators calculated that the assessment had actually fallen since 1960, when it was assessed at a 24.6 percent rate. This assessment drop occurred despite the fact that, after depreciation, the value of the plant increased by ore than $300 million over the past decade. The company's figures, the Senate investigators concluded, offered a "conservative" estimate. Using independent numbers, they found that "the underassessment of the Gary plant is much greater." Calculating Gary Works' assessment based on investment data, its assessment was less than nine percent of its real worth. Calculating based on the replacement method, its assessment rate was between four and seven percent.[16] "No matter how you calculate the U.S. Steel assessment in Gary, it is only a small fraction of the value of the plant," Al From summarized in another memo.[17] The Senate Intergovernmental Relations Subcommittee study found a similar pattern of assessment at other steel producers' plants in the Northern Indiana. "We have compiled figures on the assessments of Inland Steel, Youngstown Sheet and Tube, and Bethlehem Steel…," the report to Muskie explained, "[all] are a small fraction of their real value."[18] The deleterious effects of these underassessments on the city were clear. According to the subcommittee's calculations, the underassessment of U.S. Steel alone was likely costing the city $16 million per year, more than enough to cover the $9-to-12 million deficit facing the school.[19]

The Senate study found that the underassessment of U.S. Steel and other large companies resulting from both legal "loopholes," like Indiana's "doubled accelerated depreciation," and the

[16] IGR Staff to Muskie, May 25, 1972, EMP, B 1180, F 13
[17] From to Muskie, May 12, 1972, EMP, B 1190, F 16, BCASC
[18] IGR Staff to Muskie, May 25, 1972, EMP, B 1180, F 13
[19] From to Muskie, May 12, 1972, EMP, B 1190, F 16, BCASC

extralegal "special treatment" that companies received from officials "at all levels of government." In Indiana, the process began when the company filed its own property tax return. The local assessor was then required by law to examine the company's return and, "where appropriate," compare it with a physical inspection of the property an examination of the company's books. However, assessors often failed to conduct these inspections. Calling Calumet Township assessor Tom Fadell "inept," the Senate study noted that, in his 12 years in office, he had never examined U.S. Steel's books. If Fadell changed the assessment at all, he made an "arbitrar[y]," small pro forma increase in the assessment, almost to keep up appearances of an independent assessment. After the local assessor, assessments passed through the county Board of Review, which, in the case of U.S. Steel, usually rubber stamped the local assessor's number. The process ended with the state tax board. Companies often routinely challenged the final assessment rendered by the state board in court. Major companies could be confident that a court challenge would result in a better deal, since the board studiously avoided the contentiousness of a court battle and settled with companies, usually on terms favorable to the company. "At least in recent years, there has never been a full trial on a steel company's assessment, because the State Board of Tax Commissioners has always been willing to settle the cases for much less than the amount determined by its own auditors," the Senate study noted.[20] U.S. Steel regularly used this process to lower its assessments, and it was not alone.

Often, companies pyramided tax breaks on multiple levels of the assessment process. For example, the Senate investigation found that Youngstown Sheet and Tube's East Chicago plant was not only initially assessed at a fraction of its cost, but also that the State Board of Tax Commissioners gave the company a "$4.8 million break on its assessment," which the board

[20] IGR Staff to Muskie, May 25, 1972, EMP, B 1180, F 13

labeled an "economic adjustment." The board granted the company this break "essentially because the company made a convincing argument that it was not doing well financially." The report noted the obvious, when it added, "(Obviously, there are no economic adjustments for private homeowners.)" This "adjustment" was not enough, however, and when YS&T threatened to take the board to court over the already-reduced assessment, the board then settled with the company by giving it an additional break of nearly $15 million. When Senate staffers interviewed the head of the state tax board about this settlement, he argued that the board would have defeated YS&T in court, but explained that the board saw it as important that it reach an amicable agreement with the company, since "Indiana is a self-assessment state." The subcommittee report criticized the State Board of Taxation not only for "negotiating secretly" with companies to arrive at these compromise final assessments, but also for sealing the agreements, making it impossible for both local government and the public to "determine the grounds on which the state tax board reduced [the assessment]."[21]

As the Senate staff's parenthetical observation made clear, Gary homeowners faced a far different assessment procedure than companies like U.S. Steel. The Senate investigators gathered three independent appraisals of a 16-square block area of downtown Gary that had been commissioned by HUD during its planning to purchase the area for an urban renewal project. The appraisal data showed that the 88 residential properties, valued at less than $20,000 per home, were assessed at a rate of 29.48 percent. Mixed-use apartment buildings, which were valued at more than $20,000 each, were assessed at an average of 24.36 percent. The highest assessment in the area belonged to a fire-damaged brick building, which was assesse at more than 200 percent of its value, and the lowest belonged to a $78,000 apartment building, which

[21] IGR Staff to Muskie, May 25, 1972, EMP, B 1180, F 13

was assessed at just 13 percent. “[A] significant portion of residential property taxpayers are assessed at a higher rate than U.S. Steel,” the study concluded, “and, therefore, are not only paying their share of local property taxes, but part of U.S. Steel’s share as well.” “The burden of these relatively higher assessments falls on the poorest people in Gary,” the study continued. “The residents of the 16-square-block area now being redeveloped included 313 nonwhite families, 86 white families (of whom about half bear Spanish names), 254 single non-white and 297 single whites.” When compared to the assessments offered to U.S. Steel and other large businesses in the area, the pattern was clear. “Nearly three- quarters (74%) of the 115 residential properties were assessed at rates above the conservative 21.7% applied to U.S. Steel, and 79% of the dwellings valued at less than $20,000 were assessed at rates higher than that applied to U.S. Steel,” the investigators told Muskie.[22]

The Senate Subcommittee’s pre-hearing investigations revealed larger truths about the political economy of American property taxation. While the corruption in the Gary Democratic machine prior to the election of Richard Hatcher was well-known, the Senate subcommittee investigation made clear that the assessment process was a bipartisan handout. The local assessor’s office was controlled by Democrat Tom Fadell, but the state board controlled by business-friendly Republicans.[23] The Intergovernmental Relations Subcommittee investigation also revealed the economic power and political influence exercised over the assessment process by companies like U.S. Steel. With the scrutiny of CCC and Nader generating pressure to raise assessments, U.S. Steel turned to a new tactic – threats – in an attempt to maintain its favored status. “Our investigation has revealed that a few weeks ago U.S Steel brought some top Gary officials out to the plant and indicated that if the property tax assessment keeps going up, the

[22] IGR Staff to Muskie, May 25, 1972, EMP, B 1180, F 13
[23] IGR Staff to Muskie, May 25, 1972, EMP, B 1180, F 13

corporation may be forced to locate some of its operations elsewhere," From reported to Muskie.[24] This threat not only suggested that underassessment had become an expected privilege for large businesses in cities like Gary, but also that they were common elsewhere.

Indeed, with the idea of holding hearings in multiple cities in mind, the Senate Intergovernmental Relations Subcommittee staff also investigated property taxation in cities beyond Gary. For a time, Birmingham, Alabama, seemed poised to join Gary. The Senate staff's preliminary investigations turned up a pattern of assessment inequity in Birmingham similar to that found in Gary. The Birmingham hearings planned to explore underassessment of timberlands as well as land owned by "five major corporations, including U.S. Steel." That land, From's memo explained, was "assessed at far less than comparable property with less powerful owner." Alabama also allowed the hearings to make a specific point contrasting the level of taxation versus the fairness of taxation. It could also emphasize the fungibility of money from various tax sources. "The theme of the Alabama hearing would be that even though property taxes are relatively low in Alabama, they are administered so unfairly and give such big breaks to the corporate interests that over-all consumer taxes in Alabama are higher than the national average," From wrote. "In other words, if the corporate interests paid their share of local property taxes, the state would not have to rely so much on the sales tax which is among the highest in the country." Other locations considered included Appalachia, "where several citizens' groups in Kentucky, Tennessee, and West Virginia who have charged that land owned by coal and steel companies in those States is grossly underassessed," as an IGR committee memo noted.[25] Despite the legwork done to prepare for a the property tax hearings, they remained

[24] From to Muskie, May 12, 1972, EMP, B 1190, F 16, BCASC
[25] From to Muskie, May 12, 1972, EMP, B 1190, F 16, BCASC

unscheduled throughout 1971, thanks in part to legislative logjam created by hearings on Nixon's revenue sharing and drug abuse control proposals.[26]

With property tax hearings still unscheduled by December 1971 – a year after Muskie promised them – Nader wrote another long letter to Muskie pressing the need for an Intergovernmental Relations subcommittee investigation into local property taxes. "Since your announcement the need for such hearings has become increasingly more urgent," Nader wrote. "Exposures of illegality and abuse the administration of the property tax have accelerated, and the magnitude of the tax burden falling as a result on unfavored taxpayers appears even greater than it did before." Nader connected the countrywide cascade of local school levy defeats with "inequitable property tax administration" and told Muskie that the public was waiting for action. "The extent to which powerful corporate and local interests have exacted favored treatment from weak property-tax administration, shifting the tax burden regressively and intensifying the outcry for federal revenue assistance, would alone compel Congressional investigation," Nader wrote.[27]

The consumer activist listed examples of "corporate property tax-escapades" from the "past months," including the revelations uncovered by CCC and CAP in Gary and Chicago. Other examples include the underassessment of timber and agricultural land in Maine and California and mineral land "throughout Appalachia." In Augusta, Georgia, Nader told Muskie a group of taxpayers successfully sued to end a "special and illegal tax rate for new industry" developed by the business backed "Committee of One-Hundred." The special rate, which stood at less than 13 percent of the standard rate, quickly attracted older businesses, too, "eroding the tax base and thrusting a still greater burden upon the taxpaying citizens of Augusta." While the business-friendly Augusta "property tax dole" had been ended by the suit, Nader noted, there

[26] Muskie to Nader, January 4, 1972, EMP, B 416, F 1, BCASC
[27] Nader to Muskie, December 31, 1971, EMP, B 1180, F 16, BCASC

was "no way to know how many analogous situations there are in cities and counties across the country" without federal investigation. It was, Nader wrote, an epidemic of "blackmail" by both businesses and wealthy individuals to "exact legal and illegal property tax concessions by threatening to move to another jurisdiction."[28]

Nader also used the lengthy letter to outline his philosophy on property tax reform. The property tax, Nader argued, ought to be retained in some form to compensate for 'the 'Reagan Effect' – the astounding phenomenon of exceedingly wealthy citizens with no taxable income." The property tax, in Nader's view, could serve as a backstop to the loophole-riddled income tax. By taxing individuals like Reagan, as well as businesses that used accelerated depreciation and other "sophisticated treasury raids," the property tax at least ensured that "these [income] tax-return paupers…contribute something to the society which protects and enhances their wealth." With assessment reform, Nader argued, the property tax could become more progressive. Reform, he argued, needed to precede relief. Furthermore, any property tax relief, in Nader's view, needed to be funded by a progressive source. It was unlikely, for example, that use of a national VAT "would result in more tax relief for the low and middle income taxpayer, and in a fairer sharing of tax burdens, than would a well-administered, state-wide property tax." Nader did not want Muskie to misconstrue his argument as a defense of the property tax, of course, but the consumer activist pleaded for Muskie and other legislators to ensure that any property relief plans did not leave most Americans "worse off than they were before, with tax subsidies for the rich merely transferred to the less visible federal level under the false pretense of property tax relief for low and middle-income citizens."[29] Nader strategically released his letter to press to coincide with Muskie's January presidential candidacy announcement, and the Muskie team

[28] Nader to Muskie, December 31, 1971, EMP, B 1180, F 16, BCASC
[29] Nader to Muskie, December 31, 1971, EMP, B 1180, F 16, BCASC

scrambled to craft a response to send to Nader – and the press – to ensure that Nader's lengthy letter did not overshadow the announcement.[30]

By the time the Senate property tax hearings began in May, Muskie's presidential campaign was all but over. However, the public's demand for property tax relief and reform was stronger than ever. In his opening statement, Muskie declared that the hearings were designed to "focus on widespread property tax breaks for certain businesses at the expense of average homeowners." Muskie methodically laid out the facts, as gathered by activsits like Nader and CCC, as well as his own staff. "In many States, corporations benefit from underassessment of their property. They benefit from favorable depreciation statutes that let them depreciate their equipment faster than it could possibly wear out. And they benefit from loosely written or laxly administered local laws which open up loopholes to avoid tax payments," Muskie continued, citing data from Gary, Houston, and other cities. "These examples are symptomatic of a national pattern of property tax evasion. Originally, many of the loopholes were created by local governments to lure industry. Now, however, they are often sustained by corporate threats to abandon a community and throw its workers out of work. And as more and more localities and States join the competition for new industry by establishing new tax breaks, most Americans are paying too much in taxes in return for too little in services." The property tax's glaring inequities and the resulting rising burden on low- and middle-income Americans, the Senator from Maine argued, was the key to the "tax revolt." "We start with the recognition that the inequity of the property tax is symptomatic of the inequity of our entire tax system," Muskie said. "Every level of government has imposed heavy taxes – but no level of government has done enough to insure that taxes are fair. The tax revolt, as it has been described, is a protest, not just against the taxes

[30] "Nader Criticizes Muskie Tax Role," *New York Times*, January 5, 1972; From to Muskie, January 4, 1972, EMP, B 1180, F 16, BCASC

most Americans are paying, but against the tax burdens some Americans are evading." Muskie concluded that "property tax relief and reform are urgent priorities for the country, the Congress, and this committee."[31] With these hearings, the Senate was, no doubt, taking the largest step yet by Congress to make local property taxes a federal issue.

Though the hearings were ostensibly the doing of Muskie – and would have provided a political boost for the Maine Senator had Muskie prevailed in the Democratic primary – the hearing's were, in many respects, a showcase for Ralph Nader and like-minded left-leaning grassroots groups across the country, such as CAP and CCC. In his opening statement, Muskie credited Nader with "expos[ing]" how "the property tax system too often permits powerful corporations to shift their share of local tax burdens to workers and middle-income homeowners." And much of the second day of hearings was devoted to lengthy testimony by Nader and Jonathan Rowe, of Nader's Tax Reform Research Group. Nader began by praising the grassroots tax groups across "throughout the country" who had been fighting for equal assessments, citing the findings of CCC in Gary and CAP in Chicago, along with a host of other studies in Kentucky, Texas, and Georgia, among others, demonstrating the systematic underassessment of large commercial and industrial property owners. Nader argued that property taxes often created a "crushing" burden on "the low- and moderate-income homeowner, on the elderly, and on the small farmer." Beyond its rate, he argued, Americans were angry about the property tax was "rife with corruption, favoritism, antiquated laws, and secrecy." This did not make the property tax unique, however. "We should not forget another reason that property taxes have become the first object of the taxpayers revolt: they are the only remaining significant tax over which voters have any semblance of direct control," Nader said. "It is much easier to vote

[31] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

down a local bond issue than to vote reform in the Federal income tax. Thus to some extent, the property tax has borne the brunt of taxpayer dissatisfaction with the increasing unfairness of the entire tax structure." Education was suffering as a result of the revolt not because Americans harbored anti-school sentiments. Had the property tax been tied to less popular public expenditures, Nader implied, the revolt would have been even worse.[32]

Nader devoted much of his testimony to the preferential property tax treatment given to well-connected businesses and individuals. Nader pointed both to the informal breaks given by assessors like those in Chicago and Gary and to official breaks, like a special "low-tax industrial zone" enacted by the Georgia state legislature, which allowed the Union Camp company to have property worth between $375 and $550 million assessed at $80 to $90 million, according to Nader's estimates. Jonathan Rowe charged that, in many cities, assessors sit down with "major industries" after assessing homeowners and then ask those "major industries" to pay only the difference between the money raised from homeowners and the localities budget figure. Nader also charged that the tax anticipation warrants criticized by CAP in Cook County were actually common throughout the country. "Delayed property tax collection is the national rule, not the exception...," Nader said. "In 24 states, local property taxes were collected only once a year, and they were collected only twice a year in 21 other States. In only five States were they collected quarterly. So Chicago-style diversion of property taxes to big banks may indeed be widespread." With his usual dramatic flair, Nader dubbed property tax assessment favoritism a national scandal. "If what happens daily many times in the administration of the property tax were to happen in plain view on the street we would call it unarmed robbery," Nader said. "It is literally pilfering billions of dollars out of schools, out of streets and courts and parks, libraries and other

[32] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

services civilized people need. It is taking billions of dollars from the pocketbooks of the small taxpayers that have to make up the difference." Once again, Nader tied inequities in the property tax to the tax revolt. "[W]ith special interests having made tile property tax their own private playground, it is no wonder that homeowners and small taxpayers are rebelling," Nader quipped. The solution to the tax revolt, he argued, was to reform the property tax system and provide relief for overburdened moderate income Americans. Nader estimated "conservative[ly]" that closing loopholes in the property tax would allow for a nationwide 20 percent across-the-board reduction in property taxes. Rather than suggest across-the-board cuts, however, Nader called for using the funds culled from eliminating the special breaks for favored property owners to enact progressive property tax rates or some form of "circuit breaker," thereby raising property taxes for well-off taxpayers and lowering them for others. To ensure that reforms were permanent, Nader recommending tying revenue sharing money, HUD money, and other federal aid to assessment reform, as well as instituting direct federal oversight of the assessment of large commercial and industrial properties. Such was the effect of Nader and Rowe's testimony that they even won over many conservatives. "I have had occasional disagreement with you on other subjects but on this one we are in full accord and I commend you for your testimony," Tennessee Republican William Brock told them.[33]

Community groups from across the country influenced by Nader also received recognition at the Senate hearings. One such group was the 600-member New Jersey-based Cherry Hill League, a "nonpartisan public interest group." The Cherry Hill League's leaders, Alene Ammond and Rosemary Hospodor, were both "ordinary suburban housewives" who were "fight[ing] city hall from [the] kitchen," as two press accounts put it. Hospodor was a former

[33] Cherry Hill League tax study, in *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

teacher, while Ammond had been a part-time journalist. "Ralph Nader was a big influence on us," Ammond said. "We had read about him and thought if he could do it on a national scale, then we could do it locally much easier." Following Nader's lead, Ammond and Hospodor became the first registered "public interest lobbyists" in the state of New Jersey. "We felt we could develop a technique," Ammond said, "to solve people's civic problems which can include tax problems, zoning problems, problems with building contractors." The CHL focused on pocketbook issues and local matters like taxes, prices, and zoning. "Inflation has helped us [gain suppporters]," Hospodor told the *Philadelphia Enquirer*. "People in the suburbs aren't as mobile as they used to be because they can't afford to move. We get more and more support every day." With the assistance of Nader's Tax Reform Research Group, the CHL formulated a tax reform plan centered on the insistence that "big business should pay its fair share." Like CAP in Chicago and CCC in Gary, Ammond and Hospodor had earned the ire of many by challenging local government and business leaders and had received virulent criticism and hostility, including a barrage of anonymous threatening phone calls and Ammond mysteriously receiving five flat tires in one week.[34] Yet, the CHL remained undeterred. Ammond presented CHL's tax study, which demonstrated an "unholy alliances between corporate lobbies, business, and government at the base of a degenerate tax system," to the Senate committee. The CHL found, for example, that Standard Oil's New Jersey Refinery was underassessed by $31 million. Likewise, properties in Cherry Hill's major industrial area were assessed at between 1.5 cents and 24 cents per square foot, whereas residential lots in the community were assessed at between 45 and 60 cents per square foot. The CHL also documented a pattern of land being bought by

[34] Dan Lynch, "Common Cause Urban Lobby," *Philadelphia Enquirer*, September 20, 1970; Linda Loyd, "They're Fighting City Hall," *Philadelphia Enquirer*, October 17, 1971; Mary C. Lovitz, "Big Business, Speculators Favored," *Cherry Hill News*, November 4, 1971; Betty Krieger, "Lobbyists Fight City Hall from Kitchen," *New York Times*, March 5, 1972

speculators, assessed as farmland at fractions of a cent per square foot, then sold for a hefty profit after a favorable zoning change. Some of these property tax breaks were due to legislative tax incentives, while others were due to information assessment practices. Both, the CHL argued, needed to be ended. Ammond called it a "myth" that "tax shelters must be offered industry in order to attract them and keep them." And, if that "myth" were true, Ammond argued, "the same economic principle should apply to tax shields and breaks for the middle-class taxpayer." "The flagrant violation of the uniformity law in assessing real property is nothing less than condoned thievery," Cherry Hill League's tax study argued. "Unlike Robin Hood, local assessors are generally directed by their superiors to rob from the poor to give to the rich. Despite pleas for relief, the practice of favoritism toward industry and large corporations at the expense of the homeowner continues to flourish…. [O]ur State legislatures represent large financial interests and not the people."[35]

Even the influence of grassroots groups that did not attend the hearings was felt in the testimony of others – including Republicans. Like Muskie and others, Illinois Republican Percy had been influenced by the work of CAP and similar grassroots groups. "In Cook County, citizen action programs have revealed and documented some of the worse features of the county's property tax system," he said. "Citizens groups like Citizens Action Program and Businessmen for the Public Interest are forcing changes in what was a closed and virtually impregnable system." Such groups, Percy said, had "exposed as arbitrary, intensively personal, political, closed, and unfair. Certain major properties have been assessed far below their fair market values and below that of comparable properties owned by less political influential owners." Percy cited CAP's racetrack assessment statistics, among other examples, in his testimony. These extralegal

[35] Cherry Hill League tax study, in *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

tax breaks, the senator argued, drove up taxes for average Cook County residents, and they were understood exactly what was happening. This, Percy said, was the root of the tax revolt. "It is not that people in the country are revolting so much against the idea of paying taxes," Percy said, "it is the fact that someone else is not paying any. That unjust situation causes the anguish, the grief and the concern, and causes what is talked of as the taxpayers' revolt today." Grassroots groups like CAP, Percy said, had done what local, state, and federal policymakers had failed to do. The senator proposed that Congress invite CAP's leaders to testify, suggesting that, based on their success "fight[ing] and beat[ing] city hall," groups like CAP could give federal legislators guidance in how to tackle the problems of unfair property taxation.[36]

Percy submitted his own proposal for tax relief, which limited property taxes to eight percent of income for the elderly, up to a maximum household income of $14,800, and Percy also suggested that the program be expanded to the entire population – in other words, a slightly more modest version of Nixon's plan. However, Percy also called for assessment reform, making it easier for homeowners to appeal assessments, and the elimination the tax payment escrow and tax anticipation warrant process that CAP showed netted banks bundles while costing taxpayers (as discussed in the previous chapter). Percy called the latter a "racket" and suggested it would be "criminal" for Congress to allow it to continue, since "the taxpayer is paying the cost of that interest [collected by the banks]."Among other assessment reforms, perhaps the boldest suggested by Percy was that the Census Bureau conduct assessments of properties worth more than $200,000 in order to ensure that large property owners were "more fairly assessed." Another tactic proposed by Percy was federal "spot checks" of large properties to ensure that property owners were not over-claiming depreciation, a practice that Percy suggested was common an "no

[36] Cherry Hill League tax study, in *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

different from any other form of [tax] cheating…[or] evasion of taxes."[37] As Percy and other committee members knew, this type of cheating was not confined to Chicago. Indeed, Muskie and the IGR committee staff had settled on Gary, Indiana, as the prime example of such inequities and misbehavior.

Though the Intergovernmental Relations Subcommittee did not travel to Indiana, property taxes in Gary took center stage at the D.C. hearings. In fact, the entire third day of the property tax hearings were dedicated to taxation in Gary. Though it would receive a disproportionate share of the subcommittee's attention, both Nader and Muskie wanted to make it clear that the afflictions of Gary's property tax system were not confined to the Calumet region. "We have not chosen Gary for our first case study because its property tax problems are unique or necessarily more acute than those in other areas," Muskie said. "In fact, many of Gary's problems are echoed in cities across America – a fiscal crisis in the schools which has cause teachers to go unpaid and reductions in school services; unrelenting pressure from industry to hold down the tax rate or face a job cutback; excessive secrecy in the property tax assessment process that prevents interested parties from determining its fairness…." Muskie began the Gary portion of the hearings by highlighting the findings of the Gary IGR staff study, which was published in full as part of the hearing record. The final report – a polished version of the preliminary memo presented to Muskie months earlier – found that "United States Steel's Gary Works is assessed at a lower percentage of its depreciated value than residential and commercial property in low-income areas of Gary." It outlined Gary Works' stagnant assessment over the past decade, assessor Fadell's failure to examine the company's books, and the state tax board's "secret" dealings with the company to arrive at final assessments. Even the "most conservative"

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[37] Cherry Hill League tax study, in *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

estimate of U.S. Steel's assessment, the Senate study found, was more than 1/3rd less than both the average assessment of residential property in Gary and the average assessment rates of other commercial and industrial property. Moreover, the final Senate analysis of 251 sample properties in Gary found slightly higher overall assessments for business property than for residential property. Homes had an average assessment-to-sales price ratio of 28.3 percent, whereas commercial and industrial property had an average assessment of 33.4 percent. For comparison, the Senate noted that a 1969 State Board of Tax Commissioners study of assessments had found that, within the Gary School District, residential property was assessed at 30.46 percent of "true cash value," while commercial and industrial property was assessed at 30.85 percent.[38] Additionally, though not noted by the Senate report, the Census had found statewide assessment-to-sales price ratios in Indiana of 25.9 for commercial and industrial property and 25.4 for residential property in 1967.[39] In 1972, the Census found ratios of 23.7 for residential and 20.0 for commercial and industrial.[40] Within the residential section alone, the IGR study concluded that, in Gary, "on the average, the higher the market value of the residence, the lower its assessment in relation to its market value."[41]

Gary Mayor Richard Hatcher and City Comptroller Arnold Reingold bolstered the Senate Intergovernmental Relations Committee staff study's conclusions. Mayor Hatcher told the committee that he concurred with "Mr. Ralph Nader's testimony" that "the Gary works of the United States Steel Corp is grossly underassessed." Hatcher blamed the recent Gary teachers' strike not on the union, but on the "inadequate financial resources available to the school," which

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[38] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972
[39] *1967 Census of Governments, Volume 2, Taxable Property Values* (GPO September 1968)
[40] *1972 Census of Governments, Part 2, Taxable Property Values and Assessment-Sales Price Ratios* (GPO 1973)
[41] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

the mayor said was “almost exclusively” responsible for the strike. “That strike – and its basic underlying cause – is the most recent example of the grave financial crisis in which the city of Gary, Ind., finds itself,” Hatcher said. “That crisis is directly and heavily linked to property tax assessment.” Hatcher pointed to lost revenue from U.S. Steel as the main culprit in the “fiscal crisis” facing the city, outlining a number of illegal practices by U.S. Steel that cost the city “sorely needed” revenue. Specifically, Hatcher told the Senate that company estimated its own building permit frees and its own property tax assessments, forcing the city to take the company “at its word.”[42] During a 10-month period in 1971, the Hatcher administration calculated that U.S. Steel “evaded” more than $60 million in building permit fees and a nearly $10 million increase in assessed valuation. City Comptroller Arnold Reingold testified that, based on his calculations derived from publicly available information, the company was undertaxed by between $15 and $25 million per year.[43] (For perspective, Gary’s entire 1972 budget was $23.8 million.[44]) Reingold had attempted to examine the company’s records – a legal process under Indiana statutes – the company sued to secure a temporary injunction preventing Reingold from doing so. That injunction had lasted since Hatcher took office, over three years, as the legal proceedings dragged on. Even the lower $15 million figure would allow Gary either to cut property taxes by 25 percent across-the-board or to more than solve all of its revenue shortfalls. Most likely, if U.S. Steel were assessed fairly, the city could enact a tax cut for homeowners and solve its fiscal crisis at the same time. While it was impossible to know without access to U.S. Steel’s books, Reingold that there was a “strong possibility that the steel company is

[42] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972
[43] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972
[44] Thomas Connor, “New Gary Budget Largest in History,” *Chicago Tribune*, September 9, 1971

underassessed by a greater percentage than the typical other business in the area and the typical homeowner."[45]

The key property tax battle taking place in Gary and cities like it was between average homeowners and large businesses. When challenged on its evasion practices, U.S. Steel told the city of Gary that it was effectively "above those laws," as Hatcher put it. The company's behavior, in Hatcher's view, was "corporate arrogance and power of the worst sort." In meetings with Hatcher to discuss Gary Works' assessment, U.S. Steel officials repeatedly made reference to "the company's competitive position," in terms of its property tax rate in Gary, relative to rates for other companies in other cities. While Hatcher said company officials never openly threatened to leave Gary if the city raised its assessment, the mayor said the point was clear. "I do believe there was an implication that certain parts of the process of making steel which are presently being carried on at the Gary works would have to be transferred to other locales where there was not this high property tax rate…," Hatcher told the Senate. This put mayors like Hatcher in a "difficult" situation. If he insisted that U.S. Steel "comply with those laws [regarding building permits and property tax assessment]," Hatcher noted, he might be placing both the city and its residents' jobs "in serious jeopardy." Taken to their logical conclusion, the effect of cities complying with the demands of companies like U.S. Steel could be drastic. "[T]hose of us who are fighting for the survival of our nation's cities," Hatcher predicted, "may well – with the problem of inequitable tax structure – be thrown into a cutthroat, counterproductive competition to retain and secure major tax assets [by granting assessment breaks]."[46]

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[45] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972
[46] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

While Hatcher, along with CCC, Nader, Muskie, and others, opposed this business-friendly race to the bottom, some conservatives on the Senate IGR committee disagreed. Florida Republican Edward Gurney, one of the most conservative members of the Senate, came to the defense of U.S. Steel. Because the company's taxes paid were increasing in dollar terms, Gurney argued that the company was "becoming a better citizen every day." He argued that Reingold's belief that U.S. Steel was underassessed was "not backed up by any evidence at all except….some vague thought." When Reingold referenced the Senate subcommittee's own study of Gary assessments, Gurney dismissed it, claiming that he wanted "other" evidence. Muskie backed Reingold, though, noting, "One of the points in this whole inquiry is that it has taken a great deal of staff effort and investigative effort to get as much information as we have about United States Steel and about their relative tax burden…and United State Steel could resolve a lot of these problems by opening its book to the city of Gary and to its mayor as well as to the public. Then you [Reingold] wouldn't have to guess."[47]

The Senate subcommittee staff did not expect representatives of U.S. Steel to appear at the property tax hearings, but they invited them, anyhow. To the committee's surprise, U.S. Steel officials agreed. The chair of U.S. Steel's finance committee, W.A. Walker, testified alongside David Carr, the superintended of Gary Works, as well as two company staffers. They denied that refused to open its books to assessors. Walker argued that they had filed the injunction against the Hatcher administration because the company believed that it only had to open its books to the state tax board, not to local officials, even though a 1905 law said otherwise. The company also insisted, contrary to the claims of Nader, CCC, and other critics, that its plants in Gary and Chicago were not underassessed. Rather, Walker said, the Gary Works, in particular, was "too

[47] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

high.” Walker’s baseline was not the value of each plant, however. Rather, Walker implied, the proper measure for fair taxation was the amount of taxes the company paid relative to its employment at the plant. Per $100 of payroll, Walker said, property taxes in Gary and Chicago were high compared to other plants, such as those in Pennsylvania. This imbalance, he said, “places our plant [in Gary or Chicago] at a cost disadvantage m comparison with others, and it certainly is inordinately high as compared with our other major producing area[s].” Taxes in Gary, Walker said, were the highest the company paid on any of its plants. “That means your lobbies may have been more effective in other communities,” Muskie quipped. “That doesn't mean you are necessarily right in Gary.”[48]

Keeping with the post-“Powell Memo” mood of business assertiveness (as will be discussed later in this chapter), U.S. Steel’s representatives mounted a vigorous defense not only of the company’s taxes, but of low business taxes, generally. The Senate subcommittee had sent U.S. Steel a letter asking for an accounting of how the company had derived its assessment of Gary Works. However, the company never responded to the letter and, when asked about the company’s lack of response, Walker – to the frustration of an incredulous Muskie – offered a long justification for why it was too complicated for the company to explain its assessment figure in detail. Regardless of the precise assessed value, Walker insisted over and over that the Gary Works plant was assessed at precisely 33 1/3 percent of cash value, just as the law called for. In response, Muskie pointed out the state tax board’s figures suggested that the plant was valued at $793 million and assessed at $173 million, for a ratio of 22 percent. Walker’s position, however, hovered above the specifics of Gary Works’ assessment and went to the importance of a pro-business tax environment, more broadly. Businesses like U.S. Steel would simply leave

[48] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

areas rather than pay property taxes they felt were too high, the executive noted. Therefore, corporate tax breaks benefitted everyone. Business, Walker said, “supplies the lifeblood for the economy of Gary and Indiana as a whole.”[49] In somewhat contentious questioning, Muskie failed to push the U.S. Steel representatives off their prepared talking points. The largest fireworks of the hearings, however, came during the Calumet Township assessor’s appearance. [50]

Assessor Tom Fadell’s opening statement was an almost stream-of-consciousness amalgam of overwrought defenses and broad accusations. Fadell portrayed himself as a valiant public servant who had stood up to U.S. Steel by more than doubling the company’s assessment during his more than two decades in office. Fadell argued that his assessment office was the model of professionalism and that property taxes in Gary were exceedingly fair. Not only were the figures offered by Nader, CCC, and Reingold wrong, Fadell said, so was the study done by Senate staffers. Specifically, Fadell said that the notion that “ghetto homeowners” – a term Fadell rejected, since he “[didn’t] believe we have a ghetto in Gary” – were assessed at higher rates than U.S. Steel was “an out-and-out fabrication.” Fadell had been subjected to criticism not because of any faults in his assessments, he suggested, but because of a political witch hunt orchestrated by Hatcher. “Now, how did this controversy really start, gentlemen?” Fadell asked rhetorically. It started, Fadell claimed, because he refused to support Hatcher’s reelection. Hatcher, Reingold, *Post-Tribune* reporter George Crile (and his wife), Fadell charged, were “slander[ing]” him and engaging in a campaign of “political propaganda against [Fadell].” Another motivation, Fadell suggested, was Hatcher’s reckless, “criminal” spending. Whenever assessments went up, Fadell said, “spending increased to meet the revenue available.” “Isn't it

[49] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

[50] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

strange that the city administration can't live with one taxpayer paying $30 million?" Fadell asked. City Hall was pressuring to raise Gary Works' assessment not because it was too low, the assessor implied, but because Hatcher had a voracious appetite for tax revenue.[51]

The Calumet assessor also leapt to the defense of U.S. Steel and other businesses and, in the process, confessed that he did, in fact, give them preferential treatment. Fadell implied that U.S. Steel were victims in this case, too, since Reingold had merely "fabricated a figure" in alleging U.S. Steel's underassessment. The assessor compared Reingold to "Don Quixote…fight[ing] windmills." If the company's assessment was too low, Fadell argued, it was wholly the Indiana State Board of Tax Commissioners. Fadell conceded, though, that the company paid taxes based on "self-assessment." He also explained that he "doesn't follow" the Indiana statute requiring building permits from property owners like U.S. Steel. Nonetheless, Fadell went on to challenge a variety of allegations made by Nader, arguing that none were true. "What is the result?" Fadell asked rhetorically. "The committee again in my judgment, gentlemen, is investigating the highest assessed, proportionately highest assessed, steel mill in the United States. It, I feel, has picked a bad example." Fadell defended U.S. Steel, arguing that the company was at a disadvantage vis a vis other nearby steel mills because Gary had higher tax rates than the surrounding communities in which other mills were located. "Even if all the steel mills in northern Indiana are assessed uniformly, United States Steel would still pay more taxes proportionately than its competitors," Fadell said.[52]

Fadell told the Senate that he was justified in giving preferential tax breaks to businesses. The important measure of the company's property tax burden, Fadell implied, was how it

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[51] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

[52] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

compared to the company's profitability and the property taxes of the company's competitors – not whether it was assessed properly relative to homeowners or Indiana's property tax laws. "Another important observation, and I can't impress this too much on you, is this: In assessing, 2 and 2 does not equal 4," Fadell told the Senate subcommittee. "If you have a business that is losing money or is next to a competitor across a state line, it may be unjust to apply an assessment formula that says 2 plus 2 equals 4, and I think as soon as we accept the fact that 2 plus 2 doesn't equal 4 in assessing, a lot of our problems disappear." Despite his insistence that Gary had not "ghettos," Fadell recounted a laundry list of economic and real estate problems facing the city, including the flight of middle-class homeowners and businesses. Some neighborhoods, Fadell said, looked like Berlin "in the final days of World War II," with homes that were "vandalized and ransacked." The decline of the city, the assessor argued, was even more reason to cut breaks to business. "Now, the question is are we to raise taxes on the remaining few industries and businesses in Gary, and more specifically are we going to attempt to solve our problem by imposing additional millions of dollars in taxes on United States Steel?" Fadell asked. "I just ask the committee if that is the answer."[53]

In a contentions question-and-answer period, Muskie questioned Fadell as to why assessments had stayed the same for homeowners when property values had been falling and why he believed the Hatcher administration should not have access to assessment information. Fadell's often-convoluted answers frustrated Muskie. When Fadell repeatedly deviated from answering Muskie's questions in order to to criticize the Hatcher administration's spending decisions, Muskie interrupted, "The political issues surrounding the levels of spending in Gary are for the citizens to decide out in Gary." Muskie also pressed Fadell on his criticism of the

[53] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

Senate staffers' study of assessments in Gary. Fadell told Muskie that he did not have his own assessment data refute the Senate study, only that, he was "personally familiar with enough houses" to suggest, from memory, that homes in low-income areas were assessed at "less than 18 percent" of cash value, though Fadell would not let himself be pinned down on U.S. Steel's assessment ratio. "Well, you don't like the State tax board study. You don't like our own staff study. But you have no study of your own. That leaves us rather up a tree," Muskie quipped, calling Fadell's off-the-cuff estimation "worthless." [54]

In further justifying his deviation from Indiana property tax laws, Fadell indicted the entire system of property taxation. If any individual assessments were wrong, Fadell argued, it was because it was impossible to assess equal properties equally. "I mean you do as good a job as you can humanly do for all the people in the community," Fadell said. The best that could be done was "rough equity." To attempt equality – "fine equity," as he called it – would be "foolhardy," since "property values just change from day to day." The property tax, Fadell suggested, was fundamentally flawed, since property assessment was more-or-less arbitrary. The only solution, Fadell seemed to imply, was the elimination of the property tax. "[T]he root cause of the rising spiral of property taxes...," Fadell said, "is that there isn't an adequate substitute for property taxes." Ironically, this was a conclusion that even many of Fadell's harshest critics likely would agree with. [55] While the notion of completely eliminating the property tax seemed unlikely, if not impossible, the hearings nonetheless cemented the conviction among policymakers in both parties that federal revenue should be used to lessen localities reliance on the property tax.

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[54] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

[55] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

Perhaps the most startling element of the debate was the degree to which legislators were willing to question the very theoretical underpinnings of the property tax. Metcalf noted not only the burden of property taxes on the elderly, most of whom had already paid off their homes, but also the oddity of young homeowners paying steep property taxes on a capital good that they did not yet own. Federal housing policies helped Americans "purchase homes with as little as 5 percent, and sometimes nothing, down. And yet the assessor comes out and assesses that home at the complete value." "That young man and woman who are starting life have to pay tax on a debt, not on an asset," Metcalf observed. "They are paying tax on a home that is almost completely owned by the bank or building and loan company. Yet, they pay the whole tax. We [Congress] have to do something about that."[56]

Indeed, the argument that divisions between levels of government and types of taxation were inherently artificial was a theme ran throughout the hearings. "It seems to me that Congress faces two closely related tax reform responsibilities," moderate Illinois Republican Charles Percy said. "First, we must reexamine the federal tax code in order to simplify it, to make it more equitable by closing loopholes and to increase revenue. At the same time, we must examine local financing, especially the local property tax…. For too long we in the federal government have turned aside consistent complains about unfair and excessive property taxes, considering them to be a local matter." To change this pattern, Percy proposed using revenue raised from loophole-closing reforms on the federal level to fund property tax relief and reform on the local level. The goal, Percy argued, was to "establish a progressive tax structure and eliminate inequities." Both Percy and Democrat Lee Metcalf attacked tax abatements for local development, calling them unfair to other business and homeowners in the same community, in addition to being a drain on

[56] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

local coffers. Both also called for meaningful loophole-closing reform of federal income taxes. Closing loopholes, Percy noted, would not simply raise revenue, but also restore public trust in the tax system. He suggested instituting graduated rates in the minimum tax, which Percy said should be strengthened beyond the provisions in the TRA69. Likewise, Democrat Metcalf now mocked the inadequate TRA69 as the "Tax Loophole Act of 1969." Percy countered with the "Lawyers and Accountants Tax Relief Act of 1969." Indeed, both Percy noted how provisions of the federal tax code, such as the deductions for state and local taxes and mortgage interest, exacerbated the unfairness and progressivity of state and local taxes, since most low- and middle-income people did not itemize deductions. "It is a wonder we haven't had a revolt of low-income people against [such tax benefits for high-income homeowners]," Percy said.[57]

The consensus at the Senate Intergovernmental Relations Subcommittee's property tax hearings seemed to be that continuation of the "tax revolt" was inevitable without federal action. The worst, many predicted, was yet to come – assuming that Congress did not fix the problem. "I think we have to move or face the expectation of a real tax revolt," Percy said. "We are going to have a revolt unless we find ways to correct these grossly negligent or fraudulent practices."[58] Just whether Congress and the White House would "move" on property taxes remained to be seen, but by 1973 the prospects for action seemed better than ever.

Grassroots Distributionist Tax Politics, Right and Left

While Nixon may have abandoned tax conservatism in an attempt to outflank both Democrats like George McGovern and left-reformers like Ralph Nader, other Republican were

[57] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972

[58] *Property Taxes*, U.S. Senate, Subcommittee on Intergovernmental Relations, May 4 and 9, June 26, and August 22, 1972 (GPO 1972)

eager to test the popularity of right-distributionism with voters desperate for politicians to address tax revolt. California Governor Ronald Reagan – a vocal antagonist of Nixon from the right on issues like welfare reform – decided to stake all the political capital he had amassed during his two terms of governor of California on the idea that the public would approve a sweeping anti-tax initiative.

By 1973, Californians had already rejected tax-slashing overtures from conservatives on numerous occasions. Most of these efforts emerged from Los Angeles County and its overheated real estate market. Businessman and conservative gadfly Howard Jarvis – the future hero of the conservative tax revolt – had tried repeatedly, with the help of an ad hoc coalition of small Los Angeles County tax groups and homeowners associations dubbed United Organizations of Taxpayers, to gather petitions for a statewide ballot initiative that would have radically slashed property taxes in California. Jarvis and UOT, however, never succeeded in meeting the state's relatively modest signature requirements.[59] Convinced of the public's demand for right-leaning property tax cuts, Los Angeles assessor Philip Watson used the power of his office to get two property tax limitation initiatives on the ballot – one in 1968 and one in 1972. Too radical even for many elected Republicans, Watson portrayed his indicatives as a populist defense of embattled homeowners in the face of an indifferent legislature. Left-leaning opponents of the Watson initiatives, however, portrayed them as handouts to the rich, and both lost by a better than two-to-one margin.[60] Reagan, however, believed that – with his personal popularity, the influence of the governor's office, the help of right-libertarian activists, buckets of money from

[59] On Jarvis's early failures, see Howard Jarvis, *I'm Mad as Hell* (Berkley 1985) and David Koistinen's highly informative unpublished paper on conservative tax activism in California: "Resentment of Government and Taxes and America's Shift to the Right: The California Tax Revolt," March 1999

[60] David Koistinen, "Resentment of Government and Taxes and America's Shift to the Right: The California Tax Revolt," March 1999; Clarence Y. H. Lo, *Small Property Versus Big Government: Social Origins of the Property Tax Revolt* (University of California Press, 1990); David O. Sears and Jack Citrin. *Tax Revolt: Something for Nothing in California* (Harvard, 1982),

business supporters, and, perhaps most importantly, the continued rise in California real estate prices and property taxes – his initiative could succeed where others failed.

Reagan presented California voters with what would become known as Proposition 1, now-almost-forgotten plan to cap California's spending and slash taxes. Prop 1 was designed by Reagan's Tax Reduction Task Force, an all-star team of right-distributionist, libertarian-leaning, small-government economists, academics, and lawyers, including Milton Friedman, Martin Anderson, James Buchanan, Peter Drucker, William Niskanen, and Anthony Kennedy.[61] Prop 1 embodied the right-libertarian belief tax revolt signified the public's turning away from big government and the welfare states. Voters did not simply want to curb the rise in regressive taxes like the local property levies, this view argued. They wanted to reign in government itself. Indeed, the experts and activists on Reagan's TRTF explicitly connected Prop 1 to the national goal of curbing big government liberalism. "The New Deal ushered in a period in which government spending has been growing by leaps and bounds and has now reached 43%," Friedman said. "Something historic needs to be done to stop that process."[62] Though pitched by supporters as a distribution-neutral "tax limitation" plan, the details of the measure revealed a clear purpose – to shift the tax burden downward. In its fine print, Prop 1 made it much harder to raise progressive taxes, such as the income tax, than to raise regressive sales and property taxes. Moreover, Prop 1 called for refunding future state surpluses proportionally based on each resident's income tax payments, not sales or other taxes, making the overall effect of the refunds

[61] Uhler to "All Concerned," November 29, 1972, Reagan Gubernatorial Papers, B 18, F "Tax Reduction Task Force Seminar," RRPL; "A Reasonable Program for…Revenue Control and Tax Reduction submitted to the California Legislature by Governor Ronald Reagan March 12, 1973," Reagan Gubernatorial Papers, B GO 114, F A Reasonable Program 3/12/73, RRPL.
[62] List of Quotes, Undated, Reagan Gubernatorial Papers, B GO 1114, F Californians for Lower Taxes – Weekly Memos (Terry M. Chambers) (1/3), RRPL

regressive.[63] Prop 1's supporters, however, repeatedly denied the regressive implications of Prop 1, and much of the campaign became a battle of who voters trusted more.

With its clear benefits for business and well-off individuals, Prop 1 attracted enthusiastic support from deep-pocketed Californians. Proponents of the plan – including Dart Industries, Standard Oil, and the California Chamber of Commerce – outspent opponents by somewhere between a three-to-one and five-to-one margin.[64] This vast funding advantage allowed pro-Prop 1 to enact a vast advertising campaign. Governor Reagan personally appeared in radio ads and auto-dialed-calls for the measure. He appeared in direct-to-camera television commercials, too, as part of an extensive pro-Prop 1 campaign.[65] Another series of pro-Prop 1 television ads featured a cast of "Silent Majority"-type characters. In one, a blue-collar welder explained, "My raises just can't keep up with those big spenders in Sacramento. That's why I'm votin' yes on Proposition 1."[66] In another, a frazzled housewife standing in front of a kitchen filled with her husband and rambunctious children and told viewers, "Look, I'm no economists… We live on a budget, pay our bills, and if there's anything left, we go to a movie. Why can't the big spenders in Sacramento live on a budget the way we do? They spend and then they tax and keep balancing their budget by unbalancing ours. That's why we're voting yes on Proposition 1."[67]

Like many conservatives, the Prop 1 campaign based much of its campaign on the notion that the citizens who had been voting down local property tax levies and writing letters to their representatives about tax reform resented not just government spending, but particular types of

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[63] State of California Legislative Analyst, *An Examination of the Governor's State Expenditure Limitation Program* (Sacramento, 1973); Alan Post, "Measure Shifts Burden to Local Taxpayers," *California Journal*, September 1973;
[64] For estimates on spending, see "Tax Ceiling Supporters Outspent Foes 3-to-1," *Los Angeles Times*, December 3, 1973. Other estimates peg the difference as closer to five-to-one, but in any case it is clear that supporters of Prop 1 had resources that far outstripped those of opponents. For corporate donations, see "CONTRIBUTORS TO CALIFORNIANS FOR LOWER TAXES - $500 and Over," Reagan Gubernatorial Papers, B GO 114, F Correspondence (3/5), RRPL.
[65] For example, see 1973 Prop 1 TV Commercial #11280, JKPA
[66] 1973 Prop 1 TV Commercial #11281, JKPA
[67] 1973 Prop 1 TV Commercial #11283, JKPA

government spending – the tax dollars that found their way into the pockets of public assistance recipients and public employees. Throughout the Prop 1 campaign, Reagan and the pro-Prop 1 group, Californians for Lower Taxes, sought to link high taxes to spending on government employees and welfare recipients. "Poll after poll has pinpointed welfare as the most unpopular of government programs," task force chair Lewis Uhler wrote to Reagan. "The Federal government is in the dangerous position of stuffing more welfare down the people's throats, whether they like it or not. Is there a better definition of totalitarianism?"[68] In a letter to voters, Reagan wrote of the mess tax-and-spend liberalism had created in California when he took office. "The roster of state employees was increasing at the rate of 5,000 per year," he explained. "Burgeoning welfare rolls were threatening even greater fiscal crises." Prop 1, Regan argued, was designed to end that cycle and ensure Californians "permanent tax relief."[69] Other pro-Prop 1 materials included print ads with simple anti-tax messages attacking "fat cat spenders," declaring "We've had it with skyrocketing taxes!" and "Are you as fed up as we are about taxes?" in bold letters.[70] Reagan, his all-star roster of libertarian intellectuals, and the businesses that funded them were counting on voters answering "yes" and casting their ballot for the passage of Prop 1.

The unions, tax groups, and Democrats opposing Prop 1 took the same approach to Reagan's measure as they had to Philip Watson's previous initiatives. Anti-Prop 1 forces lambasted it as a handout for the rich filled with "loopholes" that allowed local and state

[68] Uhler to Reagan, December 20, 1972, Reagan Gubernatorial Papers, B 18, F "Tax Reduction Task Force Seminar," RRPL.
[69] Reagan Letter, August 23, 1973, Regan Gubernatorial Papers, B GO 114, F Correspondence (2/50) [May 73 thru August 73], RRPL
[70] Ads, Undated [1973], Reagan Gubernatorial Papers, B GO 116, F Information Handouts, RRPL

legislators to raise regressive taxes, but not progressive ones.[71] This time, however, the tax right responded forcefully to this argument. Californians for Lower Taxes retakiaged with provocative pro-Prop 1 ads featured a fictional closed-door discussion between a Democratic legislator and an aide. "Go back and tell my constituents and tell them that proposition 1 will benefit the *rich* at the expense of the *poor*," the Democrat tells his aid. "But sir," the aide interjects, "Proposition 1 completely *eliminates* state income taxes for families making less than eight thousand dollars" The Democrat clears his throat. "Well, uh, how about this one? It's never failed me yet. We'll say that proposition 1 gives the rich *new tax loopholes*." "But sir, it has nothing to do with loopholes," the aide objects. "Loopholes are your job." "Oh." "Maybe we should stick to the facts, Sir," the aide concludes, "and the facts seem to be that Proposition 1 is a way to keep state taxes in line with personal income. It's actually quite simple."[72] With rhetoric like that, Prop 1's proponents hoped to cast the liberal-left's argument that Prop 1 favored the rich as little more than self-serving propaganda pushed by greedy public employees.

Given Ronald Reagan's high-profile involvement in the Prop 1 campaign and the possibility that one of the most liberal states in the union might slash taxes, the battle over Prop 1 received wide media coverage. Nationwide, both the left and right viewed the measure as a defining event that would determine the direction of the "tax revolt."[73] An ABC *Evening News* report predicted that a victory for Proposition 1 would "immediately…suggest the enactment of similar tax-limiting programs in other states" and boost Reagan's chances for the GOP nomination in 1976. Reagan himself predicted that the "tax eaters in the puzzle palaces on the

[71] See, for example, LWV Statement, Reagan Gubernatorial Papers, B GO 114, F Correspondence (4/5), RRPL; LWV Campaign Kit, Proposition 1, "Effects of Proposition 1," August 1973, Reagan Gubernatorial Papers, B GO 114, F Grace [Press Kit] (4/4), RRPL; Anti-Prop 1 Television Commercial #11291, JKPA
[72] 1973 Prop 1 Radio Commercial # 53928, JKPA
[73] See, for example, "Taxes / Reagan," *CBS Evening News*, April 6, 1973; "Off-Year Elections / California / Proposition 1," *CBS Evening News*, November 5, 1973; "Off-Year Elections / California Proposition I," *ABC Evening News*, November 6, 1973

Potomac" would take notice and move to the right on taxes if California voters approved Prop 1.[74] The involvement of prominent out-of-state conservatives like Friedman and the vast funding offered by large businesses suggested that many on the right agreed with Reagan on Prop 1's national implications. It was a battle that conservatives believed needed to be won at all costs. In the final days of the campaign, pro-Prop 1 forces pulled out all the stops. With dubious legality, Reagan even ordered an anti-Prop 1 get-out-the-vote hotline run by public employees to be shutdown days before the election.[75] Even if Reagan had overstepped his bounds in issuing the order, the matter would not be settled until long after voters cast their votes on Prop 1.

Despite conservatives' best efforts, however, California voters voted down Prop 1 on the November 1973 ballot, 54 to 46 percent. The reasons for its defeat, despite proponents overwhelming funding advantage, were simple. Reagan and the conservatives supporting it misinterpreted the source of the public's tax discontent. The pro-Prop 1 coalition's own internal polling found that less than one percent of Californians saw reducing spending on welfare as a reason to vote for Prop 1. Instead, most Californians who supported the measure did so for out of pocketbook concerns. Opponents' distributional arguments, however, shifted public opinion substantially in the months leading up to the vote. Early polls found that lower- and middle-income people were most likely to support Prop 1. After months of an anti-Prop 1 campaign that portrayed the measure as a handout to the rich, support shifted, and by the end of the campaign lower- and middle-income Californians were the least likely to support Prop 1.[76] Once again, the belief that the tax revolt was motivated by a general anti-tax, anti-government sentiment had led conservatives astray. As a result, Reagan's defeated Prop 1 was the third conservative tax

[74] "Off-Year Elections / California Proposition I," *ABC Evening News*, November 6, 1973

[75] William Endicott, "Anti-Prop 1 Phone Service Disconnected," *Los Angeles Times*, November 6, 1973

[76] Dalzen to Deaver, October 26, 1973, B GO 116, F Initiative Campaign (3/3), RRPL; "Tax Limitation Initiative: Post Election Study," November 1973, Deaver and Hannaford Records, B 67, F 2, Hoover Institution.

limitation initiative to fail in California in last five years – not counting the initiatives Howard Jarvis had failed to quality for the ballot.

Nor was Prop 1's defeat merely a reflection of California's liberalism. Just as Reagan had predicted early in the Prop 1 campaign, many conservatives across the country viewed it as an inspiration and a model for actions in their own states and, eventually, the nation's capital. One of those conservatives was Arizona Representative Sandra Day O'Connor. Prior to Prop 1's defeat, O'Connor had written to Reagan to find out more about the plan's details. Eager to see the Prop 1 model emulated in other states, Reagan's team sent O'Connor copious amounts of information on the proposal. Armed with Prop 1 as a model, O'Connor placed an almost identical measure on Arizona's 1974 ballot. But Arizona voters defeated the measure just as surely as those in California had.[77] Even Barry Goldwater's home state, it seemed, was unwilling to buy the anti-tax conservatism that Reagan and his team of right-libertarian economists and lawyers were selling.

While the right was faltering, more and more left-leaning activists were turning to taxes as an organizing issue by the mid-1970s. Former CORE and National Welfare Rights Organization leader, George Wiley, formed the Movement for Economic Justice in 1972. One of MEJ's first programs was the Tax Justice Project, which focused on supporting tax activism and tax reform at all levels of government. MEJ lobbied the federal government while supplying organizational and financial support to dozens of left-leaning tax groups across the country. Indeed, Wiley's NWRO and MEJ were just as pivotal as Alinsky or Nader in the left-distributionist tax justice movement. Through his organizations, Wiley trained or funded (or both) activists that would found pivotal grassroots groups engaged in the tax justice campaign

[77] See various correspondences between O'Connor and Reagan staffers in Reagan Gubernatorial Files, B GO 114, F Arizona, RRPL. See also Brent W. Brown, "Arizona's Expenditure and Tax Limitation Proposal: An Analysis," Papers in Public Administration 28 (1974).

like ACORN and Massachusetts Fair Share. Like Nader and Alinsky, Wiley believed that tax politics – and progressive responses to the "economic squeeze," more broadly – were a majority-making issue.[78] Wiley told Congress that he "hope[d] to unite welfare families with working families" by demonstrating to working- and middle-class Americans how tax loopholes put "literally millions of wealthy on welfare."[79] "We need taxpayers marching in the streets because they have to work two day out of five to pay all their taxes," Wiley said, "while millionaires are paying nothing and corporations are paying a tiny fraction of their legal rate."[80] From his experience with NWRO, Wiley knew that the dichotomy between cultural issues and economics issues was false. Wiley argued that a broad constituency could unite across racial lines around issues like taxes, which included the same elements of injustice and unfairness that animated the success grassroots activism of the 1960s.[81] "We need a taxpayers revolt," Wiley argued in a 1973 speech – a revolt that would stress the link between loopholes for the well-off and high taxes for low- and middle-income taxpayers at all levels of government.[82]

Tax justice advocates built off the mainstreaming of left-distributionist visions of tax reform embodied in the 1972 Democratic Primaries by expanding their operations and integrating them into a national network supportive of left-grassroots tax activism. Nader's Public Interest Research Group expanded its tax activism as the 1970s wore on, too. State PIRGs investigated taxes throughout the country. Nationally, Nader broadened his group's scope from the property tax to taxes of all types, even changing the *Property Tax Newsletter*'s name to

[78] "A Proposal for the Establishment of the Movement of Economic Justice," May 1, 1973, MEJ, B 1, F 1, WHS; George Wiley, "Building a New Majority: The Movement for Economic Justice," July 6, 1977, MEJ, B 1, F 4, WHS
[79] *General Tax Reform, Part 2*, March 7, 8, and 9, 1973, Public Hearings before the Committee on Ways and Means, U.S. House of Representatives (U.S. GPO, 1973).
[80] MEJ Press Release, March 5, 1973, MEJ, B 1, F 4, WHS
[81] Wiley speech, March 5, 1973, MEJ B 11, F 2, WHS; George Wiley, "Building a New Majority: The Movement for Economic Justice," July 6, 1977, MEJ, B 1, F 4, WHS
[82] Wiley speech, March 5, 1973, MEJ B 11, F 2, WHS

People & Taxes to reflect the shift. Both publications not only spotlighted stories of grassroots tax groups, large and small, across the country, they also published how-to guides instructing would-be activists how to undertake actions such as challenging property tax assessments. Just as Prop 1 had been an expression of Reagan and his libertarian comrades' belief that their vision embodied the spirit of the public's resentment of taxes, Nader's increased investment in tax reform was born of his conviction that the tax revolt reflected the public's disenchantment with the fairness of the U.S. tax system. In 1972, Nader told Congress that Americans across the country were writing him to express their "outrage" at the unfairness of the tax code. They were angry about the inequities in all taxes, Nader argued. "The property tax has borne the brunt of taxpayer dissatisfaction with the increasing unfairness of the entire tax structure," Nader said, because property taxes were the only tax citizens had the opportunity to approve or reject on a regular basis.[83] MEJ's Tax Justice Project and Nader's new Tax Reform Research Group served as clearinghouses for the dozens of new tax-oriented left-leaning grassroots groups that had sprung up across the country in the early-1970s. In addition to organizing strategies, these groups exchanged handbooks, studies, buttons, and newsletters with names like *Tax Action* and *Taxation with Representation*. Even politicians were emulating the grassroots tax left. Former Democratic Senator and DNC chair, Fred Harris – who had staged his own tax-themed campaign for the White House in 1972 – formed the Tax Action Campaign, adding a mainstream voice the grassroots left's organizing.[84] On tax day in April 1973, TAC staged "Tax Action Day," which featured protests, rallies, and hearings in 31 cities across the country, featuring groups like ACORN, the AFL-CIO, and Common Cause, and individuals like George Wiley, Milton Shapp,

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[83] *Property Taxes*, Hearings before the Subcommittee on Intergovernmental Relations, Committee on Government Operation, U.S. Senate (U.S. GPO, 1972)
[84] See, for example Harris to "Friend," Undated, Fred Harris Collection, B 303, F 13, CAC; "People's Campaign for Tax Action," December 1972, Fred Harris Collection, B 303, F 13, CAC

and Edmund Muskie.[85] Indeed, in 1972 and 1973, it was becoming difficult to say where grassroots tax activism ended and mainstream Democratic Party policy positions began.

Due to their strategy-sharing networks, many grassroots tax justice groups deployed similar techniques. The common refrains for left-leaning tax activists across the country became "Take the Rich off Welfare," "Fair Taxation or New Representation," and "Taxpayers for Tax Justice."[86] Tax justice groups also had a knack for using headline-grabbing spectacles to generate public and legislative interest in often arcane and opaque issues. Like the right-leaning activists who would follow them, many of these left leaning groups drew on the imagery of the American Revolution. Several groups, in fact, named themselves, their campaigns, or their newsletters the "tea party." For both an Akron, Ohio, group and a Philadelphia group, "TEA" stood for Tax Equity for America. One St. Louis group even staged their own imitation of the tea party by dumping food and medicine crates into the St. Louis River to protest sales taxes on consumer necessities.[87] One of the most popular methods these groups used to illustrate tax inequities came in the form of "tax avoidance tours" – a protest method recommended by MEJ. Groups from Arkansas to California took members of the public – and the media – around cities like Little Rock and San Francisco to illustrate the under-assessment of major commercial and industrial landholders and the over-assessment of homes in lower- and middle-class neighborhoods.[88]

The goals of the "tax justice" left were national in scope. But their activism was rooted in the local. MEJ organized tax clinics across the country to help low- and middle-income

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[85] Harris to Wiley, May 14, 1973, MEJ, B 17, F 4, WHS.; "Tax Action Day Summary of Activities," MEJ, B 17, F 4, WHS.

[86] MEJ and CAL, among others, used these slogans, which were adopted by several elected Democrats, including Fred Harris

[87] See, for example, "St. Louis Tea Party," *St. Louis Globe-Democrat*, December 17, 1973

[88] See, for example, "Tax Avoider Tour," *Tax Justice News from the TEA Party* (May 1972); "ACORN Tax Tour," MEJ, B 20, F 18, WHS; "ACORN Tax Tour: The Local Inequities," MEJ, B 20, F 18, WHS; Taypayers' Tour of Downtown S.F.," B 18, F 3, MEJ, WHS

taxpayers file their federal taxes without having to pay for-profit preparers like H&R Block, which came in for withering criticism from the left tax grassroots. In San Francisco, the California Tax Reform Association saw more than 1000 people at clinics in the Mission district and Chinatown.[89] By March 1973, MEJ had tax 43 tax clinics operating throughout the country. Wiley viewed the clinics not only as a practical assistance, but also as an element of "political education" that would demystify the complex, inequitable tax code.[90] Numerous studies found that only high-income homeowners and businesses used the property tax assessment appeals process, even though low- and middle-income homeowners were often the most overassessed. In response, groups across the country substantial tax reductions for hundreds – perhaps even thousands – of homeowners each year in cities across the country.[91] By establishing for an assessment board that houses in a particular neighborhood were overassessed, activists could secure de-facto reassessment of the entire neighborhood. "We had an action last year at City Hall when I came up for re-appraisement," Pearl Ford, a Texas ACORN activist explained in 1978. "I spoke first about my problem – high taxes – and then I went on to talk about the people, my neighbors, who didn't know how to fight. The council didn't like what I was saying." Still, Ford

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[89] CTRA, "Tax Clinics a Success," April 19, 1973, B 18, F 4, MEJ, WHS; Don Branning, "Free Service for Filing Tax Returns," *San Francisco Examiner*, March 8, 1973

[90] Wiley speech, March 5, 1973, MEJ B 11, F 2, WHS; Nick Lalli, "Tax Reform Group, Educates, Organizes," *Columbia Missourian*, March 15, 1973; "Why You Should Organize a Tax Clinic," Undated, MEJ, B 22, F, 12, WHS; MEJ Press Release, November 26, 1973, MEJ, B 22, F 12, WHS; "Tax Clinic Handbook for Volunteers," MEJ, B 22, F 16 WHS. See also various tax clinic materials and reports in B 22, F 11-17, WHS

[91] A precise count of the number of successful appeals is difficult. Dozens of left-leaning property tax groups staged mass appeals. These groups generally organized dozens or hundreds of homeowners to file their appeals en masse. Generally, much more than half of homeowners received reductions. The short-term goal was to help overassessed residents of low- and middle-income neighborhoods, but the larger goal was to draw officials' attention to the problem of inequitable assessments, in general. See, for example, "Philadelphia Taxpayers Win Reductions," *Taxaction* 2:4 (April 1975); "Property Tax Issues Memo," ACORN-AK, May 30, 1975, B 18, F Property Tax Campaign; Philadelphia TEA Party appeal manual, Undated, MEJ B 20, F 14, WHS. The St. Louis Tax Reform Group claimed credit for 900 appeals in a single year. See St. Louis Tax Reform Group to Campaign for Human Development, Undated, MEJ, B 18, F 10, WHS. As will be discussed later, one Dorchester, Massachusetts, group claimed 2,500 reductions over a four-year period.

received a $400 tax cut because of her appeal. "And after that," she explained, "when anyone from [her neighborhood] went to the board, they automatically got a reduction."[92]

At the local and state levels, left-leaning tax groups were often able to secure more formal policy victories, too. ACORN's 1972 assessment study found that homes in the low- and middle-income neighborhoods where most ACORN members lived were being assessed at much higher rates than properties in well-off neighborhoods and business districts, including 300 acres connected to the former mayor and his business partners. To publicize its findings, ACORN took its members in a bus on a "tax tour" of Little Rock. Further investigation by ACORN found that the county Board of Equalization had been granting favorable assessments to the friends and family of board members.[93] Eventually, ACORN secured a complete reassessment of Pulaski County. Statewide, ACORN provided key lobbying support for a bill that exempting individuals making less than $5,000 from the state income tax. Eventually, thanks largely to ACORN's activism, courts ordered statewide reassessment of property in Arkansas.[94] In Tennessee, environmental justice and tax justice collided. Just as Chicago's CAP had initially been Citizens Against Pollution, other single-issue left-leaning groups also turned to tax politics in the mid-1970s. Save Our Cumberland Mountains conducted a study challenging the assessment practices of coal property in the state. SOCM argued that unmined coal land should be at the rate that applied to commercial and industrial property, not the current practice of assessing the land at the lower rate reserved for farms. After a three-year battle, SOCM successfully pressured the Tennessee State Board of Equalization to reclassify coal land as commercial and industrial

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[92] "Tax Revolt, ACORN-Style," *USA* 1:3 (September 1978)
[93] "ACORN Moves Arkansas Taxes," *People and Taxes* 2:1 (November 1973)
[94] "1979 Plan," January 6, 1979, ACORN-AR, B 3, F YE/YB Meeting '78, WHS; "Equalization Campaign Ends in Victory," *ACORN News* 7:5 (November 1977)

property, bringing in new revenue for economically-depressed towns in coal country.[95] In Texas, the Houston chapter of ACORN responded to assessment increases of several hundred percent in 1977 by staging protests and organizing mass filings of assessment appeals. Often, the appeals resulted in substantial deceases in assessments for low- and middle-income homeowners. But the process was time consuming and piecemeal. Many of the most squeezed ACORN members were seniors. So ACORN focused on pressuring the school board to grant seniors a $10,000 property tax exemption. ACORN organizing door-to-door, launched letter-writing drives, and filed petitions. Finally, more than 100 ACORN members stormed a school board meeting carrying a model of the "scales of justice" with seniors on one side and the tax-exempt River Oaks Country Club on the other. "Seniors don't seem to carry much weight," it explained. "The scales of justice show 'the rich get richer, the poor get poorer.'" After weeks on continued demonstrations, the board passed a $15,000 exemption for seniors making less than $7,000 for couples and $5,000 for individuals.[96] In Indianapolis, Indiana, a local grassroots group united with the Indiana Education Association and the UAW to expose and block a sweetheart property tax exemption on four acres of downtown property that Mayor Richard Lugar had arranged for a developer friend.[97]

As skyrocketing inflation and the energy crisis increased the already-intense squeeze on modest-income families' pocketbooks, many left-leaning grassroots groups that had embraced a "distributionist" tax strategy applied the philosophy of progressive taxation to rising utility prices. In 1975, California's ACORN-affiliated Citizens Action League led a coalition of labor,

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[95] "Local Group Wins Assessment Fight," *People and Taxes* 3:4 (April 1975); "SOCM's Fight," MEH, B 26, F 9, WHS; Chad Montrie, *To Save the Land and People: A History of Opposition to Surface Coal Mining in Appalachia* (University of North Carolina, 245), 233; Tim Wyngaard, "Muskie May Hold Area Tax Hearings," *Knoxville News-Sentinel*, May 10, 1973, reprinted in *Congressional Record*, May 30, 1978, 17271
[96] "ACORN Wins Senior Citizen Tax Exemption," *Texas ACORN News* 3:5 (May 1978); "Tax Victory for Houston's Seniors," *People and Taxes* 7:6 (June 1979).
[97] Frank Dormand, "State and Local Reform Efforts in the 70s," *People and Taxes* 7:12 (December 1979)

church, and other community groups in pushing for a reform of the state's utility pricing system, in which electric rates were levied on a "declining block" scale, with large users paying lower prices than small users. With protests at Pacific Gas and Electric stockholders meeting and the Public Utilities Commission, CAL organized a campaign that culminated in a 1,000-person "Citizens Lobby day" at the capitol in Sacramento, where members of the coalition met with over 100 legislators to drum up support for its "Lifeline" plan, which proposed to reverse the existing rate structure by charging small users the lowest rates. As a result, CAL's bill passed the legislature and was signed into law by Governor Jerry Brown in September 1975 (a rare moment of common ground between the grassroots left and Brown, as will be discussed later in this chapter), making California the first state to introduce an "inverted" (graduated) rate structure.[98] "Lifeline" utility pricing soon became an organizing issues for left-leaning tax activists across the country in the mid-to-late 1970s.

The tax justice coalition was eager to translate local success to the federal level. But, the Democratic Party that had seemed so amenable to – and influence by – the grassroots left in 1972 would change rapidly following Watergate. In 1973, however, sweeping reform seemed within reach.

The Nixon Landslide/Watergate Interregnum

By the start of 1973, tax reform seemed inevitable. "[N]o matter who occupies the White

[98] "About the Citizens Action League," B 18, F 3, MEJ, WHS; Special Committee on Aging, U.S. Senate, *Energy Assistance Programs and the Pricing Policies in the 50 States to Benefit Elderly, Disabled, or Low-Income Households* (GPO 1979); T. Jean Blocker, "Reforming Electricity Rates: Benefits to Low-Income Households," *Population Research and Policy Review* (1985), 67-84. While the "inverted" structure conferred undeniable benefits on low- and middle-income homeowners, in particular, many conservatives, as well as economists and lawyers insistent that pricing should always be based on the marginal cost of the final unit, objected to reformers' "lifeline" program, which critics likened to a new form of taxation on the wealthy and business. See, for example: Alfred C. Aaman and Glen S. Howard, "Natural Gas and Electric Utility Taxation through Ratemaking," *Hastings Law Journal* (1975), 1085-1157. Even many more traditional reformers viewed "lifeline" rates as "too redistributive." William T. Gormley, Jr., *The Politics of Public Utility Regulation* (University of Pittsburg Press, 1983), 166.

House in 1973," *Business Week* predicted in late-1972, the country would finally get real reform. Previous "tax reform" bills had actually been tax cuts masquerading as reform, the magazine noted. Now, it seemed like that reform would raised revenue overall by closing loopholes and possibly shift this new revenue down the income ladder. The cause of this apparent shift in the meaning of reform was clear. "The public distrusts and resents the way in which the federal taxy system imposes its load," the magazine noted correctly, except for the omission of state and local taxes. "Voters are increasingly unhappy with tax laws that they think hit the average man too hard and the rich and the corporation too softly." Americans had "responded enthusiastically," it noted, to McGovern's argument that "the rich and powerful pay less than their fair share." "[T]he taxpayers' revolt, which Congress tried to stifle with the Tax Reform At of 1969, is back on the march," the magazine concluded.[99]

But not everyone agreed with this assessment. Despite all of Nixon's reform-centric rhetoric in the election campaign, the president did not – with the exception of a few measures, like progressive property tax relief – support the type of sweeping tax reform favored by left-distributionists. Even further to the right, a newly energized business movement sought to redefine reform as pro-"capital formation" tax cuts. Meanwhile, those on the left continued to push for the reforms that had been thwarted in 1969, reforms that they believed had been bolstered by countless measures of public opinion, as well as the success of left-distributionist tax activists like Ralph Nader.

Almost immediately following his landslide victory over George McGovern, President Nixon began backpedaling from his left-distributionist, pro-tax reform campaign rhetoric. Nixon insisted that, despite a reelection campaign to the contrary, he did not actually promise loophole-

[99] "The Big Drive for Tax Reform," *Business Week*, August 12, 1972

closing tax reform. "I only made two political commitments on taxes: 1) a tax credit for private schools… 2)…property tax relief for the elderly….," Nixon told Wilbur Mills in a White House meeting. "I have no commitment on tax reform at all [from the campaign]."[100] To this end, talking points prepared by Hank Paulson in February, an Domestic Council staffer, argued that Nixon's victory proved that Americans had rejected McGovern's tax reform proposals, despite the fact that McGovern, as the Nixon team well knew, McGovern bested the president on the issue of taxes. "[D]uring the last election [the 1972 presidential election]…the public didn't fall for that line [closing loopholes 'which benefit the rich']," the new White House talking points claimed. "They recognized that close the 'loopholes' meant a tax increase for the working man…."[101] But the White House did not actually believe its own talking points and, it seems, those prepared by Paulson were never used.

Privately, the Nixon administration knew that opposing reform would place it on the wrong side of public opinion. "It is extremely difficult to defend such special tax provisions as capital gains, the Asset Depreciation Range (ADR) or the Investment Tax Credit in a public forum," Paulson wrote to Ehrlichman in a March memo. "When we assume the unfavorable position of arguing for a 'loophole' for big business or the wealthy, any liberal worth his salt can 'out demagogue us.'" But Democratic politicians were not the White House's main concern. Rather, it was the public. "If the public voted on capital gains, ADR, ITC, etc., we would definitely lose," Paulson told Ehrlichman. The administration's best hope, the conservative Paulson argued, was to "focus the debate on spending rather than loopholes."[102] However, this strategy, as many older administration staffers knew, had not worked in the 1970 midterms.

[100] Nixon Tapes 852-15 (February 7, 1973)
[101] Paulson to Ehrlichman, and attached, February 7, 1973, SMOF-Ehrlichman, B 43, F Special Subject, B 65, RNPL
[102] Paulson to Ehrlichman, March 14, 1973, WHCF-FI, B 68, F Taxation/Income [22 of 26], RNPL

Paulson also suggested a full-throated defense of loopholes. "We should not be afraid to make the point that…[i]f we tax capital too heavily the economy will be seriously hurt and all Americans will suffer," he proposed.[103] But this, too, was not a strategy that the White House would follow.

Despite his protests to the contrary, the clear implication in all of Nixon's reelection materials was that the president supported sweeping reforms. Indeed, the president's protests to the contrary seemed to be strategic. The White House had watched the Democratic Congress take Nixon's 1969 reform proposals and expand upon them, much to the administration's consternation. In terms of bargaining strategy, it only seemed logical to aim lower this time. Indeed, in yet another memo to Ehrlichman on the capital gains issue, Paulson noted that, "Although we will initially stake no changes in capital gains and estate and gift taxes, we will undoubtedly have to eventually work out some compromise with Congress in these areas." In contrast, if the administration proposed its own capital gains reforms, rather than waiting for Congress, it would strengthen the Democrats' hand and "give away the store."[104] Whatever the gamesmanship on capital gains, both publicly and privately, Nixon remained committed to federal property tax relief for elderly low- and middle-income homeowners and renters, as well as a handful of federal tax reforms, including a stronger minimum tax for upper-income taxpayers. Though timid compared to his reelection campaign rhetoric, Nixon sought to move forward with these reform proposals, despite the continued reticence of conservatives.

Beyond property tax relief, the main reform that Nixon pushed following the election was a stronger minimum tax. This plan, Nixon believed, would mark him as "reformer" without demanding the type of sweeping loophole-closing demanded by the left. The minimum tax also

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[103] Paulson to Ehrlichman, March 14, 1973, WHCF-FI, B 68, F Taxation/Income [22 of 26], RNPL
[104] Paulson to Ehrlichman, April 20, 1973, WHCF-FI, B 68, F Taxation/Income [23 of 26], RNPL

seemed to thread the needle between doing nothing, which the public opposed, and closing individual loopholes – many of which, like the capital gains preference, were supported by GOP conservatives.[105] Distancing the president from such conservatives – despite the fact that Nixon shared many of their views on loopholes – was one of the administrations' primary goals. The minimum tax was, Nixon said, designed to "ge[t] the assholes who make $50,000 or more and don't pay any taxes."[106] "I don't care about the rich," Nixon told advisers. The president wanted to break the public's view of him – as well as the GOP, generally – as servants of the wealthy. The minimum tax would stress Nixon's message that "the poor should pay no tax and the rich should pay some tax," as the president put it.[107] Shultz noted that, since there were "inequities" and "problems" in the tax, people had "legitimate" complaints. So the last thing Nixon wanted to do was fail to propose anything, since that would make it look like the president was saying that "the present system is fine," which was a "weak position."[108] At the same time, the White House sought to avoid needlessly stoking the tax reform fires. Philip Stern released his newest mucracking tax book – the unfortunately titled, *Rape of the Taxpayer: Why You Pay More and the Rich Pay Less*, which received raved from Henry Reuss and Stanley Surrey – in early 1973. It was promoted not only with full-page ads explaining how J. Paul Getty paid "almost no taxes at all" and promising to make readers "mad as hell!" if they read Stern's book, but also with a Stern-penned attack on the administration in the *New York Times*.[109] Initially, the White House planned to fire back with a response editorial, but Paulson decided to spike the story, arguing, "[W]e'll only succeed in publicizing the 'loophole' issue [if the White House submitted its

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[105] Nixon Tapes, 772-8b (September 7,1972)
[106] Nixon Tapes, 772-11 (September 7,1972)
[107] Nixon Tapes, 772-8b (September 7,1972)
[108] Nixon Tapes, 852-15 (February 7, 1973)
[109] Philip Stern, "Some Pointers on How the Rich Stay Rich," *New York Times*, March 24, 1973; Stanley Surrey, "The Rape of the Taxpayer," *New York Times*, April 8, 1973; Henry Reuss, "The Rape of the Taxpayer," *Washington Post*, April 8, 1973; Rape of the Taxpayer Ad, *New York Times*, March 16, 1973

response]."[110]

Nixon's push for minor reforms, like a tougher minimum tax, however, seemed to contradict his promise not to raise taxes – a point noticed by the press. Privately, Ehlrichman asked the president whether his reinvigorated pursuit of a tougher minimum tax squared with Nixon's election-campaign pledge not to increase taxes. "Then [if you raise revenue with the minimum tax] you're for no tax increase *except*," Ehrlichman argued. Nixon disagreed. "Nope," he countered. We're for tax *reform*. You see my point?" If the president used the revenue from the minimum tax to give property tax relief, they decided, and it all "net[ted] out to zero" then that meant that "you haven't increased taxes, you've increased some people's taxes," as Shultz summarized.[111] Indeed, it was this tenuous distinction between redistribution and a tax hike that Ehrlichman would convey to the press. Ultimately, Nixon said approvingly, the way to go on taxes was "a crass political decision." Burns agreed that Nixon did not want to be seen as "in favor of the status quo." The minimum tax, Burns suggested, was not about raising revenue but about "a sense of justice – that's what you have to get across."[112] Nixon, however, wanted to ensure that any tax reforms, including the minimum tax, did not hit people making between $15,00 and $25,000 because "those are our people." But the president did not care if it raised taxes on people making more than $50,000. Shultz, though, worried that increases on upper-income people would "scare the hell out of our own [supporters]." Despite supporting the minimum tax idea, Arthur Burns agreed with Shultz, noting, "You have a lot of wealthy contributors and they will now be affected by this." Nixon remained undeterred, though. "If…it was very clear that you were simply hitting people in the higher – much higher [than $25,000] – income brackets [then the minimum tax was a good idea]," Nixon said. "I don't give a damn

[110] Paulson to Gergen, March 26, 1973, WHCF-FI, B 60, F ExFI 11 Taxation [16 of 18], RNPL
[111] Nixon Tapes, 772-12b (September 7,1972)
[112] Nixon Tapes, 772-12b (September 7,1972)

about our big contributors. They can crawl on their hands and knees….”[113] Nixon, however, still made clear he did not want to go “too far” in terms of “kicking the rich folks.”[114]

Despite Nixon’s determination to project the image that was attacking “those [rich] assholes” who paid little-to-no federal income tax, he also wanted to avoid more progressive reforms. Nixon sought allies in key Democrats Russell Long and Wilbur Mills. The president hoped that, despite whatever pro-reform hints the two had given in 1972, they had come to their sense on tax reform. With Long, Nixon found a sympathetic ear. In a meeting with Nixon in February 1973, Long noted the appeal of protesters with signs calling for “fair taxes.” Long was furious that both the Democratic Policy Committee and outside groups like Common Cause wanted committee chairs to follow the wishes of the majority of the Democratic caucus. Long saw this as an attack on his power to dictate tax policy, since he stood far to the right of the Democratic caucus on tax reform. What the majority of the Democratic caucus wanted, in Long’s view, would look like McGovern’s tax program, but Long was determined to thwart it using his power as the Senate Finance Committee chair. Instead, Long said he would support only minimum, minor reforms to take a few talking points away from protestors. Nixon agreed that it was important to eliminate “gross inequities” so that “radicals” would not have something to “beating us over the head with.” But, Nixon said, he would not support measures that would “kic[k] business around” or “punish, unfairly, producers.”[115] Nixon specifically opposed making capital gains taxes “more equitable.” “There’s no plus in that for you and it hurts all your friends and it’s just going to make everybody mad,” Nixon said. More than perhaps any other reform, closing the capital gains loophole would alienate the “rich voters” who formed the GOP’s base. Long agreed, telling Haldeman that it would “crazy” to reform capital gains. “There’s no votes in

[113] Nixon Tapes, 772-12b (September 7,1972)
[114] Nixon Tapes, 852-15 (February 7, 1973)
[115] Nixon Tapes, 853-10 (February 8, 1973)

closing these loopholes. There's not one vote in it for the president. There's not one vote in it for me," Long told Haldeman.[116] Long pledged to Nixon that he would ensure that significant reforms never got past the Finance Committee. Long called the liberal reform provisions – particularly Al Gore's amendments – in TRA69 "a bunch of junk," and promised that Nixon would not be put in the position again of having to sign something so radical. Long's strategy was to insert something radically conservative into any bill that reformers put something "irresponsible" into, that way he could try to force reformers to drop their measure in exchange for Long dropping his. "We have to start thinking about the politics of this thing on *our* side," Long advised Nixon.[117] The Senate Finance chair would do his best to ensure that Democrats would not turn Nixon's reform proposals into much bolder measures.

Wilbur Mills seemed to take his election-year turn towards tax reform more seriously than Long or Nixon, even as he remained anything but a committed left-distributionist. Mills's embrace of left-distributionist reform during his short-lived presidential campaign gave hope to reformers, and Mills's withdrawal from the presidential race did not dampen, at least initially, his commitment to reform. Indeed, it now seemed that the one of the foremost Democratic proponents of fiscalist, rather than distributionist, analyses of the tax system was beginning to rethink his position. "I would like to talk to you today about tax reform. There is great interest in this subject throughout the nation and properly so," Mills told the Securities Industry Association – a no less tax-reform hostile a place than the site of McGovern's tax reform speech – in September 1972. "Our taxpayers, particularly in view of the heavy burdens placed on them, have the right to expect that the tax system be as fair as possible. They have the right to expect that everyone pay his fair share of the taxes because it is obvious that if some are permitted to escape

[116] Nixon tapes, 852-7 (February 7, 1973)
[117] Nixon Tapes, 853-10 (February 8, 1973)

payment of their fair share of the taxes, the rest of us will have to make up the difference in our tax payments.” Despite his less-than-enthusiastic stance towards reform during the 1969 debates, Mills now praised TRA69 for what it had accomplished, while maintaining that the TRA69 did not go far enough. “[W]hen the Congress passed the 1969 Tax Reform Act, we did not regard this Act as the end of all tax reform….,” Mills said. “In my opinion, the time has come for the Congress to make an exhaustive review of our tax laws….” The first goal of this new round of reform, Mills said, would be “to make sure that the tax laws are operating fairly; that each taxpayer is bearing his fair share of the burden; and that no one is able to pass on the burden that he properly should bear on to the shoulders of someone else.” In other words, distributional issues should now take center stage. Most tax preferences, Mills suggested, were suspect. “[E]xclusions and tax allowances should be continued only if they can be demonstrated to be beneficial and in the public interest,” the Ways and Means chair said. “And, in considering what is beneficial and in the public interest, we must examine carefully all the equity, economic and administrative considerations.”[118] These were the words that reformers had longed to hear from Mills. However, by the first months of 1973, Mills seemed to hedging his bets.

Meeting with Mills in February 1973, Nixon sought common ground. “We [the administration] won’t go as far in reform – and you won’t – as some want to go,” Nixon told Mills. But, the president, conceded, “Sometimes we have to realize what we’re up against [in terms of pro-reform forces].” The popularity of reform and the strength of the left-distributionist agitators continued to weigh on Nixon’s mind. “How far do we have to go [on reform]?” Nixon asked Mills. The Ways and Means chair told Nixon that, if Mills could get reform that lowered the top income tax rate to 50 percent, then he would consider eliminating the preferential rate for

[118] Mills Speech, September 8, 1972, Legislative Files – 1964-1977 (1971-1973), John Heinz Online Collection, CMU

capital income. A concerned Nixon interjected, saying that such a proposal would send their "friends on Wall Street…right up the wall." Nixon speculated that average Americans might be upset up it, too. Mills doubted it, though. He told Nixon that almost all capital gains went to people who made more than $100,000. Capital gains taxes already allowed for the exclusion of the sale of a home, which was the only gain most people ever realized, as long as they reinvested the gain in another home. So, Mills concluded, average Americans had little reason to worry about. Rather than worry about Wall Street, Mills encouraged Nixon to focus on middle-income taxpayers. That was where the "greatest relief is needed," since they had few tax breaks. "I couldn't agree more…," Nixon responded. "They're the great Silent Majority. They're raising hell – [George] Meany's folks, the people below Meany's folks, even. They earn $5[000], $10[000]." You could not, Nixon opined, live in Whittier, California, Nixon's hometown, or Little Rock, Arkansas, near Mills's hometown, on $5,000. Tax reform, Nixon and Mills agreed, needed to target those Americans.[119]

In the press, Mills made it clear that the direction of tax reform remained uncertain. Hearings in his committee, Mills said, would either "increase the fairness" of the tax code, or "make a showing" to skeptical Americans that the code was already "as far as it can me." Indeed, Mills seemed to indicate that the latter view had some validity. "If the income tax law is not unfair, and I know it is not, to the extent that some people have indicated it is, I want the American people to know that," Mills told the *Arkansas Democrat*. The Ways and Means chair, though, did make clear that certain reform and relief provisions, like lessening the capital gains preference and enacting a program of property tax reform for the elderly, remained very much on

[119] Nixon Tapes, 825-15 (February 7, 1973)

the table.[120] Like the TRA69, it seemed the direction of reform would ultimately depend on the push and pull of advocates on both sides of the reform debate – not only between Democrats and Republicans, but also distributionists and fiscalists within both parties. Most significantly, conservative business-backed groups – prompted by threats from left-distributionists like Nader and McGovern – waged a both intellectual and political fight for right-distributionism, which they increasingly couched in terms inflation-fighting, growth-boosting fiscalism.

The combination of the left-distributionist rhetoric of the 1972 presidential election, the popularity of reform among the public, and the success of activists like Nader and CAP, along with populist Democrats at the state level, mobilized the executives of corporate America as never before. Efforts of the business lobby to counter the expansion of the welfare state and what it saw as the encroachment of government on the private sector were nothing new. The New Deal, after all, had prompted a strong business backlash.[121] However, many executives viewed the developments of the 1960s and early-1970s – the New Left, the consumer movement, the tax justice movement, and others – as a new and profoundly disturbing assault on "free enterprise." These executives had good reason to be worried. The "anti-business" sentiment supposedly fomented by the left with exposes like Nader's *Unsafe at Any Speed* struck a nerve with the public. Between 1967 and 1971, the percentage of American who agreed that there was "too much power concentrated in the hands of a few large companies for the good of the nation" rose from 54 to 66 percent.[122] Throughout the 1970s, surveys delivered even more alarming messages

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[120] Eileen Shanahan, "Nixon and Mills Expected to Delay Tax Reform," *New York Times*, November 30, 1972; Edward Rohrbach, "House Opens tax Reform Hearings," *Chicago Tribune*, February 5, 1973; Edmond Le Breton, "Some Tax Reform Foreseen by Mills," *Washington Post*, January 5, 1973; Peter Braestrup, "No Gain in Revenue Seen in Tax Reform," *Washington Post*, March 19, 1973

[121] Elizabeth A. Fones-Wolf, *Selling Free Enterprise: The Business Assault on Labor and Liberalism*, 1945-60 (University of Illinois Press, 1994); Kim Phillips-Fein, *Invisible Hands: The Making of the Conservative Movement from the New Deal to Reagan* (W. W. Norton & Company, 2009)

[122] Opinion Research Corporation, July 20 - August 26, 1967, iPoll [USORC.67NOV1.R5]; Conducted by Opinion Research Corporation, July 16 - August 2, 1971, iPoll

to business. "Big business corporations" were consistently cited in the early-1970s as the group that had "too much power and influence in our society," surpassing labor union, government, and the press, among other groups.[123] Nearly seven in ten agreed that business swayed government policies so much that the public was being "shortchanged" when they bought products or services.[124] By 1977, the public held business in such low esteem that when CBS News and *The New York Times* conducted a poll in 1977 with a series of questions about crime victimization, more Americans said that they were worried about "being cheated by corporations" than being robbed at gunpoint.[125]

In response to what it saw as an existential threat, business organized as never before in the 1970s. A variety of corporate executives, politicians, and conservative intellectuals sounded the alarm early in the decade, pointing out the need for business to fight back against the influence of activists on the left. Perhaps the most famous call-to-arms of this era is the so-called "Powell Memo," sent by conservative attorney Lewis Powell, Jr. to Eugene Syndor, the chair of the U.S. Chamber of Commerce's education committee, just months before Nixon would appoint Powell to the Supreme Court. Titled "Attack on American Free Enterprise System," Powell warned that the "assault on the enterprise system" was "gaining momentum and converts." The leaders of this attack ranged from labor unions to liberal university professors to the press to ostensibly objective foundations and think tanks. Ralph Nader, Powell noted, was the "single most effective antagonist of American business." In Powell's view, these forces had completely overpowered corporations, which Powell portrayed as helpless victims. "[F]ew elements of American society today have as little influence in government as the American businessman, the

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[123] Roper Organization, September 28 - October 6, 1973 [USROPER.73-9.R38]; Roper Organization, September 27 - October 5, 1974 [USROPER.74-9.R29]
[124] Louis Harris & Associates, May 23 - May 27, 1975 [USHARRIS.071775.R1A]
[125] Survey by CBS News/New York Times, July 19-July 25, 1977 [USCBSNYT.77JUL.R21E]

corporation, or even the millions of corporate stockholders," Powell wrote, without a trace of irony. "One does not exaggerate to say that, in terms of political influence with respect to the course of legislation and government action, the American business executive is truly the 'forgotten man.'"[126]

If the left had its way, critics like Powell warned, things would only get worse, particularly when it came to taxes. "Favorite current targets [of the left] are proposals for tax incentives through changes in depreciation rates and investment credits," he wrote. "These are usually described in the media as 'tax breaks,' 'loop holes' or 'tax benefits' for the benefit of business. As viewed by a columnist in the [*Washington*] *Post*, such tax measures would benefit 'only the rich, the owners of big companies.'" To correct this sorry state of affairs, Powell advised corporate executives, the Chamber, and other business groups needed to "launch a counter-attack" of "confrontation politics," including "attack[ing] the Naders" and "penalize[ing] politically those who oppose [the views of business]."[127] Powell was not alone in sounding this alarm, and his lesson was one that many businesses had already learned. When corporations' taxes were criticized by individuals like Nader or grassroots groups like CAP, executives did not hesitate to fire back. C. Lowell Harris, of the business-financed Tax Foundation, also warned of left-distributionist attacks on tax preferences benefitting corporations and the rich. In a 1972 article, Harris warned of the "insidious and negative – even hostile…anti-business and anti-capital attitudes [that] seem[ed] to spreading" and that manifested themselves in "proposals for

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[126] Powell to Syndor, August 23, 1971, Powell Archives, Washington and Lee University (http://law2.wlu.edu/deptimages/Powell%20Archives/PowellMemorandumTypescript.pdf). On the "Powell Memo," see Kim Phillips-Fein, *Invisible Hands: The Making of the Conservative Movement from the New Deal to Reagan* (W. W. Norton & Company, 2009); Jerry Landa, "The Powell Manifesto," August 20, 2002 (http://www.mediatransparency.org/story.php?storyID=21); Lewis Laphan, "Tentacles of Rage," *Harpers* (September 2004)

[127] Powell to Syndor, August 23, 1971, Powell Archives, Washington and Lee University (http://law2.wlu.edu/deptimages/Powell%20Archives/PowellMemorandumTypescript.pdf)

heavier taxes" on businesses and the well-off. "Perhaps we might dream – for a moment – of a time in which, with good justification, the business world could feel that government was really on its side…," Harriss lamented. "Can any of us really envisage an environment in which something in the tax world favorable…to the business system was not thought of as a 'giveaway,' a disreputable outcome of a selfish transfer to a few at the expense of the many?" Business needed to work, he advised, to make that "dream" a reality.[128] Reginald Jones, the chair and CEO of General Motors, warned in the *Harvard Business Review* of the "antiprofit, antibusiness attitudes that have been rotting out the very foundations of our economy." Corporate American needed a sustained effort to reverse not only this attitude, but also the "discriminatory tax treatment" of capital, which Jones argued was impeding "capital formation." Business needed to begin pushing for tax reform "*now*," Jones stressed. "[N]ot the kind of tax reform that regards every incentive to invest as a 'loophole,'" Jones explained, but rather tax reform that makes it possible for business to finance the future of this country." The GM chair knew that the public, as well as many politicians, favored the type of "loophole"-closing reform that Jones opposed. "The business community has a selling job to do," Jones advised. "The problem of capital formation, and the consequences of inaction, must be set forth in compelling, job-and-pocketbook terms that voters can understand – and that politicians will respect."[129]

Following the advice of prophets like Powell, Harriss, and Jones, the business response to the rise of the grassroots left was multi-pronged. The most significant immediate response proved to be the founding of new business think tanks and lobbying groups, as well as the reinvigoration and radicalization of older ones. Both corporations and wealthy individuals – including Richard Mellon Scaife, John Olin, Joseph Coors, and David and Charles Koch, among

[128] C. Lowell Harriss, "Tax Reform in 1970s: Taxation of Business and Capital," *Trusts & Estates* (October 1972)
[129] Reginald H. Jones, "Why Business Must Seek Tax Reform," *Harvard Business Review* (September-October 1975)

others – poured money into business-friendly foundations, new and old, in the 1970s. Some donors were responding to the general anti-business trend, others, like Coors, were inspired directly by the Powell memorandum. Together and individually, they would launch the Heritage Foundation, Business Roundtable, Cato Institute, and American Council for Capital Formation, among others, in the 1970s. They would also revive and strengthen older institutions, like the Tax Foundation, the American Enterprise Institute, the National Association of Manufacturers, and the Chamber of Commerce, pushing many even further to the right in the process, given that Powell and others had criticized these older groups for exerting insufficient muscle to battle Nader and his allies. The Chamber's Syndor, for example, formed a task force at the Chamber to implement the Powell memo's recommendations, including sharpening the Chamber's political attacks.[130] To combat this long-term decline in stature, corporations like General Motors and DuPont would sent millions of dollars to right-wing groups like the Foundation for Economic education in order to create comic books, pamphlets, television specials, and classroom lesson plans teaching Americans lessons like that minimum wages were a symptom of a "planned economy," as one "discussion guide" for use in schools put it.[131] The more immediate issue for the business lobby, however, was stopping the enactment of policies it deemed detrimental to its interests, particularly when it came to taxes. While, as the TRA69 debates demonstrated, business representatives had never been hesitant to press their case when it came to tax policy, the 1970s would see an even more aggressive stance on the part of corporations, upper-income

[130] Kim Phillips-Fein, *Invisible Hands: The Making of the Conservative Movement from the New Deal to Reagan* (W. W. Norton & Company, 2009; Lee Edwards, *The Power of Ideas: The Heritage Foundation at 25 Years* (Jameson Books, 1997); Benjamin Waterhouse, *Lobbying America: The Politics of Business from Nixon to NAFTA* (Princeton 2013); Lewis Laphan, "Tentacles of Rage," *Harpers* (September 2004)

[131] Joseph Stocker, "Brainwashing the Classrooms," *Nation* (December 17, 1973); Bethany E. Moreton, "Make Payroll, Not War," in *Rightward Bound: Making America Conservative in the 1970s*, Bruce J. Schulman and Julian E. Zelizer, eds. (Harvard 2008); Alice O'Connor, "Financing the Counter Revolution," in *Rightward Bound: Making America Conservative in the 1970s,* Bruce J. Schulman and Julian E. Zelizer, eds. (Harvard 2008); Kim Phillips-Fein, *Invisible Hands: The Making of the Conservative Movement from the New Deal to Reagan* (W. W. Norton & Company, 2009)

individuals, and their allies, both on the federal and (as will be discussed later in this chapter) state levels.

The tax reform hearings promised by Wilbur Mills during the election year opened in February 1973. As the hearings began, the Treasury published estimates of the cost and distribution of federal "tax expenditures" – what most reformers dubbed "loopholes." The single most expensive provision was the preferential rate for capital gains, which cost the Treasury $5.6 billion in revenue in 1971. The deductibility of state and local taxes tied capital gains for costliness. Other large expenditures included the investment tax credit ($1.8 billion) and the deductibility of charitable contributions ($3.2 billion).[132] But, from the start, it was clear that the idea of a general consensus around the need for progressive tax reform – especially around capital income – was a myth, at least insofar as conservatives were concerned. In orientation, the executives and economists appearing before the Ways and Means Committee to combat the proposals voiced by McGovern and approved by the public were themselves right-distributionists. Under no circumstance was any element of the left-distributionist vision acceptable to them. At all turns, these spokespersons for the tax right sought to cut taxes for corporations and wealthy individuals, shifting taxes downward towards consumers and lower-income individuals. However, during the 1973 tax debates, these lobbyists mixed philosophical arguments – positing left-distributionist reforms as immoral thievery – with fiscalist pitches that portrayed cutting taxes on business and the rich as a solution to inflation and economic stagnation.

Business lobbyists entered the post-1972 election era determined, following the advice of Powell and others, to stem the rising tide of left-distributionist tax reform. As the 1973 reform

[132] *General Tax Reform, Part 1 of 11*, February 5, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

debates began, conservative economists, think tank spokespersons, and corporate officials struck at the very foundations of progressive tax reform. In part, this meant attacking the American public itself. The popularity of loophole-closing tax reforms, business spokespersons argued, should be irrelevant to tax policymaking. Most Americans, they argued, did not know what was good for them. Alan Greenspan, Leon Kendall, and John Whitehead, a partner at Goldman Sachs, testified on behalf of the Securities Industry Association – a newly formed finance-lobbying powerhouse, produced by the 1972 merger of the Investment Banker's Association and the Association of Stock Exchange Firms. The SIA's biggest concern echoed the alarm expressed by many business lobbyists and representatives: Americans, at least when it came to taxes, were trending too far to the left. "We also come to express our concern over the decline in the willingness of Americans to supply the risk capital to keep the enterprise economy growing and competitive in a fast-changing world…," Whitehead said. "There is little doubt that the concept of the capital gains tax is under attack." The public increasingly saw "capital gains [as] just another way for the rich to avoid paying a fair share of the national tax burden," the SIA representatives dismayed.[133] A representative of the New York Stock Exchange agreed. "[T]here is a lack of knowledge and lack of understanding of the American people of how the free enterprise system works," the NYSE's board chair James J. Needham argued.[134] The Tax Foundation fired back at the rising tide of left-distributionist reform in a multi-volume September 1972 report. It argued, for example, that certain ideas – that "wealthy people are not paying income taxes," "corporations do not pay taxes," or "recent tax legislation has favored business" – were myths. Perhaps the biggest claim the Tax Foundation sought to dispel, though, was the idea that "the tax system is riddled with loopholes which favor the rich." "So-called

[133] *General Tax Reform, Part 6 of 18*, March 21-22, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[134] *General Tax Reform, Part 6 of 18*, March 21-22, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

loopholes," the foundation argued, were there for a reason and would not raise much revenue if closed. Instead, the foundation cited Irving Kristol's "Tax Populism" article and comments by Herbert Stein to support the idea that the public actually did not care about tax fairness, or have any particular distributional preferences. Rather, the public simply wanted tax reduction and a smaller government.[135] Testifying on behalf of the foundation, C. Lowell Harris blamed the public's "antibusiness attitudes," presumably fomented by the likes of Nader, for this state of affairs. He lamented that average Americans had "difficulty" recognizing the tax "biases against capital….despite the fact that never has an economic system, has business, produced so well or treated the masses so well."[136] The SIA and investment banks across the country hoped to educated the "masses." A SIA-written leaflet, "What You Should Know About Tax 'Reform' on Your Capital Gains," was sent out to tens of thousands of stockholders across the country in 1973. The pamphlet predicted financial pain for stockholders as well as doom for the economy if capital gains taxes were raised. It encouraged investors to write the Ways and Means and Senate Finance committees. "*It is necessary…that investors do register their views now*," the pamphlet concluded.[137] The press, however, slammed misleading statements in the leaflet and, despite SIA's hopes, the leaflet seemed to have no impact on the public's views on tax reform.[138]

If business could not sway public opinion, it hoped it could convince Congress to swim against the tide of public opinion. While many observers regarded loophole-closing reform as inevitable, especially when it came to capital income, these right-distributionists did not. "[W]e are told by those wise in the way of politics that, since there are more people in this country who do not own stock than there are stockholders, we are going to lose this battle," SIA's Whitehead

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[135] Tax Foundation, *The Challenge of Tax Reform* (September 1972)
[136] *General Tax Reform, Part 3 of 11*, February 7, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[137] What You Should Know About Tax 'Reform' on Your Capital Gains, [1973], MEF, B 19, F 15, WHS
[138] Eileen Shanahan, "Lobbying on Capital Gains," *New York Times*, September 23, 1973

lamented. But, Whitehead explained, the goal of the IAF, and other likeminded organizations, was to ensure that this seemingly inevitable outcome did not come to pass.[139] NAM's tax committee chair E. A. Vaughn denounced the "hysteria that arose over the tax reform issue in the last few years." Vaughn hoped that the hysteria had "disappeared" and that "objective" views of taxation – such as, presumably, those of NAM – could now prevail.[140] Corporate lobbyists were concerned that Americans were being led astray by the idea of "fairness" put forth by left-distributionists. The entire notion of "fairness," business lobbyists argued, was meaningless. Norman Ture, a proto-"supply sider" who had previously served as an adviser to Wilbur Mills, quipped, "Fairness, like beauty and so many other things, is in the eye of the beholder. No university, thank heavens, bestows an advanced degree in fairness or has an endowed chair as a professor of fairness."[141] Ture called supporters of tax equity as "zealots," who, he argued, were dedicated to the meaningless and "elusive" ideas "horizontal equity" and "ability to pay."[142] Greenspan likewise dismissed the "equity argument" against the preferential rate for capital gains. The left-distributionist view implicit in the "equity argument" was, Greenspan implied, socialistic. "[E]quity is usually synonymous with increasing tax rates for high income taxpayers and/or decreasing them for lower income taxpayers," Greenspan said. "From this one must infer that ultimate equity exists when after-tax incomes of all individuals is equal." Making sure his point was not missed, Greenspan added, "[T]his is not the principle which governs our free society, but one which is associated with socialism," because it implied that "individuals are allowed to have income not as a right, but as a privilege vouchsafed by the state."[143] Ture

[139] *General Tax Reform, Part 6 of 18*, March 21-22, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[140] *General Tax Reform, Part 1 of 18*, March 5, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[141] *General Tax Reform, Part 1 of 11*, February 5, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[142] Norman B. Ture, *Tax Policy, Capital Formation, and Productivity* (NAM, 1973)
[143] *General Tax Reform, Part 6 of 18*, March 21-22, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

debated the validity of the very concept of “so-called tax expenditure[s],” as he put it.[144] Hoover Institution economist, and former National Tax Association president, Dan Throop Smith told the Ways and Means committee dismissed the idea of a “loophole” as irrelevant, arguing that it presumed all income belonged the government, not individuals. “[M]oney not taken away in taxation is not deemed to be given to them by the kindness of Congress and the government,” he quipped.[145] There was no way to objectively say what tax structure was more or less fair, business representatives reiterated. Therefore fairness considerations should be completely removed form discussions of tax policy.[146]

By denouncing the idea of “fairness,” business-friendly experts hoped to shift the tax debate from distributionist to fiscalist terminology. And, though the effects of the tax program that corporate lobbyists pushed in 1973 were decidedly right-distributionist, in that it would undeniably shift income upward, these business lobbyists couched their proposals in terms of growth and inflation. Perhaps the foremost lobbyist for the idea that the low taxation on capital income produced widespread economic and social gains was the newly formed American Council on Capital Gains and Estate Taxation, which would quickly rename itself the American Council for Capital Formation. It billed itself as “a voluntary association of investors…formed out of the growing concern among investor-savers…that failure to understand and communicate the realities of capital formation, capital investment, and capital transfer in our economy would invite the adoption of tax policies detrimental to the nation’s productivity and economic health.” However, its membership was, in fact, almost exclusively bankers and corporate executives. The ACCF acknowledged the Treasury data showing that capital gains were concentrated almost exclusively among the very richest taxpayers was true. It argued, however, that such data was

[144] *General Tax Reform, Part 1 of 11*, February 5, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[145] *General Tax Reform, Part 1 of 11*, February 5, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[146] *General Tax Reform, Part 1 of 11*, February 5, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

irrelevant. “Capital gains are available to those who invest rather than consumer their earnings,” ACCF’s Leroy Simkins said. “Obviously, the higher a person’s earnings and income, the greater will be his potential for savings.” Such rich individuals were merely enjoying the “American dream,” according to the ACCF. Moreover, their investing would spread that dream down the income ladder. “One of the best ways to cure inflation, or offset it, and certainly the most confortable way for everybody, is to improve productivity,” ACCF’s George Cline Smith said. In contrast, he warned, “any tax change which shifts interest from investment towards consumption will simply intensify the problem [of inflation].”[147] It was an old argument. During the TRA69 debates Pierre Rinfret, Dow chair Carl Gerstacker, and representatives of the NYSE had all argued that increased capital investment would ultimately lower inflation by boosting productivity. Now, though, this argument gained relevancy as inflation began to, once again, creep upward following the expiration of Nixon’s wage-price controls.[148]

Business conservatives sought to portray any attempts to “redistribute” income through closing loopholes as counterproductive. The only ones who would be hurt, they argued, would be average Americans. In the middle of the 1972 campaign, the National Association of Manufacturers hired Norman Ture to fire back against the increasing focus of left-distributionist reformer on both tax loopholes and the larger issue of growing income inequality. Published by NAM in January 1973, Ture’s “Tax Policy, Capital Formation, and Productivity” made the case that attempts to reduce income inequality or close “so-called loopholes” inevitably led to perverse and “self-defeating” outcomes. Ture attacked left reforms like George McGovern, who Ture noted “focused his 1972 presidential campaign on income redistribution” through the tax code. “[T]he present emphasis on closing ‘loopholes,’ if reflected in tax changes, would

[147] *General Tax Reform, Part 6 of 18*, March 21-22, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[148] *General Tax Reform, Part 6 of 18*, March 21-22, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

accentuate the anti-savings bias without significant gains in reducing income inequality," he wrote. Ture argued that "tax-transfer income redistribution policies" were "ineffectual in reducing income inequality" because they had an "anti-saving, anti-capital formation cast," thereby reducing growth, surprising employment and wages, and driving up dependence on government welfare programs. If anything, in Ture's view, U.S. tax policy was already too "strongly redistributive." [149] NAM's Vaughn touted Ture's study, summarizing its main conclusion thusly: "Imposing penalties on savings and capital formation in the name of redistribution is self-defeating and can only result in lower real wages for all."[150] All of the business representaitves agreed with this view and stressed it repeatedly. "Our present highly progressive income tax rate structure discourages investment…," the Chamber of Commerce's Walker Winter said. "The result is that everyone loses – the poor as well as the rich, and labor as well as management." [151] The NYSE's Needham even argued that – since the preferential treatment of capital income actually benefitted the whole society, in terms of higher wages and more jobs, not simply the pocketbooks of who actually made money off of capital – it was no longer beneficial to even use the term "worker," since it implied a conflict with capital owners. "I think we ought to stop talking of the American worker," Needham said. "We should start talking of the American citizen. That worker distinction has long since passed."[152] If Congress wanted to cure economic and social ills, business lobbyists told the Ways and Means Committee, the answer was to keep taxes on capital income low. "No tax ought to be applied to capital gains," Ture argued. He also proposed that Congress increase business incentives like ADR, eliminate the corporate income tax, and reduce or eliminate the estate tax (or "death tax," as Ture

[149] Norman B. Ture, *Tax Policy, Capital Formation, and Productivity* (NAM, 1973)
[150] *General Tax Reform, Part 1 of 18*, March 5, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[151] *General Tax Reform, Part 2 of 18*, March 7-9, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[152] *General Tax Reform, Part 6 of 18*, March 21-22, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

put it). Ture additionally called for cutting individual income taxes – but only for the upper brackets. While these changes would, undoubtedly, drastically reduce – and, likely, entirely eliminate – the progressivity of federal taxes, Ture was not concerned. Just because many Americans and policymakers found it "repugnant" to accept a tax system that would "disproportionately burden the poor" should not stop policymakers from putting such a system in place. A regressive tax system, Ture concluded, would lead to the fastest economic growth.[153] Though Ture's proposals were perhaps the most extreme, every corporate lobbyists, conservative economist, and right-wing think tank representative agreed that the only way to lower inflation and boost growth was to cut taxes on capital gains and investment even further.[154] A tax on capita, the SIA put it, was "a tax on progress."[155]

Liberal economists, left-distributionist activists, and populist Democrats came to the exact opposite conclusion as business lobbyists. Left-leaning economists, like Yale professor Boris Bittker and the Brookings Institution's Joseph Pechman, focused on rebutting conservatives' argument that low rates on capital income benefitted the entire country. Bittker questioned why, if the U.S. was as biased against investment as Ture and others suggested, the U.S. did "not look more like Bangladesh." "I think Mr. Ture is muddying the waters," Pechman agreed. Pechman pointed out that the rate of savings had remained virtually unchanged from the 1920s, when the country had "very, very low" tax rates. Growth was actually much higher in the post-WWII era, Pechman noted, even though the U.S. had higher capital gains tax rates. "During the past three years, this committee raised the maximum capital gains tax rate form 25 to 36 ½ percent," Pechman explained. "They [business representatives like Ture] would have told you three years ago that all sorts of terrible things were going to happen as a result of that increase in

[153] *General Tax Reform, Part 1 of 11*, February 5, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[154] Norman B. Ture, *Tax Policy, Capital Formation, and Productivity* (NAM, 1973)
[155] *General Tax Reform, Part 6 of 18*, March 21-22, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

the tax rate. In fact, no terrible things have happened."[156] Few negative consequences would occur from another increase in the capital gains rate, they suggested.

Left-reformers once again linked the tax revolt to the unfairness of the federal tax code. "I would like to increase progressivity rather than reduce it," Pechman said. "I also believe that the so-called tax revolt is a revolt by low- and middle-income people who see the tax favors and tax benefits given to high income people, thus permitting them to accumulate more and more income and wealth."[157] Other left-leaning witnesses amplified this message. "We have a crisis over tax reform because countless ordinary men and women are beginning to awaken to the fact that our federal revenue laws are nothing but a giant sieve, full of loopholes, through which pour billions of dollars in special benefits each year," Ted Kenedy said.[158] The continuation of loopholes, George McGovern agreed, was contributing to "distrust" of the government among Americans.[159] Both Kennedy and Muskie also touted Philip Stern's latest loophole-exposing bestseller, *The Rape of the Taxpayer*.[160] The time was overdue for reform, the argued. It had been four years since Joseph Barr predicted the "taxpayers revolt" to Congress, McGovern noted, but all that had been accomplished since was TRA69, which the Democrat said "should have been called the tax mirage act of 1969."[161] Ohio Democrat John Sieberling argued that TRA69 merely postpone[d] the threatened 'revolt.'" "The loopholes and inequities have been there for a long time," Sieberling said, "[but] the public's awareness of them, however, is was a relatively new phenomenon." If anything, he argued, the TRA69 debates, which made the front pages of papers, had simply educated more Americans about the remaining loopholes in the federal tax code.

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156 *General Tax Reform, Part 1 of 11*, February 5, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
157 *General Tax Reform, Part 1 of 11*, February 5, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
158 *General Tax Reform, Part 17 of 18*, April 16-18, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
159 *General Tax Reform, Part 17 of 18*, April 16-18, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
160 *General Tax Reform, Part 17 of 18*, April 16-18, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
161 *General Tax Reform, Part 17 of 18*, April 16-18, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

“And in recent years,” he continued, “the increasing pressures of other taxes on the low- and middle-income workers – local property taxes, state sales taxes, and the social security payroll tax –have brought an awareness to almost allpeople that our so-called ‘progressive’ tax system is not very progressive at all.”[162]

The TRA69 had done little to solve the loophole problem, populist Democrats agreed. AFL-CIO president George Meany argued that, thanks to ADR and other provisions in TA71, the tax system had gotten worse since 1969. The “taxpayers’ revolt” scared Congress into its limited action in 1969, Meany noted, and it had not gone away in the years since. It was time for Congress to go further.[163] Other left-reformers cited statistics demonstrating the continued prevalence of loopholes after TRA69. “Under the [remaining] loopholes, the more you have in income, the more you save in taxes. For example, the loopholes now save a machinist who earns $10,000 a year only $480. But an investor who makes half a million dollars a year may avoid $150,000…,” McGovern said. “[T]hese federal statistics tell only part of the story. In the last 20 years state and local taxes which fall hardest on the average citizens have also increased dramatically. For example, property and sales taxes have more than doubled in the last 15 years…. Our tax system therefore tends to be regressive, not progressive.” The minimum tax and other TRA69 provisions had done little to prevent either rich individuals or large corporations from escaping taxation. Not only had nearly 400 families making more than $100,000 per year pay no federal income taxes, but companies like U.S. Steel paid no taxes and received a substantial refund.[164] Statistics like these, the populist Democrats argued, were the source of much of Americans’ frustrations.

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[162] *Congressional Record* (March 3, 1972), 6878-6880
[163] *General Tax Reform, Part 2 of 18*, March 7-9, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[164] *General Tax Reform, Part 17 of 18*, April 16-18, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

While many of the Ways and Means members likely took the testimony of economists like Pechman and legislators like Muskie more seriously, perhaps the most significant element of the 1973 Ways and Means hearings was the growing contingent of left-distributionist reformers. Thomas Stanton testified on behalf of Nader's Tax Reform Research Group. Unlike many observers, the TRRG remembered the polling data on taxes from the fall election, and it sought to remind the members of the Ways and Means Committee of those results. "The public favored George McGovern over President Nixon on the tax reform issue alone," TRRG's statement noted. "[And] an October Harris survey found 67% of voters felt 'the tax laws are written for the rich and not for the average man.'"[165] George Wiley appeared before the committee, along with nine other left-distributionist grassroots reforms, including leaders of other MEJ-affiliated groups, such as Lucille Adams of the St. Louis Tax Reform Group, Lillian Woo of the North Carolina Consumers Council, and William Callahan of Philidelphia-based Tax Equity for America. Both Stanton and Wiley submitted data that echoed McGovern's testimony in demonstrating the tremendous value loopholes provided to upper-income taxpayers and the very sparse benefits afforded to low- and middle-income Americans. Using data from Joseph Pechman and Benjamin Okner, Wiley and MEJ calculated that existing tax loopholes gave a per capita benefit of $322 for families making less than $15,000 and nearly $2,000 for families making more than $15,000. TRRG's data broke down the value of each loophole on a per-return basis. For example, the per return value of the mortgage interest deduction was $50 for taxpayers in the $10,000 to $15,000 AGI range, and less for those below, whereas the average return for taxpayers making more than $100,000 received more than $400 from the home mortgage interest deduction. Deductibility of property taxes showed a similar pattern, offering just over $90 per

[165] *General Tax Reform, Part 2 of 18*, March 7-9, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

return in the $10,000 to $15,000 group and more than $1,750 per return over $100,000. The pattern for charitable contributions and capital gains were even more disparate. Combined, they averaged approximately $100 per $10,000 to $15,000 return and nearly $50,000 per $100,000 return, with capital gains accounting for $38,000 of that total.[166]

Reflecting the duality of "populism," left-distributionists stressed the similarities between the social expenditure "welfare" for low-income Americans that conservatives derided and the tax expenditure "welfare" that conservatives defended. McGovern argued loopholes that let certain types of income escape taxation was the same as writing a "welfare check," except that the loopholes overwhelmingly benefitted the rich. While there had been much hand-wringing over welfare reform for the poor, McGovern noted, Congress had dedicated substantially less time to welfare for the rich.[167] Kennedy called the Internal Revenue Code "America's biggeste welfare bill of all," a type of welfare that "go[es] entirely to the richest individuals and the nation's largest corporations."[168] Loopholes were simply another form of welfare, Wiley agreed. "[MEJ's goal is to] get some of the people who have been so hostile to poor people on welfare to begin to understand that this committee and this Congress have put literally millions of wealthy on welfare," Wiley said. "I would suggest, for example, if the average taxpayer understood that the welfare bill for the families that we have represented in NWRO is about $7 billion a year, and the welfare bill for the wealthiest 3 percent of the families in America is at a minimum of $5 billion a year, then I think Richard Nixon would be less able to attack welfare families as the scapegoats for the Nation's problems and maybe more attention would be focused on serious reform…."[169]

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[166] *General Tax Reform, Part 2 of 18*, March 7-9, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[167] *General Tax Reform, Part 17 of 18*, April 16-18, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[168] *General Tax Reform, Part 17 of 18*, April 16-18, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[169] *General Tax Reform, Part 2 of 18*, March 7-9, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

The liberal economists, populist policymakers, and grassroots activists all called for loophole-closing reforms to make the tax code more progressive, differing only in the ambitiousness of their proposals. All argued that capital gains taxes should be raised, with several suggesting that it should simply be taxed at the same rate as other income. "There are no valid grounds from the point of view of tax equity to accord special treatment to capital gains…," Harvard economist Richard Musgrave said. "Failure to tax capital gains as ordinary income has been the dominant source of tax avoidance by high-income groups."[170] Muskie, McGovern, and Kennedy all offered a variety of loophole-closing proposals, with McGovern reiterating his call for the enactment of the Mills-Mansfield proposal to close 54 major loopholes. "Higher taxes for the tax avoider will mean lower taxes for the average citizen," McGovern said. "Fairer taxes for all our citizens will mean greater public confidence in government."[171] Reducing taxes for low- and middle-income Americans was a shared goal of the reformers. Wiley, for example, touted his continued support for "[NWRO's] $6,500 negative income tax at the bottom along with more progressive tax relief for people in the middle."[172]

Left-distributionsts' calls for reform were met with a typical mix of disdain and interest from members of Congress. One of the grassroots reformers who testified was Robert Loitz, a small-businessman from Ohio who had attracted national attention – including that of Edmund Muskie and George McGovern – by gathering tens of thousands of signatures on a petition calling for tax reform that would repair the fact that "ultra-rich avoid paying taxes because of built-in loopholes in our tax laws." Loitz told NBC in 1972, "Like millions of other American citizens, I am fed up with paying more and more taxes while wealthy individuals and large corporations pay little or no taxes, because of loop- holes in our tax laws... such as oil depletion

[170] *General Tax Reform, Part 2 of 11*, February 6, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[171] *General Tax Reform, Part 17 of 18*, April 16-18, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[172] *General Tax Reform, Part 2 of 18*, March 7-9, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

allowances, capital gains and foreign investment credits."[173] However, despite the attention that Loitz had received from the media and support he had received from Muskie, McGovern, and other legislators, along with the estimated 100,000 American who had signed his petition Whe Loitz finished his testimony, California Republican Jerry Pettis treated Loitz with contempt, comparing tax policymaking to the complexity of "atomic energy" and suggesting to Loitz that there was a "technical aspect [to tax policy] that you don't appreciate."[174] However, not all resprsentatives dismissed the grassroots reformers. California Democrat James Corman, noting the stark differences in the testimony of Wiley and the Chamber of Commerce, particularly in terms of capital gains, told Wiley, "I must say, I tend to agree more with you than them."[175] Likewise, Wilbur Mills, after taking in reformers' testimony, noted, "It's pretty hard to justify treating a capital gain differently from ordinary income." Though, in a fiscalist warning, he worried that higher taxes on capital income might "freeze" sales.[176]

When it came time for Nixon officials to testify, they offered a modest set of income tax reforms, but it was the property tax took center stage for the administration. In terms of income tax reforms, the White House put forward a proposal for tightening the minimum income provision in the code. The administration's plan was stronger than the minimum tax in the TRA69, but still substantially weaker than the 72-percent-of-statutory-rate provisions proposed by McGovern in 1972. In effect, Nixon called for all taxpayers to pay taxes on 50 percent of their adjusted gross income after several exclusions, such as one-half of long-term capital gains and

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[173] James Toms, "His Tax Reform Drive Gaining Momentum," *Akron Beacon-Journal*, February 17, 1972; Muskei to Loitz, April 15, 1972, Ohio AFL-CIO Collection, B 59, F 10, OHS; McGovern to Loitz, March 17, 1972, Ohio AFL-CIO Collection, B 59, F 10, OHS; "Bob Loitz Leadds Tax Reform Drive," *People & Taxes* (March 1973)
[174] *General Tax Reform, Part 3 of 18*, March 12-13, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[175] *General Tax Reform, Part 2 of 18*, March 7-9, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[176] Don Oakley, "Capital Gains: Fair or Unfair Tax?" *Argus-Press*, April 17, 1973

the percentage depletion allowance, were added back to the taxpayer's AGI.[177] Speaking for the administration, George Shultz also called for several specific loophole-closing reforms, including a proposal to curb tax-loss farming by disallowing the use of tax losses to offset unrelated income.[178] However, much of Shultz's time was spent on outlining the president's plan to federally fund property tax relief for low- and middle-income elderly homeowners and renters. "[President Nixon] has continually recognized the nation's problems with respect to the property tax and has been committed to reducing residential property taxes," Shultz told the Ways and Means Committee. "Therefore, the revenue gained from the recommended [income] tax reforms will be further used to provide major tax relief to the elderly – a large segment of our population who are now overburdened by excessive state and local property taxes on their homes." ACIR data, Shultz noted, showed that the average homeowner over age 65 paid more than 8 percent of their income in property taxes, while elderly homeowners making less than $2,000 paid property taxes at an average rate of nearly 17 percent.[179] Under Nixon's proposed plan, elderly homeowners and renters could receive a refundable federal income tax credit for property taxes paid exceeding five percent of their income, up to a maximum of $500. The credit would begin to phase out for elderly homeowners making more than $15,000 and would be phased out completely by $25,000. For renters, property taxes would be calculated as 15 percent of rent paid. Shultz estimated that the program would cost $500 million.[180]

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[177] *General Tax Reform, Part 18 of 18*, April 30, May 1, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[178] *General Tax Reform, Part 18 of 18*, April 30, May 1, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[179] *General Tax Reform, Part 18 of 18*, April 30, May 1, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[180] *General Tax Reform, Part 18 of 18*, April 30, May 1, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

Democrats and other left-leaning witnesses also stressed the property tax in their testimony. "[Even though 'these hearings focus specifically on federal taxes'] we think it appropriate…to urge you to make maximum use of federal leverage to relieve the inequities that now exist in state and local-level financing," AFSME president Jerry Wurf told the Ways and Means Committee. He lamented that revenue sharing did not include stronger incentives for states to implement progressive income taxes. He also supported Nixon's plans to use federal revenue to cut income taxes for elderly Americans, but wanted the legislation to go further. "[I]t would be an injustice – in our opinion – to limit property tax relief to the elderly," Wurf said. "Many working Americnas who own their homes find it increasingly difficult to pay the rising taxes on their property. As the tax base withers in our large cities, middle-income families who resist the flight to the suburbs pay a harsh penalty [in higher property taxes]." The federal government, Wurf said, needed to cap the percentage of income that all lower- and middle-American families could be required to pay in property taxes. "The taxpayer revolt is for real," Wurf concluded, "and it cannot be put down by rhetoric."[181] In his call for an effective minimum tax to curb benefits like the capital gains preference, Ted Kennedy proposed using the resulting revenue to turn several deductions into credits so that they would benefit low- and middle-income taxpayers. He made special mention of the possibilities this approach held for the property tax. "For example," Kennedy said, "the credit for property taxes could be designed to urgently needed property tax relief for the elderly, especially the elderly who are poor."[182] George McGovern likewise called for using revenue from loophole-closing to finance property tax relief. "Where should the taxpayer's dollar go?" McGovern asked. "To a $6.6 billion tax

[181] *General Tax Reform, Part 2 of 18*, March 7-9, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[182] *General Tax Reform, Part 17 of 18*, April 16-18, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

subsidy for business in the form of accelerated deprecation and investment tax credit, or property tax relief for homeowners across the country?" [183]

The bipartisan agreement on some form of property tax relief seemed to point to its legislative viability. Only a few Ways and Means members and witnesses vocally objected to such proposals, and chair Wilbur Mills seemed not only to give the measure crucial support but also to point to the likelihood of more generous property tax relief. In fact, Nixon had privately assured Mills in a telephone conversation several months earlier that the administration was "going to go ahead on the property tax for the elderly."[184] Perhaps the most notable resistance to the Nixon property tax plan came from AFL-CIO president George Meany, who objected to it on the same grounds as general revenue sharing. Meany called Nixon's plan a "form of back-door, no-strings revenue sharing" that would reward states with high property taxes. Instead of papering over the deficiencies of the property tax, which he called fundamentally flawed, Meany suggested that it should be minimized, or even eliminated, as a source of revenue. The solution to the property tax problem, in the AFL-CIO's view, was for the federal government to directly assume the costs of local government, such as education.[185] The AFL-CIO's views were well-known, however – union economist Arnold Cantor had aired Meany's views during the ACIR debates – and did little to alter Congress's views on property tax relief. [186]

More significant was Wilbur Mill's indication that he would support not only property tax relief for the elderly, but for all low- and middle-income Americans. During Shultz's testimony, Mills speculated that more Americans than just the elderly needed property tax relief. Mills told Shultz that he "wonder[ed] whether we are as concerned as we should be about the

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[183] *General Tax Reform, Part 17 of 18*, April 16-18, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[184] Nixon Tapes 37-149 (March 18, 1973)
[185] *General Tax Reform, Part 18 of 18*, April 30, May 1, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)
[186] Paulson to Engman, November 3, 1972, SMOF-Engman, B 3, F Taxation: School Finance ACIR [1 of 2], RNPL

problems of the people who are in the so-called middle-income areas." "They feel that they are very heavily burdened now with taxes at state, local, and federal levels and no ne ever seems to give them any modicum of sympathy, let alone relief," Mills observed, in a comment seemingly as critical of his past action (or inaction) as Ways and Means chair as of the White House's proposal. President Nixon, Shultz said, was concerned about low- and middle-income property taxpayers of all ages, but given the larger cost for a more comprehensive relief program, he had decided to address the "particularly acute" property tax problems for the elderly first. But, Mills noted, the program could easily be expanded. "It seems to me that, if we go down this path [of property tax relief], for people over 65, it won't be many months or years before we find it advisable to include others," Mills said. "How much revenue would be involved in the final analysis, I don't know. I am not arguing against it."[187] Finally, it seemed left-distributionist reformers had the powerful Ways and Means chair on their side.

For President Nixon, however, the use tax reform to help solidify his realignment-defining New Majority was rapidly becoming eclipsed by other issues. By early-1973, inflation was beginning a steady upward climb that would not abate until the end of 1974, prompting a renewed commitment to budget-balancing austerity for the president who, just months earlier, had been pushing for any and all fiscal and monetary stimulus to boost his reelection chances. More significantly, though, for the chances of any legislative movement hinged on the Watergate investigation that was, by the spring of 1973, enveloping not only the Nixon White House, but also Congresss. By late-April, one of the White House's most enthusiastic proponents of tax reform, John Ehrlichman, would resign. By mid-May, the congressional Watergate hearings would be underway. In August 1974, Nixon himself would resign.

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[187] *General Tax Reform, Part 18 of 18*, April 30, May 1, 1973, Committee on Ways and Means, U.S. House (GPO, 1973)

More than a scandal over a break-in at Democratic national headquarters or other "dirty tricks," Watergate also contained a headline-grabbing tax scandal, which was one of many to ensnare prominent politicians and celebrities in the early-to-mid 1970s.

Worse than Watergate

As Watergate overwhelmed the nation's capital, the "tax revolt" continued unabated. Though voters were unwilling to pass conservative plans like California's Prop 1, their tax discontent remained. Taxes continued climbing particularly sharply for low- and middle-income Americans. In the ACIR's calculation of the total tax burden – local, state, and federal – facing the "average" family of four versus a similar families making twice the average family's income and four times the average family's income, the organization noted that there had been a progressive "narrowing of the gap in direct tax burdens borne by average and upper income families" between the mid-1950s and mid-1970s. As a percentage of income, two regressive taxes – the federal OASDHI payroll tax and the local property tax – had made the notable dents in the pocketbook of the "average" family. For that family, the payroll tax had risen from 1.1 percent in 1953 to 3.2 percent in 1966 to 5.9 percent in 1975, while the local property tax had climbed from 2.2 percent to 3.1 percent to 4 percent over the same period. Overall, the "average" family had experienced a 92 percent increase in taxes, from 11.8 percent to 22.7 percent between 1953 and 1975, whereas the family making four times as much had experienced just a 46 percent increase, from 20.2 to 29.5 percent. This was the "narrowing gap" to which ACIR was referring.

While the average family had paid 58 percent of the taxes, as a percentage of income, of the family making four times as much as them in 1953, by 1975 they paid 77 percent as much.[188]

The rising property taxes squeezing Americans' pocketbooks, especially for those with lower- and middle-incomes, was linked to the overall problem of soaring inflation in the early-to-mid 1970s. According to both U.S. Census and National Association of Realtors figures, the median home price was increasing at a better than 10 percent yearly rate by 1974. Some states had it worse, though. According to the California Association of Realtors, median home prices increased a startling 20 percent in the Golden State between 1974 and 1975.[189] Thus, even had property tax rates and assessments ratios stayed flat – an outcome most homeowners could only dream of in the '60s and '70s – property taxes were soaring by the mid-1970s beyond the levels that had precipitated the sharp fall in levy failures in the 1960s. Given these realities, the notion that the tax revolt, as it applied to local property taxes, would abate without government action seemed to represent decidedly wishful thinking on the part of policymakers. Yet, as we shall see, this seemed to be what many elected officials hoped.

No one had to wonder about the state of Americans' tax attitudes in the mid-1970s, though. Public opinion surveys made it abundantly clear that the tax revolt had not abated. In poll after poll between 1973 and 1976, large majorities of Americans expressed profound discontent with the level of taxes they paid, as well as profound cynicism and deep concern about the fairness of both the tax system and the American economy, as a whole. While Americans from all walks of life expressed similar opinions on some tax issues, Americans' perspectives on what was wrong with the tax system often were not evenly distributed across

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188 Author's calculations from Table XVI in ACIR, *Significant Features of Fiscal Federalism, 1976* (GPO June 1976) and Table 22 in ACIR, *Significant Features of Fiscal Federalism, 1978-1979* (GPO June 1979)
189 Census, "Median and Average Sales Prices of New Homes Sold in United States" (http://www.census.gov/const/uspriceann.pdf); California Association of Realtors, *Annual Historical Data Summary* (2010)

lines of class and race. Low- and middle-income Americans as well as people of color were particularly likely to take a dim view of regressive levies and the fairness of the tax system as a whole. Large majorities of Americans, for example, were displeased with amount of income and property taxes they paid. However, resentment of sales taxes was more notable for low-income Americans.[190] Following the ACIR's observation that rising taxes in the previous decades had hit poor and "average" Americans particularly hard, low- and middle-income Americans, much more than the well-off, expressed concern about the squeeze rising taxes were having on their pocketbooks. Large majorities of low- and middle-income Americans, but not the richest (those making more than $25,000 in 1974), agreed both that "people in power don't know how much taxes cause people like me to suffer" and that "my standard of living is being hurt by high taxes." This translated to political concerns, too. Majorities of the poor said that they would be more likely to vote for a candidate that proposed a tax cut. The higher one's income, however, the less likely he or she was to feel that way.[191] A majority of Americans, particularly those in the working- and middle-classes, said they had "reach[ed] the breaking point" on the amount of taxes they paid.[192] Half of Americans in nearly every income group said they would "sympathize with a taxpayers' revolt." Notably, upper-income people were more likely to say they would oppose one, and, contrary to the image of revolt participants as white conservatives, people of color and Democrats were more likely to say they sympathized than whites or Republicans.[193]

Beyond concern about their own taxes, by the mid-1970s Americans' cynicism about the tax system's favoritism toward the rich had only increased since the 1960s. Nearly 90 percent said that "the big tax burden falls on the little man in this country today." Three-quarters of

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[190] Author's analysis, Harris Survey, May 1974. Odum Institute [7485]
[191] Author's analysis, Harris Survey, May 1974. Odum Institute [7485]
[192] Author's analysis, Harris Survey, May 1974. Odum Institute [7485]
[193] Author's analysis, Harris Survey, May 1974. Odum Institute [7485]

Americans said that “the tax laws are written to help the rich, not the average man.” Ninety percent agreed that “there are a lot of tax loopholes for the rich to avoid taxes.” Sixty percent agreed that “tax shelters are just a clever device to the let rich pay less taxes than the average person,” though the higher one’s income, the more likely he or she were to disagree (and the richest respondents were almost split on the question). These two convictions – that taxes on low- and middle-income Americans’ taxes were causing a pocketbook squeeze and that the tax code was letting the rich off easy – were related. Seventy percent – particularly low- and middle-income respondents – said that tax shelters meant that “middle income people have to pay higher taxes” to cover for the taxes not paid by the rich. Underlining the political necessity of loophole-closing tax reform if public anti-tax sentiment was to be quelled, more than 70 percent told pollsters that they would “feel better” about the amount of taxes they paid if the “tax loopholes for the rich were closed.”[194] The public support for raising taxes on the well-off, especially by closing loopholes, was undeniable. Three-quarters of Americans, and majorities of even the richest, said they would support a program to raised taxes on those making more than $30,000 (roughly the top five percent in 1974) and cut taxes on those making less than $6,000 (roughly the bottom 20 percent), though the higher one’s income the more likely he or she was to oppose such a tax plan.[195] By the mid-‘70s public fatalism about economic fairness hit new hights. More than 75 percent told pollsters that “the rich get richer and the poor get poorer” – a ten percent jump from the early ‘70s.[196] For Democrats, the mid-‘70s presented a political

[194] Author’s analysis, Harris Survey, May 1974. Odum Institute [7485]
[195] Census Table H-1 (http://www.census.gov/hhes/www/income/data/historical/household)
[196] Between 50 and 65 percent of Americans agreed that “the rich get richer and the poor get poorer” between 1968 and 1972. That number jumped into the 75 to 80 percent range between 1973 and 1976. Harris Survey, May 1969. Roper iPoll Databank [USHARRIS.690569.R2]; Harris Survey, March 1971. Roper iPoll Databank [USHARRIS.71MAR.R41A]; Harris Survey, November 1972. Roper iPoll Databank [USHARRIS.113072.R2]; Harris Survey, April 18 - April 23, 1973. Roper iPoll Databank [USHARRIS.730418.R2]; Harris Survey, September 1 - September 6, 1974. Roper iPoll Databank [USHARRIS.092674.R1A]; Harris Survey, August 1976. Roper iPoll Databank [USHARRIS.760876.R2]

opportunity on taxes. More than half of Americans said Democrats were likely to reduce their taxes, while less than 15 percent said the same about Republicans. But, overall, Americans did not believe that any politician would actually address the tax system's unfairness. More than 80 percent lamented that "politicians promise tax relief before election[s] and then do nothing about it when elected."[197]

The politicians themselves doubtlessly were aware of the public's discontent. Increasingly, both public officials and pundits began dubbing the post-Watergate pall that had fallen across the country a "crisis of confidence." In reality, however, this "crisis" was anything but new. Watergate had simply attenuated further the declining faith in major American institutions that had spread throughout the country in the late-1960s as one revelation of deception after another implicated major institutions, both public and private. Whether one dated its beginning with *Silent Spring* or the Kennedy assignation, Gulf of Tonkin or *Unsafe at Any Speed*, by the late-1960s think pieces about the country's "crisis of confidence" had become all-too-commonplace.[198] Regardless of its status as a nearly decade-old piece of conventional wisdom, after Watergate the idea of a "crisis of confidence" gained new currency among academics and policymakers.[199] In late-1973, the Muskie's Senate Intergovernmental Relations Subcommittee commissioned Louis Harris to conduct a national poll on the issue of this "crisis of confidence." In the hearings on Harris's study, much of the discussion revolved around amorphous issues of "spirit," "mood," and "alienation." "On a scale of powerlessness, cynicism,

[197] Author's analysis, Harris Survey, May 1974. Odum Institute [7485]
[198] Max Frankel, "A 'Crisis of Confidence' Confronts the U.S.," *New York Times*, December 26, 1965; Otto Zausmer, "Crisis of Confidence in U.S.," *Boston Globe*, October 9, 1966; "…and a Crisis of Confidence," *New York Times*, February 16, 1967; David C. Anderson, "Scrutinizing the 'Crisis of Confidence,'" *Wall Street Journal*, August 2, 1971; Leonard Silk, "Shaken by a Crisis of Confidence," *New York Times*, May 20, 1973.
[199] Arthur Schlesinger, Jr. *The Crisis of Confidence: Ideas, Power, and Violence in America* (Hougton Mifflin, 1969); Leonard Silk and David Vogel, *Ethics and Profits: The Crisis of Confidence in American Business* (Simon and Schuster, 1976); Everett Carll Ladd, Jr., "The Polls the Question of Confidence," *Public Opinion Quarterly* 40:4 (Winter 1976-1977)

and alienation used by our firm since 1966," Harris told the Senate committee, "an average of 55 percent of the American people expressed disenchantment, compared with no more than 29 percent who felt that way only 7 years ago." Fitting with this theme, Harris closed his statement by quoting, at length, Archibald MacLiesh's poem "America Was Promises."[200]

Though it was never mentioned in the hearings, the tax revolt – and pocketbook discontent, more generally – lurked throughout the Senate's two-volume report on the survey, *Confidence and Concern: Citizens View American Government*. In many ways, the tax revolt itself was both a contributor to and a reflection of this "crisis of confidence." The distance between the costs of government and the benefits of government was foremost on the minds of most Americans. "[A]t all levels [of government], the official activity that awakes the highest recognition is tax collecting, and the response is one of resentment," the foreword to the Senate/Harris study, authored by Muskie and Republican Senator Edward Gurney, noted. In contrast, Americans had a "mixed view of the services rendered in return." Beyond Social Security, Medicare, and local services like schools, most Americans felt totally disconnected from the government. Perhaps not coincidentally, as Americans' faith in government fell, its esteem for grassroots activists grew. *Confidence and Concern* found that nearly 50 percent of citizens agreed that "groups of citizens and organizations are having more effect in getting government to get things done, compared with five years ago." Among the top groups volunteered by the public were "local community groups," "civil rights groups," and "Ralph Nader's consumer protection groups." When it came to state and local officials, the Senate/Harris data made clear the vast gulf that existed between public officials and average

200 Subcommittee on Intergovernmental Relations, U.S. Senate, *Confidence and Concern: Citizens View American Government: A Survey of Public Attitudes by the Subcommittee on Intergovernmental Relations* (GPO 1973); Archibald MacLeish, *Collected Poems, 1917-1982* (Houghton Mifflin Harcourt, 1985)

citizens, especially on issues of taxation. Harris interviewed state and local officials in addition to his representative sample of more than 1,500 Americans.[201]

Though Harris did not ask the "taxpayers' revolt" questions that had become a staple of his surveys since 1969, the distance between policymakers and the public over taxes was readily apparent in *Confidence and Concern*. It found that "one local government function that earns the [government] leaders' confidence but the public's disdain is tax assessment." Thirty-seven percent of public officials had a "great deal of confidence" in local assessment. Not a ringing endorsement, but a substantial fraction. Their views, however, stood in shocking contrast to the public's. Only 19 percent of Americans had "a great deal of confidence" in local tax assessment, less than in television news, organized labor, major companies, and even law firms, among other institutions. Only the White House – ensconced in Watergate scandal – was less trusted than local property tax assessors. Taxation, the Senate/Harris report noted, was an "absorbing issue the public would like to talk to their local authorities about," particularly regarding "tax inequities, especially on real estate." As one Des Moines, Iowa, homeowner commented, "I'd like to know how the tax assessment works and why we seem to pay more than other people with better houses and more land." Fittingly, while the first federal issue on the minds of Americans was "overwhelmingly" Watergate, the first issue mentioned by Americans when asked about state-level problems was "taxes and school funds." But, despite the rise of Watergate to the top of the federal agenda, Americans' tax fatalism extended to the national level, too. *Confidence and Concern* found, just like other surveys, that three-quarters of Americans believed both that

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[201] Subcommittee on Intergovernmental Relations, U.S. Senate, *Confidence and Concern: Citizens View American Government: A Survey of Public Attitudes by the Subcommittee on Intergovernmental Relations* (GPO 1973);

"the tax laws are written to help the rich, not the average man" and that "the richer get richer and the poor get poorer."[202]

The Watergate scandal itself had actually exacerbated the public's tax cynicism. Throughout all of the scandals that swirled around the White House during Nixon's abortive second term, tax loopholes and tax fraud hovered just below the surface. Following the resignations of top White House staffers, including Haldeman and Ehrlichman, in April and the beginning of the Senate Watergate hearings in May, many of the revelation that followed either directly or indirectly involved tax malfeasance. Early in the Watergate hearings, John Dean, Nixon's former counsel, alleged that the White House had used the IRS to investigate, harass, and audit political opponents.[203] Wisconsin Democrat Henry Reuss added to the charges, alleging that the White House had pressured the IRS to exempt $20 million in stock contributions to the Nixon campaign from taxes, which Reuss called "legalized larceny."[204] Vice President Spiro Agnew's resignation likewise had a twist of tax intrigue. As both a Baltimore County Executive and Governor of Maryland, Agnew had accepted bribes and kickbacks from companies attempting to secure contracts from the government. But, under the deal struck, Agnew's ostensibly resigned for evading taxes on the hundreds of thousands of dollars in bribes, facing only a fine and probation.[205] "[T]he IRS has taken a battering in the Watergate

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[202] Subcommittee on Intergovernmental Relations, U.S. Senate, *Confidence and Concern: Citizens View American Government: A Survey of Public Attitudes by the Subcommittee on Intergovernmental Relations* (GPO 1973);
[203] "Political Tax Audits?" *New York Times*, July 17, 1973; "Inquiry on Dean's Charges to Get 200 Tax Records," *New York Times*, July 4, 1973;
[204] Susanna McBee, "Shultz, Reuss Clash on IRS Role in Campaign Taxes," *Washington Post*, August 3, 1973; Susanna McBee, "IRS Acts to Tax Gains on Political Stock Gift," *Washington Post*, August 2, 1973
[205] Jerry Landauer, "Agnew Resigns, Is Fined for Tax Evastion, Put on Probation; Other Charges Dropped," *Wall Street Journal*, October 11, 1973; James M. Naughton, "Judge Orders Fine, 3 Years Probation," *New York Times*, October 11, 1973; Francis X. Clines, "Spiro T. Agnew," *New York Times*, September 19, 1996

revelations," the *Washington Post* concluded in mid-1973.[206] The *Post*'s sweeping observation actually was an understatement, though. The worst was yet to come.

President Nixon's own finances, however, were the real tax story in Watergate. Nixon's tax troubles began in mid-1973, when newspapers across the country reported allegations that Nixon received "preferential treatment" by the local property tax assessor on his San Clemente "Western White House." Nixon – or, rather, an "investment company" that included Nixon, businessman "Bebe" Rebozo, and others – had purchased the home for $1.5 million in 1969 and put more than $500,000 in improvement into the property. Making appearances even worse, tens of thousands of dollars in improvements were also kicked in by the federal government itself, given the property's official use by Nixon. When it came time to assess the property, however, Andrew Hinshaw, the Orange County assessor, pegged the property's value at less than $1.4 million. This assessment went unchallenged until 1973, when County Supervisor Robert Battin filed a complaint with the county Assessment Appeals Board alleging that Nixon's San Clemente property should have been value at more than $2.3 million. This underassessment, Battin argued, has saved Nixon $55,000 over the past three years. It was a tax break, Battin argued, that average California homeowners would not have received. "I think the president should be treated fairly, and he should pay his fair share – no more, no less," Battin argued. Rumors also swirled in the press that Watergate prosecutor Archibald Cox was extending his investigation to the assessment on Nixon's San Clemente property, though Cox denied the reports. Without Cox's involvement, Battin's appeal became embroiled in partisan politics. Former assessor Hinshaw, Republicans on the review board, and other GOP officials argued that Battin, one of the county's few Democratic officials, was simply pursuing a partisan agenda. Both the appeals board and

[206] "The Integrity of the IRS," *Washington Post*, August 3, 1973

Superior Judge Mark Soden – also a Republican, who admitted during the hearing that he was a GOP donor and a "Nixon supporter" – both rejected Battin's appeal. Soon, Hinshaw – who became Republican state representative following his turn as Orange County assessor – was targeting Battin, arguing that Battin had used his office and, thereby, misused public funds in challenging Nixon's assessment. The following year, however, the assessment on Nixon's San Clemente property was raised by $200,000. More significantly, Hinshaw would be convicted in 1976 of accepting bribes for favorable property tax assessment during his time as Orange County assessor, casting a pall not only over Nixon's assessment, but over all county assessment conducted during Hinshaw's seven years in office.[207] By that time, however, Nixon was no longer the story.

The most shocking allegations regarding Nixon's taxes came at the federal level. On tax day 1974, *Time* magazine's cover blared "NIXON'S TAX SCANDAL" with a glowering Nixon superimposed over his 1040 form, complete with red circles highlighting questionable portions. The convoluted dealings regarding the purchase, with Rebozo and other investors, of Nixon's San Clemente property raised questions not only about the property's local tax assessment, but

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[207] Ted Frederickson, "Assessor Defends San Clemente Tax," *Washington Post*, July 12, 1973; "Official Cool to California Plea for San Clemente Tax Review," *New York Times*, August 11, 1973; "Nixon Angry; Cox Denies San Clemente Probe," *Boston Globe*, July 4, 1973; Ron Kessler, "San Clemente," *Washington Post*, December 9, 1973; "San Clemente to be Assessed," *Washington Post*, October 3, 1973; George Lardner Jr and Carroll Kilpatrick, "Nixon Denies Homes Face Probe by Cox," *Washington Post*, July 4, 1973; "Nixon Estate Is Called Underassessed," *New York Times*, September 22, 1973; "California Board Orders Inquiry on Nixon's San Clemente Taxes," *New York Times*, August 10, 1973; Wallace Turner, "Nixon's Tax May Double on Home at San Clemente," *New York Times*, October 4, 1973; Robert M. Gettemy, "Battin Accused of Misusing Public Funds in Nixon Inquiry," *Los Angeles Times*, December 13, 1973; "Nixon's tax Bill at San Clemente Rises to $37,300," *Los Angeles Times*, October 9, 1974; "Panel Votes Not to Boost San Clemente Tax Bite," *Wall Street Journal*, December 13, 1975; Thomas Fortune, "Bid to Raise Nixon Home Value Denied," *Los Angeles Times*, April 13, 1974; Robert M. Gettemy, "Battin Takes Challenge to Court," *Los Angeles Times*, February 14, 1974; Steve Emmons, "Former Assessor Aide Testifies Against Hinshaw," *Los Angeles Times*, November 25, 1973; Evan Maxwell and Craig Turner, "Rep. Hinshaw and Orange County Assessor Indicted," *Los Angeles Times*, May 9, 1975; Steve Emmons, "Lawyer Testifies Hinshaw Suggested Campaign Gift," *Los Angeles Times*, December 18, 1975; Howard Seelye, "Hinshaw Dismisses Wife's Testimony as Inadmissible," *Los Angeles Times*, May 29, 1975; Paul Houston, "Court Documents Accuse Hinshaw of Taking Bribes," *Los Angeles Times*, March 25, 1975; Steve Emmons, "Hinshaw Convicted on 2 Counts of Receiving Bribes," *Los Angeles Times*, January 27, 1976;

also about possible improprieties in Nixon's finances, as well as how these properties were reported on his federal income tax returns.[208] Nixon quickly dismissed press inquiries about potential tax misstatements or malfeasance that could have occurred, given the complexity of the president's property holdings. In an early-September 1973 press conference, Nixon assured the public that his transactions were all above-board and that the IRS had audited his 1971 and 1972 taxes and "did not order any change." It was, Nixon said, "[G]ood news for people who wonder if Presidents are exempt from what the IRS does."[209] In fact, it was anything but. Already, the Baltimore *Sun*'s Adam Clymer had reported that Nixon's deduction of his Vice Presidential papers to the National Archives at a value of $576,000 had likely wiped out several years of Nixon's federal tax bill. Soon, however, all doubt was removed. With the Watergate hearings in full swing, an unnamed IRS employee leaked Nixon's tax returns to a reported at the *Providence Journal*. In early-October, the *Journal* used the leak to report that Nixon had paid under $800 in federal income taxes in 1970 and less than $900 in 1971, despite more than $250,000 in income. This paper donation had, in fact, already come under question months earlier, thanks to a new public interest tax firm, Tax Analysts and Advocates. Tax Analysts and Advocates' executive director, Thomas F. Field, had questioned the deduction of the papers in July and called for an audit of the president's taxes.[210] Now, with the revelations of the *Providence Journal*, among others, the president's attempts to fend off calls for an investigation into his finances began to crack.

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[208] Carroll Kilpatrick, "San Clemente Deal Detailed by Nixon," *Washington Post*, May 26, 1973; Martin F. Nolan, "Audit for Nixon Reveals Rebozo Aid in San Clemente Purchase," *Boston Globe*, August 28, 1973; Jack Anderson, "Haldeman Directed $700,000 San Clemente Renovation," *Boston Globe*, July 16, 1973

[209] Richard Nixon, "The President's News Conference," *Public Papers of the Presidents*, September 5, 1973

[210] "Tax Returns Audit of President Asked," *New York Times*, July 30, 1973; Morton Mintz, "Nixon Tax Break on Papers Is Challenged by Law Group," *Washington Post*, July 31, 1973

Under pressure from the public and the press, Nixon released his tax returns from 1969 through 1972. They confirmed the leaked figures. Surely making matters more scandalous, at least from the public's point of view, was the fact that Nixon's $792 tax payment on $262,942 in adjusted gross income in 1970 came from the minimum tax provision of the TRA69. So, even after the "loophole"-closing reforms touted by Nixon in the TRA69, the president had paid less than one-half of one percent of his adjusted gross income – that is, after deductions – in taxes. The returns revealed other issues, too, including the deduction of his Vice Presidential papers and capital gains, or a lack thereof, on the sale of property. "The Nixon tax returns, as presumably would be the case with those of any near-millionarie, make fascinating reading," the *Wall Street Journal* reported. "They add up to a picture of a man taking nearly every legal deduction his high-priced tax experts can find for him." In 1970, 1971, and 1972, in fact, Nixon had paid substantially more for tax advice than had had paid in federal income taxes. Such was the reaction to Nixon's returns that even the *Wall Street Journal*'s conservative editorial pages, while slamming the "groups professing to represent the public interest," called for strengthening the minimum tax provision, since, "Considering what the average citizen pays, a President earning $200,000 should pay more than a few hundred dollars in tax. And so should anyone else earning $200,000."[211] More liberal elements in the press were even harsher on Nixon.

In late-December, 1973, Nixon relented and asked the congressional Joint Committee on Taxation to review the reporting of his Vice Presidential papers donation and his sale of land in San Clemente. However, the JCT – led by the decidedly Nixon-friendly Russell Long and Wilbur Mills – took it upon itself to review Nixon's returns in their entirety because, as the JCT report put it, the public needed to have "confidence in the basic fairness of the collection

[211] Fred L. Zimmerman, "Nixon Is Likely to Be Aided by Disclosure of Finances, but Most Key Charges Remain," *Wall Street Journal*, December 10, 1973; "Avoiding a Dilemma," *Wall Street Journal*, November 13, 1973

system." If Americans felt that individual like the president were getting away with malfeasance, the committee noted, it would erode support for the tax system, as well as compliance. In the end, the JCT concluded that Nixon owed $444,022 in back taxes and more than $32,409 in interest. The deduction for this Vice Presidential papers, the committee found, had been purposely misdated in order to qualify for a deduction to which Nixon was not legally entitled. Nixon had also failed to report a variety of income, including $151,848 dollars in capital gains from the sale of his New York City apartment and $117,836 in gains from sale of land in San Clemente, among other sources.[212] The White House had little room to object to the JCT's shocking conclusion. San Francisco Attorney William Coblenz, who represented the Hearst family, among others, told *Time* magazine that the JCT "was, if anything, a little easy on President Nixon." Most other experts consulted by *Time* agreed. Accounting professor Abe Briloff said that the issues in Nixon's returns were "so egregious" that they could not have been mistakes, but rather suggested "a carefully orchestrated, finely tuned program" of deception. Following the JCT's report, the White House attempted to blame the president's tax attorney for the "errors." However, the president's attorney called Nixon's claims "ridiculous," saying that he had gone over the president's returns with Nixon "page by page." In fact, the attorney said, many of the evasions were done following Nixon's instructions, as relaying by John Ehrlichman. Such were the improprieties in Nixon's taxes that Wilbur Mills speculated Nixon's tax returns alone would be enough to force the president to resign.[213] Things would continue to get worse for

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[212] Joint Committee on Internal Revenue Taxation, *Examination of President Nixon's Tax Returns for 1969 through 1972* (GPO April 3, 1974); "Many Unhappy Returns," *Time*, April 15, 1974; Jack Anderson, "How Nixon Escaped Income Tax Fraud Charge," *Evening News*, February 1, 1977; William D. Samson, "President Nixon's Troublesome Taxes," *Tax History Project*, April 11, 2005 (http://www.taxhistory.org/thp/readings.nsf/cf7c9c870b600b9585256df80075b9dd/f8723e3606cd79ec85256ff6006f82c3); Patricia Sullivan, "Mary Livingston; Spotted Illegal Nixon tax Move," *Washington Post*, March 25, 2007;

[213] "Many Unhappy Returns," *Time*, April 15, 1974; Jack Nelson, "Whehter Nixon Willfully Violated Tax Law Is Key Issue, Doar Says," *Los Angeles Times*, July 20, 1974; Kenneth Reich, "Lawyer Disputes Nixon's Role in 1969

Nixon.[214] *Newsweek* and investigative political columnist Jack Anderson reported that Nixon had attempted to conceal his daughter Tricia's interest in Florida properties that Nixon had sold in order to save her income taxes. Subsequent reports also made it public that Nixon had not paid state income taxes in California, D.C., or any other state in 1970, 1971, or 1972.[215]

In short, there was no shortage of tax scandals facing Nixon in 1973 and 1974, both related and unrelated to Watergate. The public outcry over Nixon's taxes was swift and severe. "Nixon's taxes were an issue that average citizens readily understood as compared to the constitutional issues raised by the Watergate investigation," as one accounting professor put it. "Most taxpayers – with far less income than Nixon – had paid more federal income tax than the president."[216] Indeed, half of Americans objected simply to Nixon's income, saying that that "resent President Nixon becoming a millionaire at a time when the American people have had a hard time making ends meet." Sixty-four percent agreed that Nixon had "failed to provide moral leadership for the rest of the country by taking advantage of legal tax loopholes." Three-quarters said that it was "wrong for President Nixon to have paid less taxes than a person with an income of $8,000 a year, when he is paid a salary and expense account totaling $250,000 a year."[217] For the public, the revelations of tax malfeasance by Nixon, Agnew, and the Orange County assessor were just the latest in a long line of tax scandals facing the rich, the famous, and the powerful.

Tax Returns," *Los Angeles Times*, April 5, 1974; "Mills Sees Reason for Nixon to Resign," *Washington Post*, March 9, 1974

[214] Jack Anderson, "Tricia Nixon Tax Muddle Outlined," *Washington Post*, November 26, 1973

[215] William D. Samson, "President Nixon's Troublesome Taxes," *Tax History Project*, April 11, 2005 (http://www.taxhistory.org/thp/readings.nsf/cf7c9c870b600b9585256df80075b9dd/f8723e3606cd79ec85256ff6006f82c3); "Nixon Reported Owing No '73 California Tax," *New York Times*, April 16, 1974; Wallace Turner, "California Officials Accusing of Giving Nixon Favored Treatment on State Income Taxes," *New York Times*, January 23, 1974; "Nixon Can't Recall Data on State Income Tax," *New York Times*, December 19, 1975

[216] William D. Samson, "President Nixon's Troublesome Taxes," *Tax History Project*, April 11, 2005 (http://www.taxhistory.org/thp/readings.nsf/cf7c9c870b600b9585256df80075b9dd/f8723e3606cd79ec85256ff6006f82c3)

[217] Harris Survey, January 7 – January 10, 1974, Roper iPoll Databank [USHARRIS.012474.R3]

The early-to-mid ‘70s saw string of highly publicized celebrity tax scandals that reinforced and amplified the claims and revelations made by muckrakers like Philip Stern and Ralph Nader. President Nixon’s sometime Republican antagonist, Ronald Reagan, found himself at the center of the juiciest of these revelations, along with a veritable cavalcade of stars. It became, as the *New York Times* put it, “one of the bitterest controversies of his four-and-a-half-year career as an elective officeholder,” which was saying a lot for controversial California governor.[218] Like Nixon’s, the public Reagan’s began with a leak. In May 1971, Rosemarie King, a 29-widow with three children and a student journalist at Sacramento State College broadcast that Governor Reagan had paid no state income taxes in 1970. Reagan denounced the leak as an invasion of privacy and claimed in a press conference days after the leak, “You know something, I don’t actually know whether I did [pay state income taxes] or not…. I have a fellow making it out for me, a lawyer makes it out.” The governor did remember signing his tax form, however, and admitted, “I know in the federal [income tax] in the last couple of years or something I got a rebate.” Reagan’s executive assistant, Edwin Meese, promised that he would investigate Reagan’s tax California status and mere moments after the press conference ended a one-line “memo to the press” was released. It read, “Because of business reverses of Gov. Reagan’s investments, he owned no state income tax for 1970.” The governor’s office refused to comment on Reagan’s federal tax rate, however. King then followed-up her first scoop with another claiming that Reagan had not paid any state income taxes during at least one other year as governor.[219] That Reagan – a politician who had famously quipped that “taxes should hurt” –

[218] Wallace Turner, “Reagan Assailed on Tax Liability,” *New York Times*, May 9, 1971

[219] “Reagan Paid No State Income Tax in ’70, Got Federal Refund,” *Los Angeles Times*, May 5, 1971; Jerry Gillam, “Younger Asked to Investigate News ‘Leak’ on Reagan Taxes,” *Los Angeles Times*, May 8, 1971; Robert Fairbanks, “Reagan Paid No State Tax for Another Year, Reporter Claims,” *Los Angeles Times*, June 4, 1971; “California Seeks Leak of Reagan Tax Story,” *Milwaukee Journal*, May 9, 1971; “Taxes Should Hurt? Reagan Feels No Pain,” *Desert Sun*, May 5, 1971; “Rosemarie Won’t Sign an Affidavit,” *Desert Sun*, May 15, 1971; “Checking Reagan’s

paid no state or federal income taxes, given that he made more than $40,000 in his gubernatorial salary alone, was shocking. In a survey of Reagan's staffers, the *Desert Sun* found that all had paid state income tax. Even Reagan's secretary had paid $900 in California income taxes. An "average" California family making Reagan's salary would have been expected to pay more than $2,700 in California taxes, the press noted.[220]

Reagan's revelation made news across the country. Most commentators linked Reagan's eager use of tax loopholes to his previous comments taxation and welfare. Many observers threw Reagan's "taxes should hurt" quip back at the governor. George Moscone, the California Senate's Democratic leader, chastised Reagan. "It's very easy to say 'taxes should hurt' when you're not paying your fair share," Moscone told UPI. Echoing the Democrat's line of attack, the *Desert Sun* titled one news story on the controversy, "Taxes Should Hurt? Governor Reagan Feels No Pain." Likewise, the *Dayton Beach Morning Journal*'s editorial page chastised the governor in an editorial that began, "'Taxes should hurt,' once said Gov. Ronald Reagan of California. That is, they should hurt all but Gov. Reagan." His tax-free status probably made the "ex-movie star quite happy," the paper continued, "Just think of all the people he described as 'bums' on welfare – abandoned mothers, babies, the old and disabled – he won't be supporting with her personal tax dollars." That Californians making as little as $5,000 per year would be paying more in taxes was "saddening," the paper concluded, "For such disparity is what discourages young people about the system."[221] Grassroots activists took the opportunity to

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Tax Leak," *Desert Sun*, May 8, 1971; "Reagan Refuses to Explain 'Investment Losses,'" *Desert Sun*, May 7, 1971; "Girl Says Reagan Paid No Tax Another Year," *Desert Sun*, June 4, 1971;

[220] "Reagan Paid no State Income Tax in '70, Got Federal Refund," *Los Angeles Times*, May 5, 1971; "Taxes Should Hurt? Reagan Feels No Pain," *Desert Sun*, May 5, 1971

[221] "Reagan Escapes State Income Tax," *Washington Post*, May 5, 1971; "California Seeks Leak of Reagan Tax Story," *Milwaukee Journal*, May 9, 1971; Jerry Gillam, "Younger Asked to Investigate News 'Leak' on Reagan Taxes," *Los Angeles Times*, May 8, 1971; "Taxes Should Hurt? Reagan Feels No Pain," *Desert Sun*, May 5, 1971; "Saddening Is the Word," *Daytona Beach Morning Journal*, May 8, 1971

tweak Reagan, too. At a Sacramento speech on his welfare reform program, which critics argued was designed to cut benefits to recipients, members of the California Welfare Rights Organization attempted to present Reagan with the "highest paid welfare recipient award" to sarcastically signify that Reagan was, as one of the protesters put it, "one of us – the truly needy." Though Reagan engaged in a "shouting match" with the protestors, as the *Los Angeles Times* put it, the governor claimed afterward that he was not "upset." Like the CWRO, a group of Fresno State College students held a mock canned food drive for Reagan to help the governor through his "hard times."[222] Democratic State Senator Nicholas Petris agreed that tax loopholes were simply a different form of welfare. "It's exactly the same thing," Petris said, except the governor's situation applies to people at the top of the income level and welfare applies to those at the bottom." But, Petris argued, the real issue was not Reagan's use of the loopholes, but that they existed in the first place.[223] Indeed, many on the left pointed to Reagan's tax-free riches as proof that tax reform was very much an unfinished deed. As RFK and McGovern adviser Frank Mankiewicz argued in an editorial co-written with Tom Braden, "The lesson [to be drawn from Reagan's returns] is that the rich often do not pay taxes and that Reagan paid no tax only because he is rich," Mankiewicz and Tom Braden wrote. "The lesson is that our tax laws are designed almost solely for the rich." When Reagan and his office referenced "businesses reverses," Mankiewicz and Braden predicted in May, "it is a safe bet that what he was really talking about

[222] "Demonstrators Heckle Reagan During Speech," *The Day*, May 25, 1971; "Gov. Reagan Winner of Highest Paid Welfare Recipient Award," *Gadsden Times*, May 25, 1972; "Reagan Winner of High Paid Welfare Prize," *Lawrence Journal-World*, May 25, 1971; "Reagan, Welfare Recipients Clash," *Los Angeles Times*, May 25, 1971; "Students Start Reagan Aid Drive," *Los Angeles Times*, May 8, 1971
[223] "'Bad Loopholes' Blamed for Reagan's Tax Escape," *Desert Sun*, May 6, 1971

were the paper reverses that abound in the tax field, artificially created expenses and deductions which cancel out income and profits on the books, while leaving sizable income 'sheltered.'"[224]

For their part, conservatives leapt to Reagan's defense. Many attempted to focus discussion the leak, but some also argued that there was nothing wrong with Reagan's low, or nonexistent, level of taxation. Putnam Livermore, the chair of the California GOP's central committee, denounced critic's "outpouring of demagoguery and self-righteousness" over Reagan's taxes. "Many taxpayers, rich or poor, occasionally have years when they pay no taxes…," Livermore said.[225] The founder of the conservative *National Review*, William F. Buckley, Jr., took to his "On the Right" syndicated column to defend Reagan. Buckley mocked Californians who acted "gravely wounded" and "outraged" by Reagan's nonexistent taxes on his 40-plus thousand dollar income. Those offended, Buckley said, needed to be "instruct[ed] in the facts of life," which were that "one pays taxes according to whether one owes taxes." The public, Buckley said, should understand that Reagan paid taxes because he was rendered "less well off" by his "business losses." The governor, like any "rich man [who] pays no taxes" was actually a victim of "demagogy."[226] Reagan also came out swinging against his accusers. "I have never avoided taxes or failed to pay an income tax owed in my entire adult life," Reagan said. The real issue, Reagan argued, was the "invasion of privacy" involved in the leak of his tax return. Ratcheting the rhetoric up a level, Reagan declared, "We fought a war about that! I say all men

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[224] Frank Mankiewicz and Tom Braden, "Reagan Tax Lesson: The Rich Get Richer," *St. Petersburg Times*, May 21, 1971

[225] "Reagan Escapes State Income Tax," *Washington Post*, May 5, 1971; "California Seeks Leak of Reagan Tax Story," *Milwaukee Journal*, May 9, 1971; Jerry Gillam, "Younger Asked to Investigate News 'Leak' on Reagan Taxes," *Los Angeles Times*, May 8, 1971; "Taxes Should Hurt? Reagan Feels No Pain," *Desert Sun*, May 5, 1971; "Saddening Is the Word," *Daytona Beach Morning Journal*, May 8, 1971

[226] William F. Buckley, Jr., "Reagan and Taxes," *National Review*, June 1, 1971; William F. Buckley, Jr., "Governor Reagan and California Taxes," *Sarasota Herald Tribune*, May 12, 1971

have a right to be safe in their books and records. That's what the revolution was all about."[227] Reagan even attempted to make light of the situation. Running late for a speech at a high school in Loomis, California, the governor quipped to the adoring audience upon arrival, "Sorry to be late. I was having a consultation of my tax adviser."[228] But the story of Reagan's light tax bill dragged on into the summer of 1971, when news broke of exactly how Reagan had avoided taxes – revelation that tied into a larger story about the varied methods of tax avoidance available to the rich.

The details of the "business reverses" that allowed Reagan to avoid paying income taxes tied in with a longer history of one of the most notorious tax dodges in the U.S. tax system. In the summer of 1971, the *Sacramento Bee* and *New York Times* had uncovered records showing that Reagan, like many wealthy individuals, was engaged in what was known as "tax loss farming." [229] The California governor was a client of Oppenheimer Industries, a "cattle management" firm that made its wealthy clients cattle ranchers in absentia solely to allow them to claim the benefits of the preferential tax treatment accorded to cattle breeding herds. "This is strictly a tax dodge on their part," rancher Ivan Remely, who held cattle for Oppenheimer Clients on his Dillon, Montana, land, told the *New York Times*. Based in Kansas City, Missouri, with offices in major cities across the country, Oppenheimer only dealt with clients with a net worth of at least a half-million dollars, excluding their home, or have single-year earnings of more than $100,000. When a high-income client had a windfall, he or she could contract with a company like Oppenheimer to purchase, usually with borrowned money, a sizeable enough number of

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[227] "Reagan Paid No State Income Tax in '70, Got Federal Refund," *Los Angeles Times*, May 5, 1971; Jerry Gillam, "Younger Asked to Investigate News 'Leak' on Reagan Taxes," *Los Angeles Times*, May 8, 1971; Robert Fairbanks, "Reagan Paid No State Tax for Another Year, Reporter Claims," *Los Angeles Times*, June 4, 1971; Shana Alexander, "Art of Negative Politics," *Newsweek* (October 1973)
[228] "'Bad Loopholes' Blamed for Reagan's Tax Escape," *Desert Sun*, May 6, 1971
[229] Wallace Turner, "Reagan May Have Found a Tax Shelter in Cattle Breeding Herds," *New York Times*, June 13, 1971; "Reagan Client of Firm Offering Tax Benefits," *Eugene Register-Guard*, June 13, 1971

cattle – often indirectly, via shares in the company – to offset his or her tax liability. This scheme worked because the favorable deductions allowed for cattle purchases in the IRS code, including depreciation of half the value of the cattle over the first two years of ownership, Oppenheimer's fees, and interest on money borrowed to purchase the cattle, as well as the costs of caring of the cattle, such as feed and veterinary care. When the cattle were sold later, generally in two to five years, the rich client could recoup the money her or she had invested, but this time it would be subject to the lower capital gains rate.[230] "Federal tax laws favor cattle if you pick the right kind and stick to the rules…," an Oppenheimer brochure read. "When you buy them, you become a farmer and you can keep your books on a cash basis. You put in dollars that depreciation or are deductible. You take out capital gains." Oppenheimer's clients need not know the first thing about cattle, see their cattle, or even know where in the country they were located. Oppenheimer steered most of its clients towards "breeding" contracts, rather than risker "feeder contracts" (cattle raised for beef). "This ['feeder']," the company's founder proudly told *Time* magazine, "is where the tax play is."[231] In order to mitigate risk, Oppenheimer spread a single client's cattle at ranches across the country. "[I]f an investor gets hit by a drought in New Mexico," an Oppenheimer spokesperson told the *Wall Street Journal*, "he's unlikely to get hit by a blizzard in Montana, too."[232] Owned in name only, one client's cattle were distinguished from others' – or from non-tax dodge cattle – only by a brand with one of Oppenheimer's logos and the name of the particular wealthy client's cattle concern – "Reagan Cattle Co.," in the governor's case.[233]

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[230] Wallace Turner, "Reagan May Have Found a Tax Shelter in Cattle Breeding Herds," *New York Times*, June 13, 1971; "Reagan Client of Firm Offering Tax Benefits," *Eugene Register-Guard*, June 13, 1971
[231] "The Bonaparte of Beef," *Time*, August 30, 1968
[232] Ronald Buel, "City Cowboys," *Wall Street Journal*, March 19, 1969
[233] Wallace Turner, "Reagan May Have Found a Tax Shelter in Cattle Breeding Herds," *New York Times*, June 13, 1971; "Reagan Client of Firm Offering Tax Benefits," *Eugene Register-Guard*, June 13, 1971

Reagan moved quickly to mitigate the damaging effects of the Oppenheimer revelation. Shortly after the story broke, the governor's office released a statement, ostensibly from Reagan, that attempted to spin the governor's tax-dodge cattle investment as a more genuine interest, fitting with the rugged, outdoorsman image the former actor had always tried to project. It read, "I have been interested in cattle, horses, and ranches all my life. It is an ordinary part of my business, and I intend to continue with it even though it is a relatively small investment."[234] Reagan's attempts to turn the issue around on his critics and, more importantly, a little luck, helped mitigate the scandal's effect on his political career. Just as the real details of Reagan's zero taxes came to light, the *New York Times* ran the "Pentagon Papers," relegating the front page-worthy inside story of the governor's tax dodge to deep inside the paper.[235]

Tax-loss cattle farming, however, remained in the news throughout the 1970s. The practice had first caught press attention in the early-1960s, when some left-leaning Democrats pushed, unsuccessfully, for limiting the tax benefits of cattle during the debates over the JFK tax cuts. The industry's growing titans, like Oppenheimer, defended their business using language common to so many loophole beneficiaries. In 1961's *Cowboy Arithmetic* book, Oppenheimer dismissed claims that there was something wrong with what he was doing. "While the term 'tax loophole' or 'tax gimmick' is occasionally applied to cattle, this is definitely not the case," Oppenheimer wrote. "The special provisions were purposefully put into the law, after long study…."[236] Under questioning by the Ways and Means Committee in 1963, Oppenheimer said he was "not sure what the term 'legitimate rancher' means." Later, he amended his answer, simply stating that a "legitimate rancher" should simply be considered "one who is operating in

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[234] Wallace Turner, "Reagan May Have Found a Tax Shelter in Cattle Breeding Herds," *New York Times*, June 13, 1971; "Reagan Client of Firm Offering Tax Benefits," *Eugene Register-Guard*, June 13, 1971; H. J. Maidenberg, "Some Investors Turn to Stakes in Farming," *New York Times*, May 5, 1968
[235] Edmund Morris, *Dutch: A Memoir of Ronald Reagan* (Random House, 2011), 375.
[236] Harold L. Oppenheimer, *Cowboy Arithmetic: Cattle as an Investment* (Interstate Printers and Publishers, 1961).

according with the laws and the statutes." "Another definition," Oppenheimer added sarcastically, "could be that 'a legitimate rancher is one whose mother and father were married.'"[237]

Legitimate farmers and ranchers, however, saw things quite differently. "If his [the cattle owner's] sole purpose is to produce a loss, deductible against his 91 percent income [tax rat] to be recouped eventually with a 25 percent capital gain, we feel that is an abuse," Stephen H. Hart of the National Livestock Tax Committee, an umbrella group representing a variety of livestock associations, told Congress in 1963. "A great majority of my industry, I think would feel that money which is purely tax motivated has done harm because it has artificially inflated prices to where the return on the investment is reduced, to where the ability to continue in the business has decreased."[238] "Because of the tax loss gimmick," the vice president of the National Farmers Union told Congress in 1968, "they can operate at a loss, flood the markets at a loss for long enough to drive family farmers out of production."[239] A 1969 article in *Successful Farming* denounced the practice. It recounted a cattle farmer's reaction to hearing a speech by a pitchman for tax-loss farming explaining how one investor saved over $19,000 in taxes from his investment. "And why in the blanket-blank can't we ranchers make that much?" the exasperated rancher asked.[240]

Keeping with the Kennedy-Johnson era's focus on fiscalist growth, rather than distributionist reform, Congress did little to address the tax-loss farming loophole. In 1965, 119 millionaires reported involvement in farming. Of those, 104 reported a net loss on their taxes. As

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[237] Committee on Ways and Means, U.S. House, *President's 1963 Tax Message*, Part 3 February 26, March 4-8, 11, and 12, 1963 (GPO, 1963)

[238] Robert D. Hershey, Jr., "Tax Law Fattens Profit in Cattle," *New York Times*, December 5, 1965; Committee on Ways and Means, U.S. House, *President's 1963 Tax Message*, Part 3 February 26, March 4-8, 11, and 12, 1963 (GPO, 1963)

[239] Subcommittee on Monopoly, U.S. Senate, *Corporation Farming*, May 20-21, July 22, 1968 (GPO 1968)

[240] Richard Krumme, "Let's Stop Tax-Dodge Farming!" *Successful Farmer* (February 1969)

one moved down the income scale, fewer and fewer individuals involved in farming reported net losses, and more and more reported gains. By the $15,000 to $20,000 group, fewer than half of those in farming reported losses on their tax returns.[241] Using 1966 IRS data, *Successful Farming* magazine found that, of the 1,435 individuals who grossed more than $200,000 from farming in 1966, only 251 made a profit. "In other words," the magazine reported, "82.5% of these high-income citizens were engaged in tax loss farming."[242] In its 1969 study on the "Impact of Corporate Farming on Small Business," the Senate Select Committee on Small Business found that "Federal tax policy is one of the main determining factors, if not he most important" in attracting "corporation and other nonfarm investors into agriculture." Most actual farmers made "some use" of "capital gains and depreciation provision." However, these farmers "normally have little or no taxable nonfarm income against which to offset farming losses." Moreover, actual farmers were concerned with maximizing income, in any form, not about artificially generating losses and structuring any income as capital gains only. "The tax loss advantage, therefore, accrues almost entirely to outside investors…," the study concluded. "Widespread incidence of 'tax loss farming' was clearly shown…."[243]

With Congress seemingly unwilling to act to close the loophole, new tax loss farming companies sprang up each year, and the firms, both new and old, became more brazen in touting their con. In a *Wall Street Journal* advertisement touting the sale of limited partnership units Oppenheimer Industries, the New York Securities Co., openly explained the Oppenheimer as "a tax shelter for investors in high brackets."[244] Likewise, the assistant to the chair of Black Watch

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[241] Subcommittee on Monopoly, U.S. Senate, *Impact of Corporation Farming on Small Business*,(GPO December 20, 1969)
[242] Richard Krumme, "Let's Stop Tax-Dodge Farming!" *Successful Farmer* (February 1969)
[243] Subcommittee on Monopoly, U.S. Senate, *Impact of Corporation Farming on Small Business*,(GPO December 20, 1969)
[244] "Commercial Cattle Company," *Wall Street Journal*, December 1, 1970

Farms, another of the many firms jumping into the industry, told the *Wall Street Journal* forthrightly, "Investment in cattle is a tax shelter."[245] Another firm, Modern Dairy Farms, Inc., saw its investors grow from 35 to 120 in just two years.[246] Often, these tax-loss farming firm's connection to actual farming was tenuous, at best. The vice president of Computer Sciences Corp., Vincent R. Grillo, Jr. founded Mountain Shadows Ranch as a deliberate tax dodge for the $390,000 in ordinary income he made in computersThe "ranch," Grillo bragged, was "a corporation and a concept, not a place." After successfully sheltering his own income on the "ranch," Grillo opened it to other high-income individuals in similar circumstances.[247] Likewise, Chateau Briand Ranches was started in 1968 by a 27-year-old MIT graduate in the computer businesses looking for a way to diversify his interests.[248] By the late-1960s, high income Americans had their choice of an expanding number of tax-loss farming firms. Moreover, the risk continued to decrease. As tax-loss cattle ranching grew in popularity, many of the cattle management companies' contracts also insured clients against losses that exceeded a prescribed amount, usually three to ten percent, ensuring that the tax savings always greatly outweighed the risks.[249]

Oppenheimer Industries remained the biggest fish in the rapidly expanding sea of tax-loss farming, however. As the 1960s wore on, the company and its founder, Harold L. Oppenheimer, became more brazen. In 1968 profile, *Time* called Oppenheimer, a 47-former WWII Marine, the "Bonaparte of Beef."[250] By that year, Oppenheimer's company controlled 220,000 head of cattle

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[245] "Black Watch Farms Bids for Protection Under Bankrupcy Law," *Wall Street Journal*, September 8, 1970
[246] Ronald Buel, "City Cowboys," *Wall Street Journal*, March 19, 1969
[247] Peter Barnes: The Farmer-Doctors," *New Republic* (September 2, 1971)
[248] Dana L. Thomas, "The Last Roundup?" *Barron's*, October 6, 1969
[249] Ronald Buel, "City Cowboys," *Wall Street Journal*, March 19, 1969
[250] "The Bonaparte of Beef," *Time*, August 30, 1968

on 100 ranches in 17 states.[251] After returning from the war, Oppenheimer had run his family's small auto agency, real estate, and loan businesses after leaving the service. His introduction to tax-loss farming came in 1953, when Oppenheimer's rich stepfather, Jules Stein, the founder of MCA studios, asked Oppenheimer to purchase land and cattle for use as a tax shelter.[252] It was through Stein that Reagan put his trust, and his money, in Oppenheimer's company. In the early 1950s, Reagan had been instrumental in securing a waiver from the Screen Actors Guild to allow MCA to expand into producing television shows. From there, Stein became one of Reagan's most ardent supporters. In the view of many, Stein was the Svengali behind Reagan's political success. Indeed, novelist Henry Denker's 1973 work, *The Kingmaker*, was a thinly disguised roman à clef about Stein and Reagan's relationship. When Reagan sold part of his his Yearling Row Ranch in the Malibu Mountains to 20th Century Fox for $1.9 million in 1966, Stein helped the aspiring politician handle the windfall. In ridding himself of 36 acres of the ranch, Reagan was shedding what was widely viewed as little more than a tax shelter, given Yearling Row's low assessment and unsuitability for cattle grazing. The sale to 20th Century Fox proved controversial, given that the company paid Reagan 30 times his purchase price and far more than its assessed value. Indeed, just after Reagan sold the land, a high school government and economics teacher challenged Yearling Row's low assessment. The appeals board sided with the teacher and, eventually, the California Supreme Court doubled the assessment on Reagan and 20th Century Fox's land. Still, the assessment was much lower than Fox's purchase price, and during Reagan's last year as governor, Fox sold the land to the California State Parks and Recreations Board for one-fourth the price it had given Reagan six years earlier. So, selling part of his ranch and, at Stein's advice, in Oppenheimer, Reagan was trading one tax controversy for

[251] "The Bonaparte of Beef," *Time*, August 30, 1968
[252] "The Bonaparte of Beef," *Time*, August 30, 1968

another.[253] For the most part, Reagan was able to sweep these tax scandals away, and the California governor avoided the potential financial pitfalls of pursuing the tax-loss farming tax dodge. Others were not so lucky.

Despite guarantees of riches, some tax-loss farming firms were poorly run. Black Watch, the firm that had bragged that it was in the "tax shelter" to the *Wall Street Journal*, declared bankruptcy in 1970. Black Watch's action comically sent confused coastal capitalist searching the Great Plains for the cows they had never seen, even though they had written them off on their taxes. The company's clients included singer Connie Francis and Peter Revson, the son of Revlon's founder, as well as countless high-income professionals, like doctors and lawyers. Until the bankruptcy, dealing with actual cattle was not part of the deal, as far as most Black Watch investors had understood it. "I made a lot of money in the brokerage business. I needed a tax shelter. I heart cattle was a good investment," one anonymous Black Watch investor told the *Wall Street Journal*. "I don't know a damn thing about cattle…. And look what happened [the Black Watch bankruptcy]. It's a lesson."[254] When Black Watch went belly-up, this tax-dodge seeking investors had to hire hundreds of lawyers to represent them at the company's bankruptcy hearings. The ranchers contracted to take care of the company's cattle were no longer getting paid, and they demanded that Black Watch, or its investors, take the cattle off their hands. But sorting out the details proved difficult. "A typical herd owner might have two of his cows at Trails End Ranch near Hillside, Colorado, four cows at Angus Valley Farms near Stillwater,

[253] "Reagan Paid No State Income Tax in '70, Got Federal Refund," *Los Angeles Times*, May 5, 1971; Howard Kohn and Lowell Bergman, "Ronald Reagan's Millions," *Rolling Stone* (August 26, 1976); Gus Russo, *Supermob: How Sidney Korshak and His Criminal Associates Became America's Hidden Power Brokers* (Bloomsbury, 2006), 308-309; Jeff Madrick, *Age of Greed: The Triumph of Finance and the Decline of America, 1970 to the Present* (Vintage, 2012), 119-120; Edmund Morris, *Dutch: A Memoir of Ronald Reagan* (Random House, 2011), 375.
[254] Stanley Penn, "Investors In Cattle Find they Have More than a Tax Saving," *Wall Street Journal*, September 21, 1970

Oklahoma, and 40 more strung from Wyoming to Florida," *Farm Journal* reported.[255] Black Watch tried to blame the TRA69, which limited write-offs against nonfarm losses to $25,000 a year and required owners to hold cattle for two years in order to qualify for the capital gains rate, for its bankruptcy. However, Black Watch, as both *Farm Journal* and the *Wall Street Journal* reported, was simply grossly mismanaged, a fact obvious to farmers, but unseen to the gullible investors to whom the company promised low-tax riches.[256]

Despite its billing as a sweeping reform measure, the Tax Reform Act of 1969 did little to stem most loopholes, including tax-loss farming.[257] A 1971 *New York Times* study found that three out of every four individuals with an income of over $100,000 was "involved in farming in some way, most of them reporting agricultural losses that can be written off against taxes on nonfarm income."[258] In 1974, economists at the Department of Agriculture conducted a study into farm losses on tax returns. Using 1970 tax data, the study found that more than 90 percent of returns showing farm losses had losses of less than $5,000. Only about three percent of those reporting farm losses had losses exceeding $10,000. These individuals reaped a disproportionate share of the total tax expenditures for farm losses, however. Those with losses exceeding $25,000, despite their small numbers, claimed over 17 percent of all farm losses. Not coincidentally, these were the people with high income from other sources. "The higher the basic

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[255] Jerry Carlson, "What Happens When A Tax Shelter Caves in on City 'Farmers,'" *Farm Journal* (November 1970)

[256] Jerry Carlson, "What Happens When A Tax Shelter Caves in on City 'Farmers,'" *Farm Journal* (November 1970); Stanley Penn, "Six Months After Collapse of Tax Shelter Investors Are Groggy But Cows Are Fine," *Wall Street Journal*, April 6, 1971; Stanley Penn, "Cow Row" How Breeding Venture Met Disappointing End After Fast Expansion," *Wall Street Journal*, November 26, 1971; Stanley Penn, "Cow Row: Founder of Black Watch Farms, Jack R. Dick, Lived Lavishly; But Now the Parties Are Over," *Wall Street Journal*, November 29, 1971

[257] Myron Greenberg, "Cattle and Taxes Under the 1969 Tax Reform Act," *UCLA Law Review* 17 (1970); Hugh B. Muir, "Tax Advantage in Farming Before and After the Tax Reform Act of 1969: How Much Reform?" *New Mexico Law Review* 1 (January 1971); Hoy F. Carman, "Tax Loss Agricultural Investments after Tax Reform," *American Journal of Agricultural Economics* 54:4 (November 1972)

[258] B. Drummond Ayres, Jr., "Rise of Corproate Farming A Worry to Rural America," *New York Times*, December 5, 1971

income, the more frequent became the reported farm losses," the Agriculture study found. Many of the individuals with large nonfarm incomes and large farm losses were concentrated in a few geographic areas, especially New York and New Jersey, according to the study. While most taxpayers reporting farm losses were legitimate farmers, many of these individuals with high nonfarm incomes were "probably motivated more by tax than real economic considerations." Simply put, they were "seeking tax shelters." Relatively few legitimate farmers would and ranchers would be hurt by further limiting the amount of farm losses deductible against nonfarm income, the Department of Agriculture concluded, but such limitations would catch a substantial portion of those simply seeking a tax dodge. "Limiting farm loss to $10,000 would have affected 3.3 percent of individuals who reported a farm loss in 1970, increasing their income tax liability by 63 percent and resulting in an additional $258 million in federal tax revenue," the report found.[259]

By the mid-1970s, tax-loss farming had become an almost comically well-known loophole. Covering the growth of tax-loss cattle farming, the *Wall Street Journal* penned a parody of the 1930s tune "I'm an Old Cowhand from the Rio Grande" that read, "I'm a rich cowhand, of the Wall Street Brank/And I save on tax, to beat the band/Oh I take big deductions the law allows/And I never eve have to see my cows/Yippee-i-o-ki-ay!"[260] In addition to Reagan, the press reported that celebrities and athletes like Jack Benny, Alfred Hitchcock, Richard Widmark, Jack Nicklaus, and Gary Player were all clients of Oppenheimer Industries.[261] Other famous tax-loss cattle ranchers included Leonard Bernstein, Jerry Lewis, Anna Maria

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[259] Economic Research Service, U.S. Department of Agriculture, *Tax Loss Farming* (GPO April 1974); "'Tax-Loss Farming Is a Profitable Loophole," *Los Angeles Times*, May 12, 1974
[260] Ronald Buel, "City Cowboys," *Wall Street Journal*, March 19, 1969
[261] Wallace Turner, "Reagan May Have Found a Tax Shelter in Cattle Breeding Herds," *New York Times*, June 13, 1971; "Reagan Client of Firm Offering Tax Benefits," *Eugene Register-Guard*, June 13, 1971

Alberghetti, Robert Lehman, Joane Fontaine, and Woody Allen.[262] Other forms of farm-loss tax dodges, like citrus or almonds, attracted wealthy clients, too. Nor were such shelters limited to celebrities. "[D]octors, dentists, entertainers, lawyers, and corporate executives," as one Boston College proferssor of law put, could be counted among the ranks of "IRS Farmers."[263]

As with many of the issues that concerned both average Americans and left-distributionist reformers, it remained to be seen, as Gerald Ford took office, whether the mid-to-late 1970s would see Congress finally act to close the tax-loss farming loophole. Policymakers throughout the government also would need to grapple with both the continual rise of inflation and a steadily-climbing unemployment rate – a combination that made undeniable the existence of the vexing problem of "stagflation." The fate of tax reform would be placed in in the hands of an unelected GOP president and a Congress increasingly dominated by a very different type of Democrat.

The 1974 Midterms and the Birth of the "New Democrats"

Just two years after enduring one of the most sweeping landslides in U.S. presidential history, the Watergate scandal and President Richard Nixon's resignation seemed to give the Democratic Party new political life. The 1974 midterms, falling less than a week shy of the three month anniversary of Nixon's resignation, saw Democrats pick up four governorships, four Senate seats, and a whopping 43 House seats. In the House, the Democrats also had a veto-proof

[262] Robert D. Hershey, Jr., "Tax Law Fattens Profit in Cattle," *New York Times*, December 5, 1965; "The Bonaparte of Beef," *Time*, August 30, 1968; Jeanne Webber, "This Way to the Tax Shelter," *New York*, February 17, 1969
[263] Committee on Ways and Means, U.S. House, *Tax Reform*, Part 2 of 5, July 8-11, 14-16, 18, 21-25, 28-31, 1975 (GPO 1975)

majority. In the Senate, Democrats needed to attract only a few liberal Republicans to override the White House.[264]

Democrats now found itself in a position of unquestionable power and influence, even with a Republican in the White House. But with that influence came the expectation of action. As Hubert Humphrey succinctly put it after the midterm sweep, "Democrats beware. Now you have to deliver."[265] On that count, the new crop of Democrats would fail. Differing interpretations of the 1974 mandate, conflicting explanations for McGovern's defeat, and debates about the party's future gripped the Democratic Party in the years the followed, undermining unified approaches to nearly all policy issues. When it came to taxes, this intraparty battle for the soul of the Democrats would see the left-distributionist reformism of both McGovern and the grassroots left supplanted by the JFK-inspired fiscalism embraced by the new generation of Democrats who would eventually come to be known as "New Democrats," "Atari Democrats," or "Neoliberals." In 1974, though, they were given a different name – the "Watergate Babies."

Rather than "Watergate Babies," though, the 1974 election class should really have been dubbed "Stagflation Babies." By election day 1974, Watergate and trust in government had receded to a decidedly minor concern for Americans, according to polls. Instead, better than two-thirds of Americans listed economic issues as both their top personal concern and the biggest issue facing the country. In the press, this was often reported as "inflation." However, in reality, it was a mélange of topics that could broadly be construed as pocketbook or cost-of-living issues. In the Gallup poll, respondents who offered a variety of pocketbook problems as the "most important problem facing this country today" were lumped into the "High cost of living/Taxes/High prices/Economic situation/Price freeze/high cost of gas" category, which, by

[264] "1973-1975: The Ninety-Third Congress," *Congressional Quarterly Guide to U.S. Elections* 6:1 (2010)
[265] Joseph Kraft, "Democrats on the Hook; Parties' Image Erodies," *Los Angeles Times*, November 10, 1974

late-1974, included between 60 and 75 percent of Americans.[266] As David Broder put it succinctly, "The major issue in almost every state is the economy… Democrats are benefitting from the public's pocketbook problems."[267] The *New York Times* likewise took note of the predominance of pocketbook issues in the 1974 midterms, ascribing their dominance to the Democratic Party's ability to reclaim states and districts, particularly in the South, where decisive racial and cultural issues had – in the view of commentators like Kevin Phillips and Ben Wattenberg and Richard M. Scammon – begun costing Democrats elections in the mid-1960s. "Several Democrats took advantage of the economic concerns to put together coalitions of black and white voters based on populist and blue-collar appeals," the *Times* reported the day after the midterms. With the weight of "economic distress," the paper continued, whites could no longer "afford the luxury of anger at blacks."[268]

Indeed, political experts on both sides of the aisle had been predicting this very outcome. By late-1973, pollsters from George Gallup to Republican Robert Teeter to Democrat Pat Cadell were predicting that Nixon's "New Majority" of blue-collar "ethnics" wsd already drifting back to the Democrats, thanks to both Watergate and the flagging economy. Nixon's triumph, it seemed, was evanescent. "They want to take it out on the Republicans wherever they can lay their hands on them," Gallup told the *Washington Post* in December 1973.[269] However, any swing was tenuous. Many of these "New Majority" voters were simply waiting for one party to prove itself in addressing the pocketbook squeeze. Gallup reported in late-1973 that, even as perspective voters were indicating that they planned to vote for the Democrats in the upcoming

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[266] Author's analyses of ANES data; Gallup, October 11 - October 14, 1974 , Roper iPoll Databank [USGALLUP.916.Q007A]; Gallup, September 27 - September 30, 1974, Roper iPoll Databank [USGALLUP.915.Q010A]; Gallup, August 16 - August 19, 1974, Roper iPoll Databank [USGALLUP.913.Q10A]
[267] David Broder, "Election '74: The Year of the Democrats," *Washington Post*, October 6, 1974
[268] Roy Reed, "The South: GOP Is Set Back in Region as the Democrats Stress Economic Issues," *New York Times*, November 7, 1974
[269] Lou Cannon, "'New Majority' Seen Drifting to Democrats," *Washington Post*, December 2, 1973

midterms, they nonetheless were not identifying as Democrats. “The results indicate that in terms of party affiliation, the Democratic Party thus far has been unable to capitalize on either Watergate or on widespread discontent over the cost of living.” Democrats had, in fact, seen their party affiliation drop from 53 percent to 43 percent over the previous ten years, though they still bested the GOP, who held steady at a quarter of Americans.[270] But continued drift away from Democrats would pose long-term problems for the party. Only successful action would lead to a shift in identification. Nixon, with the help of Arthur Burns and well-timed wage-price controls, had created a booming economy in 1972, all while promising to address the root causes of the tax revolt. By 1974, however, the rising taxes on low- and middle-income Americans remained unaddressed and stagflation gripped the economy.

The effects of economic hardship manifested themselves at the polls, both in terms of the decision of whom to vote for, as well as whether to vote at all. More than 40 percent of Americans in 1974 said that they were worse off financially than in 1973, continuing a rising trend of increased dissatisfaction of Americans' with the state of their pocketbooks since the 1960s. As in nearly all years, the lower one's income in 1974, the more dissatisfied she or he was with her or his finances. Nearly half of the poorest Americans said they were worse off than in 1973. However, the biggest net gains in dissatisfaction occurred in the middle- and upper-income brackets. By the mid-1970s, the pocketbook squeeze that had plagued poor and working-class Americans even in the heady economy of the 1960s spread up the income ladder, at least to some extent.[271] One striking feature of the 1974 elections, however, was low turnout, even by midterm

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[270] David Broder, “Democrats' Zero Population Growth,” *Los Angeles Times*, September 17, 1973

[271] Author's analyses of ANES data. See also Edward Tufte, “Determinants of the Outcomes of Midterm Congressional Elections,” *American Political Science Review* 69:3 (September 1975); M. Stephen Weatherford, “Economic Voting and the ‘Symbolic Politics' Argument: A Reinterpretation and Synthesis,” *American Political Science Review* 77:1 (March 1983). For another perspective that stresses voters' weighing national, rather than personal, finances, see: Donald R. Kinder and D. Roderick Kiewiet, “Economic Discontent and Political Behavior:

standards.[272] In the 1974 midterms, those experiencing financial hardship – the unemployed and those with lower incomes – were much less likely to vote. As one study found, "compared to those with a median house hold income, people making less than $2,000 a year are 9 percent less likely to vote; people with an income $2,000 to $3,999 are about 5 percent less likely to vote; and people with household incomes of $4,000 to $7,499 are 4 percent less likely to vote." The 1974 midterms were, in this sense, an extreme illustration of a general trend in turnout.[273] One of the midterm's most striking features, then, was that pocketbook issues dominated the election even though many of the most economically squeezed stayed home. Based on the economic unease felt even by onetime "Silent Majority" middle-class voters, the Democrats made notable inroads into the suburbs. "In many cases the suburban districts that went Democratic contained thousands of former Democrats who left their party behind as they became prosperous enough to move outside the city limits," *Congressional Quarterly* noted. These suburban voters often had become nominal independents and were adept at ticket splitting. In 1974, these independents broke for Democrats, thanks as much to Watergate as to stagflation and the continued tax revolt. "The new suburban middle class had been hard hit by recession and inflation, and Republicans may have paid the price," *CQ* concluded.[274]

The question of whether the new Democratic majority could "deliver," as Hubert Humphrey put it, hung over the party as it took office in 1975. If the Democrats failed to address the pocketbook squeeze generated by these intertwined issues, there was good reason to believe that the "New Majority" voters would just as swiftly reject the Democratic Party as they had

The Role of Personal Grievances and Collective Economic Judgments in Congressional Voting," *American Journal of Political Science* 23:3 (August 1979)

[272] FEC, National Voter Turnout in Federal Elections: 1960-1996 (http://www.fec.gov/pages/htmlto5.htm)

[273] Steven J. Rosenstone, "Economic Adversity and Voter Turnout," *American Journal of Political Science* 26:1 (February 1982)

[274] "1973-1975: The Ninety-Third Congress," *Congressional Quarterly Guide to U.S. Elections* 6:1 (2010)

Nixon and the GOP. Given its status in the 1972 presidential election, tax reform stood as a key issue on which the Democrats could make good with voters. As the DNC's former communications director, John Stewart, put in mid-1974, "President Nixon has handed the Democrats an excellent chance for the balance of the '70s…. Whether the Democrats will capitalize on this opportunity, however, is not as clear." The "crucial period," Stewart argued, would occur after the Democrats' presumed sweep of the midterms. The key, he argued, would be to deliver results on key issues, including the pocketbook ones that had dominated local, state, and national politics for the past several years, Watergate notwithstanding. "The 1972 presidential primaries demonstrated the political appeal of tax reform when it is dramatized with flair and persistence," Stewart noted.[275] Liberal political columnist David Broder agreed. Tax reform had united the party in the 1972 elections, he noted. While certain obstacles, such as the possible resistance of Wilbur Mills and Rusell Long still plagued the party, taxes "may be the best place for Democrats around the country to learn what their party's policy is," Broder noted.[276]

Cynics, however, doubted that Democrats would use their new majority to deliver on past tax promises. "Full-scale tax reform is one of those things that never quite happens," the *Washington Post* noted early in 1973. Despite the dominance of tax reform as an issue in 1972, including Ways and Means' chair Wilbur Mills's proposal to close 54 loopholes, the paper still doubted that reformers would finally succeed. "The Hill's tax reformers are all dusting off their old proposals," the *Post* continued, making special note of reformers' desire to close the capital gains loophole.[277] Whether anything would come of those proposals remained to be seen. Some Democrats, at least, seemed optimistic. George McGovern, for one, began preparing a package

[275] John G. Stewart, "A Prescription for the Democrats," *Wall Street Journal*, July 1, 1974
[276] David Broder, "Democrats' Zero Population Growth," *Los Angeles Times*, September 17, 1973
[277] Peter Milius, "Tax Reform Appears a Sometime Thing," *Washington Post*, January 14, 1973

of reforms modeled on his 1972 platform.[278] The members of the new Democratic majority had different ideas, though.

The "Watergate Babies" were uniquely ill-equipped – and, in many ways, unwilling – to handle the pocketbook squeeze wrought by higher taxes and stagflation. Among the congressional majority taking office in January 1975 were 75 first-term Democrats. Running in 1974, most were not only able to present themselves as untainted by the kind of dirty politics represented by Watergate, but by politics, generally. Thirty-one of the 75 had never held elective office before, and many of the others had only held minor positions prior to entering the U.S. Congress. The story was much the same on the state level, too.[279] Having little previous political experience, the so-called Watergate Babies lacked knowledge of the type of transactional politics that held political coalitions together, but which was second-nature to Democrats who had risen through successive elective offices, working along the way with traditional Democratic interest groups, like labor unions, farm organizations, business, and community groups. "We don't have the local roots that some other have," Colorado's Timothy Wirth, a 35-year-old with an undergraduate degree from Harvard and a doctorate from Stanford, said of himself and most of the other freshman Democrats. [280]

Beyond simply lacking experience in this world, many of the Watergate Babies also held such wheeling, dealing politicking in contempt. Instead, many of the newly elected Democrats saw the old politics as symptomatic of the festering corruption that finally burst to the surface with Watergate. Broad national issues, not specific local or pocketbook issues, dominated their agendas. Not a single Democrat, the *Times* suggested, had won "because he promised a highway

[278] David Broder, "Democrats Tune up for Their Biennial Tax Reform Concert," *Boston Globe*, April 21, 1974
[279] Yanek Mieczkowski, *Gerald Ford and the Challenges of the 1970* (University Press of Kentucy, 2005), 62
[280] Majorie Hunter and David E. Rosenbaum, "Defeats Split Bitter House Democrats," *New York Times*, July 2, 1975; Randall Rothberg, *The Neo-Liberals* (Simon and Schuster, 1984)

through his district" or some similar concrete promise. Rather than make specific political promises important to local constituencies, most new Congressional representatives, the *New York Times* noted, shared a common vision. "The strongest bond between the freshmen is the fact that most of them were elected on similar platforms…," the paper noted. "[T]hey campaigned for clean and open government." The distance the class of 1974 exhibited from Democratic interest groups and the Democratic Party itself was, in fact, purposeful. The Watergate Babies were "entrepreneurial," as political scientist Burddett Loomis put it. "Their prevailing legislative philosophy emphasized problem solving by individual legislators," Loomis continued. "The new pols by and large developed into policy entrepreneurs who hooked their careers to ideas, issues, and problems-and prospective solutions," rather than parties or interest groups. Even partisanship itself seemed corrupt to some new members, who complained to the press that Democratic leadership was too partisan, too quick to attack the GOP.[281] "Party labels didn't matter…," Pennsylvania Representative Bob Edgar recalled of his 1974 campaign. "I never ran races from day one as Democratic versus Republican," he continued. "It was good government versus bad government. It was reasonable, rational, targeted, fiscally responsible, spend-the-dollars-well-and-wisely government," he concluded, adding, "It sounds very conservative."[282]

Indeed, these young Democrats saw politics very differently from their party elders. Generationally divorced from the New Deal, socially disconnected from organized labor, and politically distant from the grassroots left, many these new Democrats shared well-off, well-educated, suburban backgrounds. "We're not a bunch of little Hubert Humphreys," Colorado

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[281] Majorie Hunter and David E. Rosenbaum, "Defeats Split Bitter House Democrats," *New York Times*, July 2, 1975; Randall Rothberg, *The Neo-Liberals* (Simon and Schuster, 1984); William Schneider, "JFK'S Children: The Class of '74," *Atlantic* (March 1989)
[282] William Schneider, "JFK'S Children: The Class of '74," *Atlantic* (March 1989)

Senate candidate Gary Hart declared just before the 1974 midterms. Asked to clarify his comments later, Hart explained that his generation of Democrats "were not automatic regulators, new-agency creators, and higher-tax-and-spend people."[283] Needless to say, these "new Democrats" would not be pursuing sweeping new programs in the same way that New Deal and Great Society Democrats like Humphrey had. "We were not just marching forward with New Deal formulas for our answers," Oregon Representative Les AuCoin explained. By the time the 1974 midterms were in full swing, the rightward pivot of Democratic candidates, especially on economic issues, was unmistakable to most political observers.[284]

The Democrats drift away from distributionism towards a more moderate, business-friendly fiscalism began in the wake of McGovern's defeat. Democratic operatives, at least in some circles, attributed Nixon's sweeping victory not to a government-stoked economy, but to McGovern's supposedly radical stances, which many of these same party workers blamed on the influence of left-leaning activists. Viewed in this light, the Democrats' 1974 midterm victory was a fluke bestowed upon the party by Richard Nixon – hence the "Watergate Babies" terminology. Indeed, Gary Hart, who had served as McGovern's campaign manager, led the charge in defining McGovern's defeat. McGovern did not lose because of the supposed radicalism on social and cultural issues, Hart explained to the *Wall Street Journal* in October 1974. Rather, the Colorado candidate for U.S. Senate explained, McGovern's defeat was representative of a systemic flaw common to most Democrats: "the failure of the Democratic Party to evolve or articulate economic theory responsive to the needs of the latter part of the 20th century." The 1970s economy – and its voters – would not respond to "New Deal thinking," Hart

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[283] David Broder, "Big Majority of Big Spenders?" *Washington Post*, November 3, 1974; William Schneider, "JFK'S Children: The Class of '74," *Atlantic* (March 1989)
[284] David Broder, "Big Majority of Big Spenders?" *Washington Post*, November 3, 1974; William Schneider, "JFK'S Children: The Class of '74," *Atlantic* (March 1989)

counseled.[285] Acting on this analysis of McGovern's loss, Hart distanced himself from McGovern's 1972 policy proposals. Hart now told reporters that he was "disturbed" by the fact that many of McGovern's policy proposals "were traditional solutions that came out of the '60s, the '50s, and even the '40s" and claimed that he "kept complaining inside the campaign" about the lack of "new ideas or new concepts."[286] Such was Hart's move to the right that his GOP opponent in the 1974 Colorado senate rate, incumbent Peter Dominick, complained that Hard had "shifted his positions like a chameleon" and was now running "to the right of Attila the Hun."[287] Asked about his conservative shift, Hart argued, "I have not moved left or right, but I hope I have moved beyond some of the old liberal solutions that have been tried and failed." Just which liberal solutions had failed, Hart did not say, but his Senatorial campaign made clear that the frank redistributionism of George McGovern sat at the top of the list.[288] This diagnosis of McGovern's defeat ignored that the South Dakota senator had done about as well as most academic projections predicted. But few young Democrats in 1974 accepted that explanation.

Just as the "new" Democrats' interpretation of McGovern's 1972 defeat was misguided, so too was their understanding of the 1974 midterms. Despite the taint of Watergate, the Democrats did about as well as most political science models would have predicted, based on the state of the economy and Ford's popularity. Whatever temporary boost the GOP received from Ford's replacement of Nixon, the disastrous economy more than overwhelmed. Like most midterms, 1974 was a "referendum" on "the performance of the President and his

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[285] Norman C. Miller, "The Transformation of Gary Hart," *Wall Street Journal*, October 28, 1974
[286] "Sen. Hart Is a Success Despite McGovern Flop," *Chicago Tribune*, June 21, 1976
[287] Norman C. Miller, "The Transformation of Gary Hart," *Wall Street Journal*, October 28, 1974
[288] David Broder, "Big Majority of Big Spenders?" *Washington Post*, November 3, 1974; William Schneider, "JFK'S Children: The Class of '74," *Atlantic* (March 1989)

administration's management of the economy.[289] Nonetheless, many young Democrats continued to harbor the feeling that McGovernism and influence of interest groups on the party was to blame for Nixon's two victories. Acting off of this conviction that the party was becoming beholden to the left, former staffers of several unsuccessful Democratic presidential campaigns – mainly Muskie advisers, but also former workers from the Eugene McCarthy and McGovern campaigns, among others – came together in 1973 to form a new organization called the Democratic Forum.

The Forum's explicit purpose was to forge a new direction for the Democratic Party in the wake of the Nixon landslide. Key organizers included Mike Barnes (Muskie), Keith Haller (Muskie), Jessica Tuchman Matthews (McCarthy), Lanny Davis (Muskie), Anne Wexler (McCarthy, Muskie, and, after Muskie's defeat, McGovern), and Ted Van Dyk (Humphrey and McGovern).[290] While the Democratic Forum ostensibly privileged no specific political agenda over others, it had a clear emphasis on shifting the party in a different direction than that embrace by McGovern. The Forum promised to "reappraise basic premises that have dominated Democratic Party thinking since the New Deal," as *Congressional Quarterly* put it.[291] While the Forum, in both its publications and meetings, would feature contributions from unionists, Naderites, and others on the left, the unmistakable idea advocated with its founders was that the part needed to break away traditional Democratic constituent groups. Visiting a meeting of the Forum's leaders, political columnist David Broder sensed that its leaders had a "shared

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[289] Edward Tufte, "Determinants of the Outcomes of Midterm Congressional Elections," *American Political Science Review* 69:3 (September 1975). See also Robert S. Erikson, "The Puzzle of Midterm Loss," *Journal of Politics* 50:4 (November 1988); Eric M. Uslaner and M. Margaret Conway, "The Responsible Congressional Electorate: Watergate, the Economy, and Vote Choice in 1974," American Political Science Review 79:3 (September 1985)
[290] Interview with Mike Barnes by Don Nicoll, April 11, 2001, EMP, BCASC; Ted Van Dyk, *Heroes, Hacks and Fools: Memoirs from the Political Inside* (University of Washington, 2007), 154-155, 183-185
[291] Caroline Arden, *Getting the Donkey Out of the Ditch: The Democratic Party in Search of Itself* (Greenwood, 1984), 121

frustration with the intellectual and political rigidity of their party."[292] Its leaders shared that assessment. "[The Forum's purpose was] to debate the traditional premises that had underpinned the party – no holds barred…[and] unfettered by the immediacy of elections and interest-group demands," Haller recalled later.[293] There was no mistaking the fact that, by "interest group demands," the Democratic Forum's leaders generally meant the labor unions and the grassroots groups who advocated for downward redistribution.

A November 1975 Forum conference in Louisville, Kentucky, dubbed the "National Democratic Issues Conference" illustrated the boldness – and contentiousness – of the Democratic Forum's project. The purpose of the conference, according to the Forum was, to devise ways that the Democrats could "go beyond the New Deal and the Cold War."[294] By 1975, the Forum, as journalist David Broder reported from the convention, was comprised of primarily white "young Democratic lawyers, economists, and writers."[295] The conference attendees, according to a survey of its 644 delegates by pollster Peter Hart, were decidely "not a national-cross section." Instead, "their median age was 36…their median income of $20,000 was high by national standards; their education level, one would guess, was even higher…[and] [o]nly one in five was a union member."[296]

If the "beyond the New Deal" theme of the convention did not make the Forum's project clear enough, Ted Van Dyk – who, in his own words, was an "older generation mentor" to the Forum – circulated a discussion paper prior to the Louisville conference that called for a "New Democratic Agenda." Put succinctly, Van Dyk's called for Democrats to embrace an anti-"big government" politics of bureaucratic reorganization and public sector downsizing. Citing Daniel

[292] David S. Broder, "Filling the Democratic Policy Gap," *Washington Post*, February 13, 1974
[293] Julie Kosterlitz, "Democratic Party: On the Ropes?" *National Journal* (September 7, 2003)
[294] David Broder, "New Answers Asked of Party," *Washington Post*, Novemebr 22, 1975
[295] David Broder, "New Answers Asked of Party," *Washington Post*, Novemebr 22, 1975
[296] David Broder, "Can Democratic Party Avoid Another Civil War in '76?" *Boston Globe*, November 26, 1975

Patrick Moynihan’s charge that Democrats were only good at “throwing dollars after problems,” Van Dyk suggested both that the problems that had faced the country during the New Deal era had passed and that “recent presidential election experience, if nothing else, should now cause us to give them [traditional Democratic Party ‘premises’] serious reexamination.” McGovern lost, Van Dyk charged, because the public believed all he wanted to do was dispense money “to his own radic-lib, welfare-chiseling adherents.” New York City, teetering on the edge of bankruptcy, Van Dyk wrote, represented “the New Deal fulfilled.” He conceded that the New Deal ideology was not “solely” responsible for the city’s predicament, but Van Dyk nonetheless argued that the city’s swollen welfare rolls, its large population of “unskilled black and Spanish-speaking immigrants,” and the “unprecedented” strength of organized labor in the city all indisputably pushed New York into its current unenviable predicament. Just to make his point perfectly clear, Van Dyk added this evocative passage: “One has a vision of millions of American voters seated before a massive television screen. On the screen is portrayed New York City, inundated to the Empire State Building's 50th floor with uncollected garbage, picket signs, welfare recipients and protesting city employees. Standing astride it all, in a hovering cloud of pollution, are Humphrey, Ted Kennedy, Ed Muskie, and the ghost of Lyndon Johnson, all furiously signing new laws to create similar situations in the voters' own communities.” It was fitting, he concluded, that the Democratic National Convention would be held in NYC in 1976.[297]

Only a radical reorientation of the Democratic Party’s priorities could save it, in Van Dyk’s view. This meant abandoning away old ideas, old constituencies, and old experts. Van Dyk described the old guard of New Deal/Great Society Democratic advisers, like Wilbur Cohen and Sargent Shriver, as “huddled together for mutual support in academia and the Northeast

[297] Ted Van Dyk, “Fixing the Potholes: The Need for a New Democratic Agenda,” *National Democratic Issues Convention Program* (November 21-23, 1975)

corridor." Should another Democrat get elected and turn to them for advice, these advisers would simply advocate more tax-and-spend liberalism. They had confused the "means" with the "ends" of Democratic politics, Van Dyk charged. Praising Mayor Daley as a model, "whatever his other faults," Van Dyk argued that Democrats should shed larger goals and focus on "figuratively…[the] fixing governmental potholes" that New Deal/Great Society liberalism's "freewheeling cavalcade of progress has left in its wake." This meant cutting many of the programs and agencies that Democrats created. "The first 1,000 days of a new Democratic presidency could well be used to promulgate a new agenda," Van Dyk wrote, "concentrating on reorganization and management of the whole government process. Such an agenda would include a ruthless reexamination of every federally-funded and administered agency and program."[298]

Republicans, Van Dyk suggested, had the right idea when it cam to downsizing the federal government. While the Democrats had supported revenue sharing out of a belief in "tax progressivism," Van Dyk argued, it now seemed that conservatives' support for revenue sharing as a "disguised means of stopping the growth in federal grant programs" were the ones with the better motivation. Van Dyk even called for Democrats to embrace the suggestions of the Nixon-appointed Advisory Council on Executive Reorganization, which called for dismantling numerous departments, from Agriculture to HUD to HEW – proposals that went nowhere while Nixon was in office. Pursuing the type of vigorous reexamination and shrinkage of government Van Dyk suggested would involve taking an oppositional stance to the constituencies that had traditionally formed the Democratic base. No longer, Van Dyk argued, should labor unions be "exempt" from the scrutiny Democrats give to "private institutions such as corporations and

[298] Ted Van Dyk, "Fixing the Potholes: The Need for a New Democratic Agenda," *National Democratic Issues Convention Program* (November 21-23, 1975); David Broder, "Democratic Curbing of Government," *Washington Post*, October 1, 1975

banks." The assumption that unions were "acting on the average citizen's behalf" no longer held. "[W]e as a party no longer can reflexively endorse labor's program as our own," Van Dyk wrote.[299] (As if to emphasize the break from the New Deal's labor-liberalism, Van Dyk would travel to D.C. just after the Louisville convention in order to help the *Washington Post*'s management bust a strike by its reporters.)[300]

The message that the Democratic Party had to move on from its New Deal past – and, implicitly, move to the right, politically – was reiterated again and again at the Democratic Issues Convention. The Democratic Forum invited futurist Alvin Toffler (whom Van Dyk had quoted in his paper) to give the keynote address at the Louisville issues convention. Toffler surely did not disappoint those who wanted the party to break with the past when he advised Democrats to "throw out all that old New Deal claptrap."[301] Other speakers supported the message of Van Dyk and Toffler. For example, in a panel on public opinion, pollster Peter Hart declared, "Americans want change, and the Democratic Part cannot expect the voters to put Democrats back in office on the strength of a few newly warmed-over 1933 programs."[302] Likewise, economist Charles Schultze – who would go on to be Carter's CEA chair – told the Louisville convention that he believed Democrats should turn to tax or other financial incentives to get the private market to solve problems, rather than having the government address the issues itself.[303] Reporting on the Louisville convention, Alan Ehrenhalt, the editor of the *Congressional Quarterly* noted that it was "striking" to hear the young Democrats at the convention "talking about the New Deal not

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[299] Ted Van Dyk, "Fixing the Potholes: The Need for a New Democratic Agenda," *National Democratic Issues Convention Program* (November 21-23, 1975); David Broder, "Democratic Curbing of Government," *Washington Post*, October 1, 1975
[300] Ted Van Dyk, *Heroes, Hacks and Fools: Memoirs from the Political Inside* (University of Washington, 2007), 154-155, 183-185
[301] Alan Ehrenhalt, "Last Hurrahs for the New Deal," *Washington Monthly* (January 1976)
[302] R.W. Apple, Jr., "Pollsters Assay Issues for Democrats," *New York Times*, November 22, 1975; David Broder, "New Answers Asked of Party," *Washington Post*, Novemebr 22, 1975
[303] Alan Ehrenhalt, "Last Hurrahs for the New Deal," *Washington Monthly* (January 1976)

only as an anachronism but as a dangerous piece of ideological baggage the party will have to discard if it wants to win elections from now on." It was "surprising," Ehrenhalt noted, how quickly Democrats had come to embrace an anti-government outlook. "George Wallace should not be the only Democrat in next year's presidential primaries talking about big government," he concluded.[304]

Not everyone attendee at the Democratic Issues Convention proved to be pleased with the new direction advocated by many of its attendees, though. "[E]ven in its own terms," David Broder wrote, "the conference's purpose ran into an unexpectedly strong challenge from some participants." While the largely white, well-off organizers wanted to move "beyond the New Deal," Democrats from different background had other ideas. Speaking for the Congressional Black Caucus, Michigan Representative John Conyers called the Democratic Forum's conference "an utter fraud," since it dealt little with economic problems like unemployment, which Conyers said "must be the number one issues if we are going to get Democrats elected." Indeed, the CBC circulated a statement at the Louisville convention that pushed for a clear distributionist reading of the problems facing the country. "It is time to move toward fundamental structural changes in America," the statement argued. "It has become increasingly apparent that many groups in addition to blacks fail to receive a just share of the nation's wealth. We must openly, forcefully challenge and alter systems that benefit the wealthy first and best, and the majority least and last." The Democratic Party did not need to move beyond the New Deal and Great Society, the CBC argued, it needed to expand and improve upon them. Likewise, Mexican-American labor activist Henry Santiestevan, lambasted the conference's opening session for talking about "try[ing] to move beyond the New Deal when many of us haven't even

[304] Alan Ehrenhalt, "Last Hurrahs for the New Deal," *Washington Monthly* (January 1976)

reached the New Deal."[305] Even conservative Democratic analyst Ben Wattenberg – who had literally co-written the book Nixon used to target Democratic voters – was alarmed by the rightward direction of the Democrats when it came to economic and social policy. Wattenberg defended the New Deal as the cornerstone of the Democratic Party's appeal to voters. "Throwing dollars after problems is better by far than the alternative, which is to do nothing," he quipped at the Louisville convention.[306] Other old-guard liberals agreed. "Federal tax reduction, taken by itself is an inefficient form of stimulation…," John Kenneth Galbraith told the Louisville conference. "Democrats have bought a slightly modified version of the Hoover trickle-down doctrine." Such distributionist views, however, were quickly rebuked by other attendees.[307] The "new Democrats" had a decidedly different, non-distributionist, inspiration for their economic politics.

More than any other politician, John F. Kennedy influenced the Watergate Babies. They were, as an *Atlantic* profile put it, "JFK's children."[308] Many came of age during the Kennedy year. As Colorodo governor Richard Lamm explained, "I was apolitical. If you had taken a vote of my high school or college class, I would have been among the least likely to become a politician. But I got out of college the year John Kennedy was elected President. That was a siren call to a whole generation." These new Democrats took JKF's adage to "ask not what your country can do for you, ask what you can do for your country" as an attack on the Democratic interest groups who sought "handouts" from the party. Likewise, Kennedy's call in his 1962 Yale University address to put aside "clashes of philosophy and ideology" and focus on

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[305] David Broder, "Liberal Democrats Split on Issues," *Washington Post*, November 23, 1975; Lois Martin, "How to Get America Moving Again," *Chicago Defender*, November 29, 1975
[306] Alan Ehrenhalt, "Last Hurrahs for the New Deal," *Washington Monthly* (January 1976)
[307] Martin Nolan, "Galbraith Criticizes Tax Cuts," *Boston Globe*, November 23, 1975; "The Real Issues…," *Boston Globe*, November 25, 1975
[308] Randall Rothberg, *The Neo-Liberals* (Simon and Schuster, 1984); William Schneider, "JFK'S Children: The Class of '74," *Atlantic* (March 1989)

"technical answers, not political answers" to society's complex problems resonated with the Watergate Babies. When combined with their well-off, well-educated backgrounds, JFK's influence led the Watergate Babies to privilege issues with technocratic solutions, rather than conflictual distributional ones. The upper-middle class voters with whom the Watergate Babies sympathized "were reform-minded, libertarian in their social views, and anti-military….[but] had no interest in big-spending, high-taxing, pro-labor Democrats," as another profile of the class of '74 aptly put it.[309] Though the Watergate Babies' alliances were mutable, they had a clearer idea of who and what they opposed.

Perhaps nowhere was the influence of JFK more evidence than in the class of 1974's economic views. For these ascendant JFK-inspired Democratic moderates, growth (not distribution) and the market (not the government) were the targets on which the Democrats needed to focus. Here Kennedy's repeated use of the phrase "a rising tide lifts all boats" to argue for the shared benefits of economic growth informed the fiscal views of the Watergate Babies. When asked to explain his economic views to traditional Democratic constituencies, Massachusetts Representative Paul Tsongas paraphrased Kennedy, explaining, "If the U.S. economy does well, a rising tide lifts all boats." Tsongas was expressing the consensus view of the "new Democrats." "A strong economy is best for the poor," New York Representative Tom Downey explained to the same reporter, "You don't want it to appear as though you have been hog-tied or collared by those groups [African Americans, poor people, unions, and cities] because they voted for you in the last election." Or, as Oregon's Les AuCoin put it, looking back on the class of '74 fifteen years after their election, "We brought a commitment to traditional

[309] Randall Rothberg, *The Neo-Liberals* (Simon and Schuster, 1984); William Schneider, "JFK'S Children: The Class of '74," *Atlantic* (March 1989)

Democratic values without putting them into a class-warfare context."[310] This view was very much on display at the 1975 Democratic Issues Convention. "The number of jobs will grow only when the economy grows," Texas Senator Lloyd Bentsen, a 1976 Democratic presidential hopeful, argued in opposition to distributionist views put forward by other Democrats. "When John Kennedy ran for the presidency in 1960 and made economic growth the keystone of his campaign, no one thought to question the need for that growth." In contrast, Bentsen continued, "today…the very idea of growth is under attack," not only from inflation-focused conservatives, but also from "so-called progressors" among Democrats. Bentsen called not only for across-the-board tax cuts, but also for incentives for specific industries, like domestic oil producers.[311]

For the New Democrats of the class of 1974, not only the New Deal, but also – and especially – Lyndon Johnson and the Great Society served as foils to the technocratic vision they believed Kennedy had embodied. In this conviction, Gary Hart was typical. While Hart's stock campaign speech in 1974 was titled, provocatively, "The End of the New Deal," the candidate reserved special ire for the LBJ's programs. "The ballyhooed War on Poverty," Hart said, "succeeded only in raising the expectations, but not the living conditions of the poor. The federal housing program has been a miserable failure."[312] New Jersey Representative James Florio said that the Watergate Babies' anti-government sentiment "was a response among some of us to having been burned by Great Society programs."[313] Likewise, investment banker Felix Rohatyn – a Democratic adviser appointed by New York Governor Hugh Carey in 1975 to oversee NYC's finances – exaggeratedly lambasted the Great Society as a misguided attempt at "cradle-

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310 William Schneider, "JFK'S Children: The Class of '74," *Atlantic* (March 1989)
311 Martin Nolan, "Galbraith Criticizes Tax Cuts," *Boston Globe*, November 23, 1975; "The Real Issues…," *Boston Globe*, November 25, 1975
312 Randall Rothberg, *The Neo-Liberals* (Simon and Schuster, 1984), 131.
313 William Schneider, "JFK'S Children: The Class of '74," *Atlantic* (March 1989)

to-grave security."[314] This conviction was seared into the very identity of the nascent "New Democrats." Intellectual Charles Peters – who founded the *Washington Monthly* magazine in 1969 as an outpost of what he would eventually dub "neoliberalism" – called Kennedy's assassination "the main event in my career." Johnson's Great Society, in Peters's view, was little more than a "vulgarized New Deal" – a sharp departure from Kennedy's forward-looking New Frontier.[315] The common refrain for the Watergate Babies was a return to growth fiscalism. "Economic growth is most important," Peters would write in his early-1980s "Neoliberal Manfiesto." "It is essential to almost everything else we want to achieve."[316] While many of the new Democrats spoke of living within limits and accepting "shrinking" pie, in practice such calls for restraint were limited to the government and those who sought new spending programs, but not to business.[317]

Ultimately, this new economic outlook would mean that the Democratic Party would become less friendly to labor, less supportive of regulation, and more friendly to business. Such conclusions were, in fact, taken for granted by the class of '74. "We didn't take our marching orders from organized labor, nor did we take them wholly from business," AuCoin recalled. "One of the marks of our class has been…a search for the best practical ideas in a number of ideological camps to put together something that works in a rapidly changing world."[318] Even a few Democrats not part of the class of '74 came around to their younger counterparts views. "A great many liberals now see the limits of government…," California's Alan Cranston, who had been elected to the Senate in 1968, said in late-1975. "[T]hey are concerned about government

[314] Randall Rothberg, *The Neo-Liberals* (Simon and Schuster, 1984), 148
[315] Randall Rothberg, *The Neo-Liberals* (Simon and Schuster, 1984), 68-73
[316] Charles Peters, "A Neoliberal Manifesto," *Washington Monthly* (May 1983)
[317] Randall Rothberg, *The Neo-Liberals* (Simon and Schuster, 1984); Gary Hart, "Free Lunch Is Over," *New York Times*, April 21, 1975; Robert Collins, *More: The Politics of Growth in Postwar America* (Oxford, 2000),
[318] William Schneider, "JFK'S Children: The Class of '74," *Atlantic* (March 1989)

spending in ways that threaten the economy and limit the choices of individual citizens."[319] Likewise, Peters echoed both AuCoin's knock against labor and Cranston's libertarian-tinged rhetoric, writing, "[W]e no longer automatically favor unions and big government or oppose the military and big business…. Our hero is the risk-taking entrepreneur who creates new jobs and better products."[320] Needless to say, the "risk-taking entrepreneur" was a far cry from the farmer or industrial worker idealized in the "cultural front" of the New Deal.[321] By late-1975, the *Los Angeles Times* pronounced the ardent New Dealer Hubert Humphrey – seen as too conservative by many in the party in 1968 and 1972 – "out of step" on economic issues with the conservative turn among Democrats.[322] The Democratic Forum's leaders, for example, clumsily tipped their pro-business hand – and caused a minor scandal – when they sent out a letter in May 1975 to corporations asking them to "lend a hand" with a contribution to the Forum that would "help prepare our party for the responsibilities that lie ahead in 1976." The legality of the solicitation would questionable and, more importantly, the Forum had not asked the permission of the four Democrats – Humphrey, Muskie, McGovern, and Henry "Scoop" Jackson – whose names the Forum signed to the corporate fundraising letter.[323]

These new entreaties to business had clear implications for tax policy and, consequently, the Watergate Babies' relationship with the distributionist tax justice left. When asked for an example of how the Watergate Babies departed from Democratic orthodoxy, Tsongas picked capital gain tax policy. "The traditional Democrat would take the position 'If business is for it, I'm against it,'" Tsongas argued. "Our position would be 'If it generates wealth and helps the economy and makes us more competitive, we're for it.' That is a tremendous divide." While he

[319] Ernest Conine, "Humphrey, Running or Not, Is Out of Step," *Los Angeles Times*, December 19, 1975
[320] Charles Peters, "A Neoliberal Manifesto," *Washington Monthly* (May 1983)
[321] Michael Denning, *The Cultural Front: The Laboring of American Culture in the Twentieth Century* (Verso 1998)
[322] Ernest Conine, "Humphrey, Running or Not, Is Out of Step," *Los Angeles Times*, December 19, 1975
[323] Rowland Evans and Robert Novak, "The Corporate Temptation," *Washington Post*, June 1, 1975

conceded that such a stance made Democrats guilty of "me too-ism" in following GOP policy, Tsongas said he "[didn't] give a damn" about such criticism.[324] By the mid-'70s, Gary Hart and other young Democrats began calling for pro-capital investment policies to stimulate growth – a call not far removed from business lobbyists' longtime plea from pro-"capital formation" policies. In an April 1975 *New York Times* editorial, Hart lambasted the consumption-oriented tilt of U.S. fiscal policy "Much of the nation's capital assets…deteriorate," Hart lamented, "while we seek to 'stimulate' an economy premised on wasteful consumption and planned obsolescence." Instead of pandering to voters, Hart wrote, the country needed "leaders who will tell the hard truth – that old-time, 'fine-tuning' economic remedies are no better than leeches and snake oil…the free lunch is over."[325] The sense that this view was ascendant in the Democratic Party by the mid-'70s could be found everywhere. For example, when Hart explained his economic views in a 1976 interview to the *Chicago Tribune*, the interviewer commented that they "sound[ed] like the same things that Jimmy Carter, Ronald Reagan, and Gov. [Jerry] Brown have been saying," and Hart agreed.[326]

This pro-growth, pro-business inclination would lead to an explicit rejection of distirbutionist policymaking, especially in tax policy. When Timothy Wirth joined with Dick Gephart to draft a Democratic policy paper, dubbed "Rebuilding the Road to Economic Opportunity," in 1982, Wirth touted the investment- and growth-centric plan as proof that the party was "moving away from the political of redistribution to the economics of growth and opportunity."[327] Insofar as the "new Democrats" retained a belief in loophole-closing tax reform, it came from the pursuit of simplicity and good-government, not from a strong desire to shift the

[324] William Schneider, "JFK'S Children: The Class of '74," *Atlantic* (March 1989)
[325] Gary Hart, "Free Lunch Is Over," *New York Times*, April 21, 1975
[326] "Sen. Hart Is a Success Despite McGovern Flop," *Chicago Tribune*, June 21, 1976
[327] Randall Rothberg, *The Neo-Liberals* (Simon and Schuster, 1984), 161-162.

tax burden upward.

In taking this new stance on taxes, young Democrats were moving away from the distributionist tax justice left just as its powers were peaking. This shift away from the Democrat Party's interest group base would leave the party searching for a political and policy identity in the late-1970s. Some within the party blanched at this trend. Perhaps most importantly, these New Democrats were betting that the grassroots left's diagnosis of the tax revolt – and pocketbook politics, generally – had been incorrect. George McGovern urged his fellow Democrats to reconsider their shift to the right. In an October 1975 speech to the crowd at Iowa Democratic Jefferson-Jackson dinner, McGovern accepted blame for his defeat in 1972, but urged his fellow Democrats not to mistake his defeat for the public's rejection of many of his policy positions. McGovern pointed to a variety of strategic mistakes – including failure to adequately explain his Demogrant plan, the chaotic convention, and his selection of Eagleton as his running mate – as the things that sunk his candidacy. McGovern told the crowd of 4,000, including many 1976 Democratic presidential hopefuls, that he accepted blame for those mistakes, "not because they are easy for me," but because "[o]therwise, the defeat of 1972 may become an excuse for an empty politics of nonissues in 1976." The next candidate for president needed to "continue where we were right" in 1972, such as on issues of tax reform, McGovern explained. The public rejected him, but it "did not repudiate change and approve the status quo." Winning elections, McGovern cautioned, was not the ultimate aim of politics. "The Democratic Party must demand of itself not merely how it may win, but how it would govern," McGovern concluded. "Democratic candidates must seek not merely a job for themselves but to do the work of the people."[328]

When it came to taxes, "the people" would speak before the 1970s were over. However, as the class of 1974 began to govern, they would attempt to inscribe their new brand of liberalism into policy, all while facing off against a new Republican president – Gerald Ford.

Taxes, Stagflation, Inaction, and the Persistence of Pocketbook Politics

The Ford years were ones of frustration for tax reformers. Added to the New Democrats' distance from the grassroots left and skepticism of left-distributionist tax policy, Gerald Ford's administration also represented a shift to the right from the Nixon White House's eclectic economic views. Ford's personal views were staunchly fiscally conservative. The budget-conscious Republican was more concerned with protecting revenue to balance the budget than he was with reforming the tax code. Likewise, many of Ford's economic and domestic policy advisers stood significantly to the right of former Nixon advisers like John Ehrlichman and John Connally. Alan Greenspan, whom Ford appointed as his CEA chair, was particularly hostile to progressive reforms. As an investment banker and analyst, Greenspan had testified before Congress against progressive reforms and lobbied for upwardly redistributionist policy and incentives for "capital formation," and he continued to advocate for the same policies as CEA chair.[329]

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[328] "McGovern Takes Major Share of Blame for His 1972 Defeat," *New York Times*, October 26, 1975; Jules Witcover, "McGovern Accepts Blame for Loss in '72," *Boston Globe*, October 26, 1975; Bill Boyarsky, "McGovern Blames Own Tactical Errors for '72 Defeat, Warns '76 Contenders," *Los Angeles Times*, October 26, 1975; Jules Witcover, "McGovern Accepts Blame for Loss in '72," *Washington Post*, October 26, 1975

[329] Art Pine, "Tax Cut Size Big Question for Business," *Washington Post*, September 25, 1977; *Tax Policy and Capital Formation*, February 18 and 19, 1976, Hearings Before the Subcommittee on Financial Markets, U.S. Senate (U.S GPO, 1976); *The 1977 Economic Report of the President, Part 1* January 19 and February 2 and 3, 1977, Hearings Before the Joint Economic Committee, U.S. Congress (U.S. GPO, 1977).

Facing and unsympathetic White House, left-distributionist reformers placed their hopes in the Democratic Congress. However, for reasons discussed in the previous section, Democrats would offer little more hope for the "tax justice" left than the Ford administration. Edmund Muskie's high-profile Senate property tax hearings in 1972 grabbed headlines and raised the hopes of left-distributionist reformers. For Gary activists and Ralph Nader, alike, Muskie's hearings helped keep Calumet Township assessor Thomas Fadell under the microscope – attention that ultimate led to Fadell's removal from office and receipt of a three-year sentence for obstructing the investigation into bribery and kickbacks in his office.[330] As Congress convened in 1973, dozens of property tax reform bills were introduced. However, the scandals surrounded the Nixon White House subsumed the work of Congress in 1973 and into 1974. As Lee Enflied – Muskie's Intergovernmental Relations Subcommittee staff member, who dubbed herself "Miss Property Tax" – put it, Watergate pushed bold federal reforms of local revenue off the agenda, at least temporarily. "[T]he property tax never really sort of got off the ground…," she remembered. "We started to do it, we geared up to think about hearings. And Watergate came along and it just sort of subsumed everything, the Watergate hearings." Indeed, Congressional staffers remembered watching the Watergate hearings, rather than working on one-pressing legislative issues.[331]

For property tax reform, however, the interregnum initiated by Watergate proved not to be temporary. In the years that followed Watergate, property tax legislation a handful of senators and representatives continue introduce bills, but each year the number dwindled. Few bills

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[330] "Indictment," February 11, 1977, Box 1, Folder 22, George Chacharis Collection (CRA-018), IUN; *Svaco and Gligor vs. Fadell,* August 23, 1979, Box 1, Folder 22, George Chacharis Collection (CRA-018), IUN; "Court Refuses to Hear Appeal," *St. Petersburg Times*, October 16, 1979

[331] Interview with Lee Enfield Lockwood by Don Nicoll, June 21, 2001, Edmund S. Muskie Archives and Special Collections Library, Bates College; Interview with Lee Enfield Lockwood by Don Nicoll, September 18, 2002, Edmund S. Muskie Archives and Special Collections Library, Bates College.

progressed beyond their introduction and none was enacted. Not one, in fact, even received a floor vote.[332] While the Ford administration contained few, if any, policy staffers sympathetic to left-distributionist reforms, the new Democratic Congress was arguable as responsible, if not more responsible, than the White House for the demise of federal property tax relief. Not only did the new Democratic leadership let property tax bills introduced by Democrats languish, it also rebuffed the White House's brief property overture. Though many reformers had long blamed Wilbur Mills leadership of the House Ways and Means Committee for stifling reform, Mills's departure due to personal scandals did little to improve reform's prospects. The new Ways and Means chair, Oregon Democrat Al Ullman, proved to be scarcely more sympathetic to the demands of left-reformers than Mills. Moreover, when it came to federal property tax reform, Ullman joined with Senate Finance chair Russell Long to unceremoniously close the door on federal property tax relief that Mills had left open. Shortly after taking office, the Ford administration broached the subject of resubmitting President Nixon's proposals for property tax relief for the elderly, the "proposal gathered no support from anyone and the Committee declined to take it up," as William E. Simon explained to Ford in a 1975 memo. Based in part on the lack of enthusiasm for the proposal from Ways and Means, Ford declined to officially resubmit Nixon's property tax relief proposal.[333] Thus, the combination of the New Democrats' and Ford administrations' shared disinterest in the issue and the onset of stagflation condemned the once-popular idea of federal intervention into soaring local property taxes to the legislative dustbin.

The drift away from concern about local property taxes at the federal level – from Congress to the White House – was a political shift with complex causes that would have long-

[332] For introduction of bills beginning in 1973, see the Library of Congress's Congress.gov (www.congress.gov) and the Legislative Explorer (www.legex.org). See also Govtrack.us (www.govtrack.us).
[333] Seidman to Ford, June 16, 1975, B C23, F Presidential Handwriting 6/17/1975, PHWF, GFPL; Connor to Seidman, June 18, 1975, B C23, F Presidential Handwriting 6/17/1975, PHWF, GFPL

term consequences for American tax politics. Certainly this shift was not caused by the public's flagging concern with rising regressive taxes. Rather, both the White House and Congress believed that stagflation had eclipsed the tax revolt. This belief was mistaken, though. It oversimplified what the public's concern about inflation signified. For most Americans, inflation and taxation were simply part of the same pocketbook squeeze. As discussed earlier in this chapter, surveys showing that the public viewed inflation as the "most important problem" masked that the public's definition of inflation lumped together "High cost of living/Taxes/High prices/ Economic situation/Price freeze/high cost of gas."[334] This was not merely the confusion of uniformed voters, though.

Americans had good reason to lump the pocketbook issues of inflation and taxation together. A 1975 Joint Economic Committee study, *Inflation and the Consumer*, found that tax increases were the single most significant element of inflation in the average family's budget. "It cost the average family with an income of $12,626 in 1973 an additional $1,840 in 1974 simply to maintain its 1973 living standards…," the report noted. "Higher tax payments outstripped all other price increases in the consumer's budget in 1974. While food prices rose 11.9 percent, housing 13.5 percent and transportation 14.3 percent…taxes rose twice as fast…. The family at the intermediate budget level would pay $2033 in Federal, State and local income taxes in 1974 compared to only $1607 in 1973 - an increase of $426 - even though its real standard of living remained the same." Keeping with stagflation's historical uniqueness, the JEC noted that current recession was "the first recession during which the overall tax burden on individuals and families has increased." Moreover, keeping with regressive tax increase trends evident throughout the post-WWII era, the JEC report noted, "Inflation has increased the income tax burden on low and

[334] Author's analyses of ANES data; Gallup, October 11 - October 14, 1974 , Roper iPoll Databank [USGALLUP.916.Q007A]; Gallup, September 27 - September 30, 1974, Roper iPoll Databank [USGALLUP.915.Q010A]; Gallup, August 16 - August 19, 1974, Roper iPoll Databank [USGALLUP.913.Q10A]

middle-income taxpayers more than on wealthy individuals…. Thus, inflation makes the tax system less progressive." Likewise, the JEC found that throughout the early-1970s price increases – particularly for food and housing – hurt lower income Americans more than the well-off.[335] The JEC study's findings proved to be so notable that even NBC anchor David Brinkley, who years earlier had been so dismissive of average Americans' complaints about taxes, devoted one of his "Journal" editorial segments to the topic. Brinkley noted not only that taxes were the fastest rising element of inflation, but also stressed several times in the segment that low and moderate income Americans were getting hit worse than the well-off. "It appears to be the first time in American history, or any history, when people were suffering inflation, recession, and loss of buying power while their government was still gouging them for more and more taxes…," Brinkley noted acidly. "From the beginning, the basic idea of the American tax system has been that it's based on ability to pay – the only way that makes any sense. But now that basic idea is gradually being eroded or destroyed and in Washington nothing is being done to change it."[336]

Stagflation's intensification of the squeeze on low- and middle-income Americans' pocketbooks – and the outsized role played by taxes in that squeeze – explained the persistence of the tax revolt throughout the mid-1970s, even as many policymakers turned their attention away from the revolt. The Ford White House's most significant attempt to understand stagflation, however, revealed the extent to which the tax revolt and stagflation were inseparable. Shortly after taking the oath of office, President Gerald Ford called for a series of "mini-summits" on inflation. The summits were designed to allow the president and members of his administration to show clear concern for the plight of ordinary Americans, cull experts' views,

[335] *Inflation and the Consumer in 1974*, Joint Economic Committee (U.S. GPO, 1975). See also *Inflation and the Consumer in 1973*, Joint Economic Committee (U.S. GPO, 1974).
[336] "Journal (Taxes)," NBC Evening News (February 11, 1975)

and receive feedback from the public. In focusing on inflation, Ford seemingly placed himself on firm ground by selecting an issue that played to his fiscally conservative, anti-inflation instincts. The first of the mini-summits, dubbed the Economists Conference on Inflation, followed expectations.

Most of the attendees at the Economists Conference talked of taxes only in fiscalist terms, though they often had significant distributional consequences. While a few liberal economists broached the idea of tax cuts for low- and middle-income individuals as a way to ease the burden of inflation, most economists discussed supply-side effects of taxes, arguing – in the language stressed by NAM earlier in the decade – that increased capital formation would ultimately combat inflation. While arch-conservative Senator Roman Hruska called for an "exam[ination]" of "our total tax structure," including state and local taxes. He believed that any tax reform, however, needed to be geared towards increasing capital formation and growth. "Unfortunately, most taxes and tax policies are discussed in only one context, that of equity…," Hruska lamented. Instead, the Nebraska senator wanted to examine the tax system with respect to its effect on "productive capital" and "output."[337] Even Democratic Senator Claiborne Pell balanced his calls for a surtax on high-income taxpayers with a recommendation that the capital gains tax should be cut in order to "inprov[e] capital flow and "encourage[s] a greater mobility of capital."[338] Perhaps the only hint of strong dissent at the Economists Conference came in the form of a statement authored by the Black Economic Summit, which included Dorothy Height, Maynard Jackson, Charles Rangel, Roy Wilkins, John Lewis, and Jesse Jackson among its dozens of signatories. It called for "thorough-going reform of income, Social Security, and property taxes; erasing inequalities created by tax loopholes and subsidies (such as capital gains

[337] *The Economists Conference on Inflation, September 5, 1974, Volume 1* (GPO, 1974), 480
[338] *The Economists Conference on Inflation, September 5, 1974, Volume 2* (GPO, 1974), 490-491

taxes, agricultural subsidies, and oil depletion allowances) for individuals and corporations."[339] Not surprisingly, however, both the Financial Conference on Inflation and the Business and Industry Conference on Inflation featured repeated calls to cut, or scrap altogether, taxes on capital income, as well as suggestions for the enactment of new, more generous investment tax credits.[340] At the other mini-summits, however, the Black Economic Summit's statement came closer to the mainstream view.

Attendees at many mini-summits looked at them as an opportunity to broaden the discussion from fiscalist solutions to inflation to distributionist views of the pocketbook squeeze. Echoed throughout the State and Local Governments inflation mini-summit was a concern that Congress would fail to reenact General Revenue Sharing before it expired in December 1976. At the inflation summit and elsewhere, state and local officials linked revenue sharing to relief from rising regressive taxes. By 1975, it already was clear that RS's well-document suppression of property tax increases in its first few years of existence was coming to an end. Soaring inflation ensured that the needs of local governments were now far outstripping revenue sharing's assistance. Prior to Revenue Sharing, Newark Mayor Kenneth Gibson explained in a 1975 Congressional hearing on General Revenue Sharing's renewal, Newark's property tax rate was \$9.63 per \$100. Revenue sharing funds allowed the city to lower rates two years in a row, dropping it to \$8.60 per \$100, which Gibson still called "too high." Yet, stagflation ended that positive trend. "Unfortunately, because of the current state of the national economy, the downward trend in our property tax rate came to an abrupt halt this year," Gibson explained. "In fact, we recently approved a city budget which requires an increase in our property tax rate for

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339 *The Economists Conference on Inflation, September 5, 1974, Volume 2* (GPO, 1974), 525

340 *The Financial Conference on Inflation, Washington, D.C., September 20, 1974* (GPO 1974); *Transcripts for the Business and Industry Conference on Inflation, Pittsburgh, Pennsylvania, September 16, 1974 and Detroit, Michigan, September 19, 1974* (GPO 1974)

1975 from $8.60 to $9.98 per $100. This is clearly much too high. A family in Newark owning a $20,000 house must pay over $1900 in property taxes."[341]

State and local officials not only wanted to see Revenue Sharing renewed, they also wanted further federal aid. In his statement to the State and Local Governments Conference on Inflation, Gibson noted that cities were "squeezed between the financial constraints of rising prices and the citizen's demand for improved services."[342] In a joint statement, the National League of Cities and the U.S. Conference of Mayors demanded that the federal government stop saddling states and localities with unfunded "federally-mandated expenditures." Instead, the statement called for the feds to expand aid to states and localities and to enact "tax expenditure reform." Loopholes in the federal tax code were draining badly needed revenue from the federal government, the League of Cities and Conference of Mayors argued. "Every time the federal government grants a tax deduction or provides a tax shelter, this action must be viewed as an expenditure decision," the statement argued. Such expenditures needed to be guided by "sound national economic and social policy," not the demands of "special interests." The joint statement also harshly criticizing the federal austerity proposed by many Republicans and right-leaning Democrats. Federal budget cuts, it argued, would simply result in "shifting responsibility to local and state governments to provide services formerly provided by the federal government." With stricter budget rules and less elastic forms of revenue, it was "absurd" to expect states and localities to make up for federal cuts. Instead, they would "be faced with either increasing local taxes, reducing levels of essential public services, or both." The NLC and Conference of Mayors said neither option was acceptable. Instead, they singled out taxes – at both the federal and state and local levels – as a central concern. The local property tax, the statement concluded, was

[341] *General revenue sharing: hearings before the Subcommittee on Revenue Sharing of the Committee on Finance, United States Senate*, April 16 and 17, and May 21 and 22, 1975 (GPO 1975)
[342] *The State and Local Governments Conference on Inflation, September 23, 1974, Volume 1* (GPO 1974), 274

"inflexible and often counter-productive."[343] Likewise, Minnesota State Democratic-Farmer-Labor Representative Martin Sabo argued that both budget cuts and federal tax cuts failed to address budget crises and soaring taxes and state and local levels, Sabo noted. "I have a basic fear that in the final analysis the federal government, the [Ford] administration and the Congress will respond to all the rhetoric of a balanced budget by cutting those funds which go to State and local government…," Sabo said. "[Y]ou will have simply transferred the money-raising system from the Federal income tax and other federal revenues quite often to the local property tax which is [the] most regressive of all taxes….[I]f we simply adopt tax cuts at the Federal level but the revenue funds coming to state and local government and the local property taxes go higher, I am not sure you served a useful purpose."[344]

Concern for the distribution of the tax burden, both between federal and state and local governments and among Americans, was a central concern for attendees of the State and Local Governments mini-summit. Buffalo Mayor Stanley Makowski argued that the burden of stagflation had been "greatest for those least able to bear it." He included not only high prices at the store, but soaring local property taxes in his portrait of suffering. "Our tax system is unfair, discriminatory and a national disgrace," Makowski said. "[T]he tax burden must be redistributed. Enacting comprehensive reforms of our income tax system would involve no tax increase for the average person who already pays his fair share of taxes."[345] Keeping focus on the ability of federal government to ease the squeeze of regressive taxes, Edmund Muskie used his time speaking at the State and Local Governments Conference to call once again for "measures to

[343] *The State and Local Governments Conference on Inflation, September 23, 1974, Volume 1* (GPO 1974), 194-204
[344] *The State and Local Governments Conference on Inflation, September 23, 1974, Volume 1* (GPO 1974), 176-178
[345] *The State and Local Governments Conference on Inflation, September 23, 1974, Volume 1* (GPO 1974), 319-320

ease the burden of regressive taxes, including state and local sales and property taxes on our most hard-pressed citizens."[346]

The most headline-grabbing mini-summit proved to be the Conference on Health, Education, Income Security, and Social Services – a catchall meeting for grassroots and interest groups, from the ALF-CIO and the AARP to the League of Women Voters, NWRO, National Council of Negro Women, SCLC, the Grey Panthers, and the American Nurses Association, among many others. Many of the HEISSS conference participants were eager to stress a distributionist view of both inflation and taxes. Ford administration members, however, bristled at this line of thought. In her opening remarks on education, designed to provide a "framework" for the mini-summit's discussion of the issue, Assistant Secretary of Education, Virginia Trotter, was dismissive of the public's anger at rising property taxes and policymakers' concern about continued reliance on the levy. "In spite of the creation of new taxes from new sources, [and] recent taxpayers' revolts, property tax revenue has remained releatively constant…," Trotter argued in her discussion of education funding. "[T]he experiences during the past several years do demonstrate that, in spite of apparent weaknesses in tie property tax, it has held its own." Rather than discuss high-profile cases of assessment inequities and malfeasance (as discussed earlier in the chapter), Trotter praised local assessors and other "political and administrative institutions" that had increased both tax rates and assessments in order to make the property tax revenue source "responsive" to inflation. Trotter even predicted that, if "recent trends" continued, property taxes could be counted on to "generate roughly an additional ten billion in revenues within a few years." The only hint of trouble in Trotter's otherwise optimistic property tax remarks came when she noted, "Even prior to the current inflation, voters were beginning to

[346] *The State and Local Governments Conference on Inflation, September 23, 1974, Volume 1* (GPO 1974), 33

reject requests for additional taxes." Without considering that, in many states, approval rates had little room to drop further, Trotter added, "As voters feel the pinch of inflation it is likely that they will reject tax increases much more often." The solution to both the budget squeeze facing schools and the pocketbook squeeze facing voters, Trotter concluded, was simply fighting inflation with "stringent budgetary measures."[347]

Other attendees had very different ideas about the continued viability of the United States' system of fiscal federalism. In his testimony, American Federation of Teacher's President Albert Shankar questioned the Ford administration's determination to fight inflation by balancing the budget through spending cuts. Insofar as Ford sought to fight inflation with a balanced budget, Shankar argued, he should do so by pursuing progressive revenue raising tax reforms, such as "(1) closing the capital gains loophole, (2) eliminating tax subsidies for overseas Investment, (3) ending the 7 percent Investment tax credit, and (4) repeal of oil depletion and foreign tax credit loopholes and [introduction of] an excess profits tax" – a list that reflected the longstanding demands of tax justice activists. Reflecting the concerns of Shakar and others, John B. Martin, representing both the AARP and the National Retired Teacher Association, stressed the interrelatedness of inflation and taxes and called for federal intervention in rising regressive taxes if states could not manage. "Because the inflation of state and local service costs are passed on through the regressive property tax system, the states should be encouraged by financial incentives to provide relief for the aged," Martin said, "in the alternative, a credit against federal income tax liability (or in the absence of liability, a refund) for property taxes paid should be adopted." Likewise, other groups, especially those representing the elderly, emphasized the detrimental effects that rising taxes were having on low- and middle-income Americans'

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[347] *The Conference on Inflation – Health, Education, Income Security, and Social Services, September 19-20, 1974* (GPO 1974).

pocketbooks. Along with property taxes, "regressive payroll taxes" were singled out for criticism.[348] For most activists and interest group representatives at the HEISSS mini-summit, inflation and taxation were two sides of the same coin.

Debates about the distributional effects of inflation, however, proved to be the topic that generated fireworks at the conference. NWRO Executive Director Johnnie Tillmon was one of many speakers who used the HEISSS mini-summit to put distributional issues front-and-center. Tillmon noted the inequities built into inflation. The poor, she noted, spent a larger portion of their budget on food than the rich. They also tended to buy higher-priced food products than the poor, who were budget shoppers by necessity. "[T]he middle and upper classes are able to change their food selections by 'spending down' to purchase cheaper foodstuff," she noted, while the poor were unable to do so, since they were already consuming "the cheapest food items." It was just one of many examples offered by Tillmon illustrating how inflation hit hardest those at the bottom of the income ladder. One of the comparatively few academics at the HEISSS conference, the University of Wisconsin Institute for Research on Poverty's Thad W. Mirer, also focused on the distributional effects of inflation and economic inequality, more broadly. Mirer took aim at the view that "inflation is good for the poor." The Institute for Research on Poverty's research, Mirer noted, found that "the rapid rise in consumer prices in recent years has fallen more heavily on the poor than on middle income and wealthy families." [349] Though the January 1974 edition of the JEC's *Inflation and the Consumer* had also demonstrated this fact, the notion that the poor – not the rich – suffered most from inflation was

[348] *The Conference on Inflation – Health, Education, Income Security, and Social Services, September 19-20, 1974* (GPO 1974).
[349] *The Conference on Inflation – Health, Education, Income Security, and Social Services, September 19-20, 1974* (GPO 1974).

still a controversial view.[350] Tying this distributional observation to the fact that income inequality had risen between 1969 to 1972, Mirer predicted that the intermingling of stagflation with demands for tax reform would "reopen the repeated struggle over the distribution of income which occurs during the consideration of revenue measures." Citing work by Joseph Pechman and Benjamin Okner, Mirer explained that, when taxes at all levels of government were considered together, "the U.S. tax system is shown to be essentially proportional for the vast majority of families, hence having little effect on the distribution of income." With that in mind, he called for tax reform that would "mak[e] the system as progressive as it is in its ideal form." Both Mirer and, in separate testimony, the Institute for Research on Poverty's director, Robert Haveman, called for some form of guaranteed income payment or negative income tax, which would, Havemen noted, make the income tax system "more progressive" and "offset…the regressive effect of the rapidly growing payroll tax."[351] While Tillmon, Mirer, and the JEC were all on the same page when it came to inflation's disproportionate effects on low- and middle-income Americans, not everyone agreed.

In what would prove to be perhaps the most memorable incident in all of the inflation summits, Alan Greenspan appeared HEISSS mini-summit just weeks after being sworn in as Ford's CEA chair. While Greenspan's prepared remarks served up a relatively unremarkable dose of balanced-budget fiscalism – complete with hints of the necessity of "capital formation," of course – one of Greenspan's off-the-cuff remarks in the question-and-answer caused a stir. From the floor, State, County and Municipal Employees Union President Jerry Wurf criticized the Ford administration's economic policies, including its reluctance to consider targeted tax relief. Inflation, Wurf argued, was "pushing down the lower middle class into the poor and

[350] *Inflation and the Consumer in 1973*, Joint Economic Committee (U.S. GPO, 1974).
[351] *The Conference on Inflation – Health, Education, Income Security, and Social Services, September 19-20, 1974* (GPO 1974).

putting the middle class down into the lower middle class" at the same time that banks and corporations were reaping "fantastic profits." Greenspan bristled at Wurf's comment. "If you really wanted to examine who, percentage-wise, is hurt the most [by inflation] in their incomes, it's Wall Street brokers," the new CEA chair opined. "I mean, their incomes have gone down the most." Greenspan's comments were met with instantaneous boos and catcalls. One unidentified audience member yelled, loud enough for the cameras to hear, "That's the whole trouble with this administration – Wall Street brokers." Greenspan dismissed the shout with a grimace, a wave of his hand and mutter of "Oh, come on."[352] However, other audience members were not about to let the CEA chair's comments go. Continuing his comments, Wurf quipped, "I suggest to you, Mr. Greenspan, they [low- and middle-income workers] are suffering a hell of a lot worse

[352] For Greenspan's comments and the angry reaction from the audience, see "Economy Conference / Washington, DC," *CBS Evening News*, September 19, 1974; "Economy Conference / Washington, DC," *NBC Evening News*, September 19, 1974; "Economy News," *CBS Evening News*, September 20, 1974; "Boos Great Greenspan Plea for Stokebrokers," *Toledo Blade*, September 19, 1974; *The Conference on Inflation – Health, Education, Income Security, and Social Services, September 19-20, 1974* (GPO 1974). Greenspan's comments were politically tone-deaf, and they represented a shift in rhetoric for Republicans. Nixon's economic adviser Arthur Burns, who was no liberal, argued that the poor suffered most from inflation. Besides serving as yet another example of the GOP's shift towards upward "distributionism," such disagreements were rooted in the economic literature. For decades, numerous studied had attempted to model what types of income and what classes of taxpayers would be hurt most from inflation. Many studies suggested that, if inflation was accompanied by a tight labor market, that labor income might not be hurt by inflation as much as investment income. Besides Greenspan's general upwardly-"distributionist" outlook, those studies were likely the source of his comments. However, if high inflation was not accompanied by a tight labor market and rapid wage growth – a likely scenario, given "Stagflation" – that scenario was unlikely. Unemployment was undeniably regressive, and even studies that found a slight progressive effect from inflation found that the regressive effects of unemployment dwarfed inflation's overall minimum effects. The clear conclusion was that the effects of inflation were somewhat ambiguous by themselves but that efforts to fight inflation by "cooling off" the economy and thereby raising unemployment were clearly more harmful to lower- and middle-incomes than the rich. Making matters even more complicated, at the time Ford made his comments, a recent government study had found that prices for the poor were rising faster than the rich. *Inflation and the Consumer in 1973*, Joint Economic Committee (U.S. GPO, 1974). For a sampling of the the debates about the affects of inflation on the distribution of income, including the capital/wage debate and the inflation/unemployment comparison, see: Thad W. Mirer, "The Distributional Impact of Inflation and Anti-Inflation Policy," University of Wisconsin-Madison Institute for Research on Poverty Discussion Papers 231-74 (October 1974); Edward Budd and David Seider, "The Impact of Inflation on the Distribution of Income and Wealth," *American Economic Review* 61:2 (May 1971); Alan Blinder and Howard Esaki, "Macroeconomic Activity and Income Distribution in the Postwar United States," *Review of Economics and Statistics* 60:4 (November 1978); Vanessa Fry and Panos Pashardes, "Distributional Aspects of Inflation: Who Has Suffered Most?" *Fiscal Studies* 6:4 (November 1985); William Nordhaus, "The Effect of Inflation on the Distribution of Economic Welfare," *Journal of Money, Credit, and Banking* 1:5 (February 1973); That Mirer, "The Effects of Macroeconomic Fluctuations on the Distribution of Income," *Review of Income and Wealth* 19:4 (December 1973).

from prices than are Wall Street brokers." Later, Rhoda Karpatkin, of the Consumers Union, lambasted Greenspan's comment, as well as the general idea that the budget should be balanced through cuts to the safety net. "[M]oderate income people who are already bearing the brunt of this inflation, more, I think, Mr. Greenspan, than Wall Street brokers," she argued, "should [not] bear the further responsibility and the further pain and suffering and poverty that will cone from cutting the social welfare budget." Continuing the pile-on, the SCLC's Jay Lawry quipped, "I find it very bad that the man who is the economic advisor to the president [worries] that some Wall Street financiers have to cut down on their number of steaks a week when there are people eating dog food and sometimes then the dog."[353]

Greenspan's comments were covered by all three evening television news broadcasts. In introducing video of the comments, NBC news anchor John Chancellor noted, in a decided understatement, that Greenspan's comments "made some of his listener highly indignant." Greenspan's gaffe also made the papers across the country, garnering headlines like "Boos Green Greenspan Plea for Stockbrokers" and "Greenspan Sees Wall St. Hurt By Inflation More Than the Poor." Meanwhile, satirist Art Buchwald immortalized Greenspan's comment in a column.[354]

Intentionally or not, the Greenspan controversy was a clear indication that right-distributionism now ruled the White House. So, when it came time for the concluding two-day conference on inflation in late-September, designed to summarize the mini-summits and draft a plan for action, discussion of the distributional effects of inflation, rising state and local taxes, and tax reform, which had been so abundant in earlier conferences, were confined to brief

[353] *The Conference on Inflation – Health, Education, Income Security, and Social Services, September 19-20, 1974* (GPO 1974).

[354] For Greenspan's comments and the angry reaction from the audience, see "Economy Conference / Washington, DC," *CBS Evening News*, September 19, 1974; "Economy Conference / Washington, DC," *NBC Evening News*, September 19, 1974; "Economy News," *CBS Evening News*, September 20, 1974; "Boos Great Greenspan Plea for Stokebrokers," *Toledo Blade*, September 19, 1974; John Stowell, "Greenspan Sees Wall St. Hurt By Inflation More Than the Poor," *Schenectady Gazette*, September 19, 1974;

summaries of testimony in the mini-summits.[355]

As Congressional hearings on tax reform began in 1975, tax justice reformers had high hopes, though their views would ultimately be as minimized as they had been in the concluding inflation summit. To activists like Ralph Nader and the late George Wiley who, in other areas, had already profoundly affected federal policymaking, it seemed only a matter of time in the early-to-mid '70s before the tax left would make their movement felt in the nation's capital. Building off the nationwide organization and integration of local grassroots tax justice groups fostered by Nader's Tax Reform Research Group and Wiley's Movement for Economic Justice, representatives of a dozen tax reform groups met in Wilbur Mills's district in Arkansas in March 1974 to discuss pushing for federal loophole-closing tax reform and relief for lower- and middle-income payers. The result was the National Committee for Tax Justice – a coalition of local and national groups, including Nader's Tax Reform Research Group, MEJ, ACORN, the California Tax Reform Association, the St. Louis Tax Reform Group, the Ohio TEA Party, and the Texas Tea Party, among others. In a follow-up meeting in D.C. a few months later, the committee announced that its main goal would be lobbying Congress for the passage of a federal tax reform bill, the Tax Justice Act of 1975. Drafted by the coalition with technical help from public interest tax experts at Public Citizen's TRRG and Taxation with Representation, the bill represented a veritable laundry list of left-distributionist tax reforms.[356]

Left-liberal Democrats introduced the Tax Justice Act of 1975 in the House and within a few weeks it had attracted more than thirty co-sponsors, including Mo Udall, Ron Dellums, John Conyers, and Bella Abzug. Introducing the bill, New York's Benjamin Rosenthal cast the

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[355] *The Conference on Inflation, September 27-28, 1974* (GPO 1974)

[356] "Campaign for Tax Justice Started," *People and Taxes* 2:5 (May 1974); "Reformers Launch Tax Justice Act," *People and Taxes* 2:9 (September 1974). On the Tax Justice Act, see "Tax Justice Act of 1975," MEJ, B 16, F 20, WHS and various other materials in MEJ, B 16, F 16-20, WHS

legislation in left-distributionist terms that echoed the tax justice left and addressed average Americans' pocketbook anxieties. "This bill will eliminate many of these welfare programs for the privileged while redistributing much fo the additional revenue garnered to the average taxpayer…," Rosenthal explained. "Squeeze by high unemployment and a rising cost of living, middle and working class Americans deserve relief…." Additionally, Rosenthal noted, by raising new federal tax revenue, it also accomplished President Ford and other fiscalists' inflation-fighting goals.[357] Udall likewise echoed not just tax justice activists by George McGovern's 1972 refrain when he argued that the TJA75 embodied the notion that, "A dollar earned is a dollar earned: there is simply no justice in treating a dollar earned by the capital investor more favorably than the dollar earned by working men and women." Many of the co-sponsors also praised the National Committee for Tax Justice and its constituent grassroots groups for drafting the bill. Conyers said that the committee was evidence of "a gathering movement for economic justice without which the best efforts at legislation can have little effect." Concluding his remarks on the Tax Justice Act, Rosenthal warned, "I urge speedy enactment of this legislation to avert a wholesale taxpayer revolt…."[358] It would not be the only warning of a coming revolt that federal policymakers would receive that year.

New Ways and Means Chair Al Ullman began holding tax reform hearings in the summer of 1975, but from the beginning, it was clear that left-distributionist activists' idea of reform was quite different from both the White House's and many Democrats, including Ullman. During the same private consultations in which Ullman and Russell Long had dismissed the idea of federal relief for local property taxes, the two key Democrats expressed enthusiasm about pursuing tax policies to stimulate "capital formation." Their interest in "capital formation" encouraged the

[357] *Congressional Record* (October 8, 1975), 32502-32503
[358] *Congressional Record* (October 22, 1975), 33700-33711

White House to begin preparing proposals for capital gains cuts and liberalized cost recovery. Long even gave the White House tips on how to enact what were sure to be unpopular measures, advising the Ford administration that "any major benefits for business will need to be wrapped in a 'populist' package." Taking Long's advice, Ford's Secretary of the Treasury, William Simon, warned the new president of the "danger in separating the capital issue from tax reform," since tax reform, not capital formation, was the popular issue spurring legislation.[359] Keeping with the plan, when Ford appeared before the Ways and Means Committee on the first day of reform hearings, he called for a variety of policy changes to encourage "capital formation." "Lowering, capital gains taxes would decrease the cost of capital and help in greater capital formation," Simon said. "It would tend to 'unlock' assets which investors are loath to sell because of the attending tax liability and a stimulative 'ripple' effect should follow."[360] Helping to build the case for capital-friendly tax legislation, Ullman dedicated several days of testimony to the topic of "capital formation," panels on which reformers found themselves decidedly in the minority.

Expanding, rather than narrowing, provisions like the capital gains preference in order to boost "capital formation" topped the wish lists of conservative witnesses. The Hoover Institutions' Dan Throop Smith defended the capital gains loophole as "fundamentally sound" and encouraged even more favorable rates for capital income due the fact that "our tax law….now discriminates against capital formation."[361] The National Association of Manufacturer's once again pointed Congress to its Norman Ture-penned 1973 report calling for policies to stimulate "capital formation." Likewise, the Chamber of Commerce's Walker Winter argued for lower capital gains rates, since "capital gains merely reflect the inflationary spiral of

[359] Seidman to Ford, June 16, 1975, B C23, F Presidential Handwriting 6/17/1975, PHWF, GFPL; Connor to Seidman, June 18, 1975, B C23, F Presidential Handwriting 6/17/1975, PHWF, GFPL
[360] *Tax Reform (Administration and Public Witnesses) Part 1 of 5, July 8-11, 1975* (GPO 1975)
[361] *Tax Reform (Invited Panelists), U.S. House Ways and Means, June 23-25, 1975* (GPO, 1975)

our economy." Concerns about inequity related to capital gains were unfounded, in Walker's view, since everyone benefitted from the economic growth that low capital gains rates spurred. " While it is true that the alternative rate for capital gains primarily affects a relatively small number of taxpayers in the higher brackets, it must be recognized that it is this group of taxpayer that provides much of the risk capital that keeps our economy growing," Walker said. "Any changes in the alternative rate for capital gains would have the effect of discouraging the free flow of capital among investments and could severely limit the availability of venture capital, thereby limiting our economic growth. [362] House Republican Jack Kemp testified with a rousing paean to capitalism. Kemp began his testimony with a historical anecdote: "This is the 200th anniversary of the invention of the steam engine – an invention which was financed by $150,000 of capital from the savings of a man by the name of Matthew Boulton." This, Kemp argued, was the essence of capitalism, which had "improved the standard of living of the wage earners to an unprecedented level." "All this well-being," Kemp continued, "is conditioned by the increase in savings and capital accumulated." Therefore, the very existence of the individual and corporate income tax systems, was "both anti-labor and anti-social," since each discouraged "capital formation." Indeed, Kemp blamed layoffs at steel mills near Buffalo, New York, and Canton and Massillon, Ohio, on tax policies that were biased against capital. As a solution, Kemp touted his own bill, the Jobs Creation Act, which slashed a variety of business and capital taxes.[363]

Like the Ford administration and Russell Long, advocates of tax cuts for business and capital income understood that their proposals had little support among average Americans. Some "capital formation" advocates struck back against the public's view of the tax system, while others seemed resigned to the political difficulty of enacting their preferred policies. Chair

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[362] *Tax Reform (Administration and Public Witnesses) Part 1 of 5, July 8-11, 1975* (GPO 1975)
[363] *Tax Reform (Administration and Public Witnesses) Part 4 of 5, July 24, 25, 28, 1975* (GPO 1975)

of the American Council for Capital Formation Charls E. Walker called the idea that the tax system was "stacked against the little man" a "myth." The rich, according to the ACCF, "pay through the nose." To those that claimed that tax preferences for capital were "trickle down," Walker quipped, "I really don't know…what 'trickle down' means." Capital tax cuts, Walker said, would not lead to revenue losses, but to gains, because of the economic growth it would stimulate. Thus, Walker called for a variety of "capital formation" measures, including a more generous investment tax credit and cuts to the capital gains tax.[364] Take a more defeatist tack, Price Waterhouse & Co.'s Kenneth Sanden noted that, while cuts to both capital gains and dividend taxes were desirable in his view, he understood that such cuts were, at the moment, "politically inexpedient." "Any attempt to reduce taxes at the individual level – particularly for the more affluent investor – threatens to bring on the 'taxpayer revolt' envisioned by former Treasury Secretary, Joseph Barr, several years ago," he noted.[365]

The task for the tax justice left was not only to rebut calls for "capital formation," but also to advocate for the type of loophole-closing reform that had escaped them since the tepid victory of the Tax Reform Act of 1969. In his testimony, the AFL-CIO's George Meany called TRA69 a mere "down payment on tax justice." Congress, Meany said, still owed the public the real thing, repeating the words "tax justice" over and over again in his testimony. Responding specifically to witnesses calling for new tax breaks to encourage "capital formation," Meany used the language that Walker claimed not to understand, dubbing such policies "the old, discredited, trickle-down doctrine of the 1890s and 1920s." Further breaks for businesses and capital gains, Meany said, would have predictable results. "Give those at the bottom less; squeeze those in the middle even harder," the union leader quipped. "Give those at the top –

[364] *Tax Reform (Administration and Public Witnesses) Part 4 of 5, July 24, 25, 28, 1975* (GPO 1975)
[365] *Tax Reform (Administration and Public Witnesses) Part 1 of 5, July 8-11, 1975* (GPO 1975)

especially the corporations-more tax shelters, more loopholes, more opportunities for profit." Instead, Meany reiterated his union's call to eliminate the preferential rate for capital gains, among other loophole-closing reforms.[366] Robert Brandon, the Director of Public Citizen's Tax Reform Research Group, noted that claims of capital shortage and insufficient "capital formation" had a long history. Particularly during times of inflation, corporate and Wall Street executives flocked to Congress, begging for new tax cuts to spur capital formation. In most instances, though, Brandon noted, Congress did nothing and the supposed capital shortage abated. "The point here is that we always have a capital shortage," Brandon argued. "That is the nature of our capital system." Attempts to artificially boost capital availability with tax cuts, Brandon suggested, were often self-defeating. "[I[f we just talk about cutting corporate taxes you have two choices. You are either going to increase the deficit or increase individual taxes to make up the difference. Increased deficits mean higher interest rates, during times of full employment, are going to mean crowding private capital needs out of the market by increased government borrowing," Brandon noted. "Increased taxes can only mean decreased savings by the consuming public and less capital. It means less disposable income and less consumption which has to lead to less corporate profits, which leads to less corporate savings, and we are back to the beginning again." Continuing this logic, Brandon reiterated, "Increases in investment necessitate cuts in consumption. This committee is being asked to do that through the tax code by reducing the spendable income of consumers and increasing the spendable income and the profits of corporations. But profits will not remain high if consumers cut down on their purchases. The approach seems to be self-defeating." Ultimately, Brandon argued that the need for increased capital formation was a myth. "I would urge the committee not to react to the cries

[366] *Tax Reform (Administration and Public Witnesses) Part 2 of 5, July 14-16, 1975* (GPO 1975)

of a well orchestrated campaign to cut taxes for business and its owners in the name of capital formation. I think we should focus on tax relief for the vast majority of Americans and not simply those who own most of the corporate stock, the one percent that own 51 percent of the corporate stock in the country."[367]

Tax justice activists' skepticism about calls for "capital formation" were backed up by ostensibly more neutral observers. Renowned Harvard tax law scholar Stanley Surrey argued that "achiev[ing] greater fairness" in the tax system, not "capital formation." Only loophole-closing reforms, Surrey said, would "restore the confidence of the public in the fairness of the tax system." Surrey contrasted full income tax rates that wage earners paid on their modest incomes with the fact that "a great deal of the income of the most wealthy people in the land is taxed at only one-half [normal rates]" thanks to the capital gains preference. "Over 50 percent of all capital gains are received by two percent of the families in the United States," Surrey noted. He went on to outline specific cases of rich individuals who appeared as "poor folk in the Internal Revenue Services files because of the use of tax shelters." Surrey called for a skeptical examination and reform of all "tax expenditures," including treating capital gains as ordinary income. Responding to conservatives' claims that existing capital tax breaks needed not only to be kept, but expanded, Surrey quipped, "I probably am a skeptic on the whole issue of capital formation. I have heard too many cries before this committee in tie area of capital gains. The slogans are always there. They are either inflation, or lock-in, or shortages of capital whatever you want. In the capital area, you have well-organized drives before this committee generally to reduce the capital gains tax, or do something that will benefit people well-off. It turns out that is

[367] *Tax Reform (Administration and Public Witnesses) Part 4 of 5, July 24, 25, 28, 1975* (GPO 1975)

always the solution for any problem dealing with capital formation."[368] Self-interested corporate and Wall Street lobbying, Surrey said, not objective fact, guided calls for pro-"capital formation" tax cuts.

Despite finding themselves far outnumbered by "capital formation" advocates, the 1975 tax reform hearings featured several grassroots tax justice advocates – in addition to Public Citizen's Brandon – reflecting the movements growing, if still tenuous, influence. Bert De Leeuw, MEJ's leader following the tragic death of George Wiley, touted the Tax Justice of Act of 1975 to the Ways and Means Committee while wearing buttons emblazoned with slogans that had become popular on the tax justice left: "Robin Hood Was Right" and "Take the Rich Off Welfare." The TJA75, De Leeuw noted, would lower taxes on every family of four making less than $20,000 without cutting the budget. It did so by closing a variety of loopholes, including the capital gains preference, as well as eliminating a wide variety of business subsidies, such as the oil depletion allowance. For a family of four making $10,000 – just below the median household income in 1975 – the TJA75 would save them $364 in income taxes per year. De Leeuw as not alone in advocating for the TJA75. Robert Loitz testified on behalf of the National Committee for Tax Justice. Touting TJA75, Loitz quipped, "The tax system should be used to collect revenue and not as an 'Aid to Dependent Corporations' program."[369] Stuart Filler, representing New York Citizens for Tax Reform – a member of the National Committee for Tax Justice – testified in support of TJA75, connecting it to rising regressive state and local taxes. With the extreme burdens of our Federal, State, and local systems of taxation falling primarily on lower and middle income taxpayers, it is incumbent on the Ways and Means Committee to reform our Federal tax system to place the burden of this increase in Federal revenues on those individuals

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[368] *Tax Reform (Invited Panelists), U.S. House Ways and Means, June 23-25, 1975* (GPO, 1975)
[369] *Tax Reform (Administration and Public Witnesses) Part 2 of 5, July 14-16, 1975* (GPO 1975)

in society more financially able to bear that burden."[370] Ted Keller, of the Delaware grassroots tax justice group, Citizens Coalition for Tax Reform, singled out the capital gains loophole as one in special need of closing. Ending his testimony, he warned, "Two hundred years ago, our Nation was born as a result of a taxpayer's revolt. More recently, former Treasury Secretary Joseph Barr warned Congress that another taxpayer's revolt was brewing. The signs of that revolt are everywhere. Many of us around the country feel utter frustration when we see the way in which our tax laws are bent to serve the few, and the way in which Congress continually creates new tax loopholes faster than they can be repealed. The greatest gift that this committee could give ordinary citizens as we enter the celebration of our Nation's Bicentennial is meaningful tax reform."[371]

The nation would get a two tax bills, but both would fall decidedly short of "meaningful tax reform." The first, the Tax Reduction Act of 1975, was a slapdash effort to stimulate the economy. The TRA75, in fact, represented a last-minute "179-turn" on the part of President Ford. Keeping with his anti-inflationary fiscal conservatism, Ford had used the inflation mini-summits as a springboard for proposing an income surtax to fight inflation in a speech to a joint session of Congress. In order to blunt anger from low- and middle-income taxpayers, the president proposed limiting the five-percent surtax to families with incomes above $15,000 and individuals making more than $7,500. However, other portions of his plan would prompt the same distribution-based criticism. In his speech, Ford also proposed to increase the business investment tax credit from seven to ten percent and pleaded for Congress to enact additional cuts to capital gains and dividend taxes. In the short term, Ford's specific policy proposals were

[370] *Tax Reform (Administration and Public Witnesses) Part 2 of 5, July 8-11, 14-16, 18, 22-25, 28-31, 1975* (GPO 1975)
[371] *Tax Reform (Administration and Public Witnesses) Part 2 of 5, July 8-11, 14-16, 18, 22-25, 28-31, 1975* (GPO 1975)

overshadowed by another segment of his speech. Wearing a "WIN" button during the speech, the president had announced his "Whip Inflation Now" campaign, which called for Americans to exercise personal "fiscal discipline" by "cut[ting[the food that you waste by five percent" or driving five percent less, as Ford suggested in his speech. The WIN campaign was widely panned, even by Ford's own advisers, and died a quick death. The president's tax proposals fared little better. Liberal Democrats criticized the investment tax credit increase a handout to business, and few others in Congress had the desire to enact yet another surtax after the unpopularity of the Johnson-Nixon levy. Only a few months after his address to Congress, little remained of Ford's proposals.[372]

After failing to garner either Congressional or public approval with his WIN and surtax proposals, President Ford was left directionless. For better or worse, though, the economy forced action. Unemployment, which had begun inching upward in the final months of 1973, soared throughout the second half of 1974, reaching nine percent in May 1975.[373] Discussing the country's growing unemployment problem in December 1974, Ford and his economic advisers were "somber, almost frightened," as one staffer remembers.[374] Eventually, Ford settled on a proposal that would give all taxpayers a temporary 12 percent rebate. Democrats, the press, and letter-writers, however, roundly criticized the plan. Even conservative Democrats like Russell Long argued that Ford's across-the-board rebate was too generous to upper-income taxpayers.

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[372] Gerald Ford, "Address to a Joint Session of Congress on the Economy," *Public Papers of the President* (October 8, 1974); Yanek Mieczkowski, *Gerald Ford and the Challenges of the 1970s*. (University of Kentucky, 2005), 120-144

[373] FRED Graph

[374] Yanek Mieczkowski, *Gerald Ford and the Challenges of the 1970s*. (University of Kentucky, 2005), 147

While the White House defended cuts to upper-income people as a boon to capital formation, the plan had little chance of passing the Democratic controlled Congress.[375]

Following a little more than two months of wrangling, the House and Senate conference committee produced a bill with a mix of temporary and permanent measures. The Tax Reduction Act of 1975 featured a one-time refund on 1974 individual income taxes, with a maximum of $200 and a minimum of $100. Each Social Security recipient also received a one-time payment of $50. In terms of permanent breaks for individuals, TRA75 increased the minimum and maximum standard deductions by $300 for singles and $600 for couples, and added an addition $30-per-taxpayer-spouse-and-dependent tax credit to the personal exemption, among other minor provisions. Perhaps most significantly, in the long run, was the inclusion of the Earned Income Credit, which is today known as the Earned Income Tax Credit. However, for NRWO activists and others who had pushed a guaranteed income, the EITC fell far short not only of NWRO's $6,500 per family of four proposal and McGovern's $1,000 per person Demogrant, but also Nixon's initial $1,600 per family of four FAP proposal. Russell Long, who had almost single-handedly sunk FAP, had for years pushed the idea of a "work bonus" for poor parents of dependent children. The TRA75 gave Long an opportunity to revive his idea, which was not only more limited than FAP, but also than Ullman's 1975 alternative EITC, which would have covered all workers, not just those with dependent children. In the end the Louisiana senator prevailed and the $400 maximum EITC as enacted in TRA "embodied Long's vision of a program that moved individuals off welfare and into paid employment, while keeping others off

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[375] Eileen Shanahan, "Nation's Poor Would Lose Under Ford's Tax Program," *New York Times*, October 9, 1975; James M. Naughton, "Albert Sees Boon for Rich in Ford's Tax Rebate Program," *New York Times*, January 21, 1975; Yanek Mieczkowski, *Gerald Ford and the Challenges of the 1970s*. (University of Kentucky, 2005), 1620163;

the welfare rolls," as one historian has put it.[376] All told, most individual income taxpayers would see a tax break of something less than $200 from the combined provision of the TRA75. By far, the most significant measure in TRA75, from the perspective of reformers, was a partial the Oil Depletion Allowance. Rank-and-file Democrats rejected the wishes of many leading Democrats, including Ullman, in the House to vote a full repeal. In fact, it was the first time a repeal had even made it to a House vote since the allowance's enactment in 1926. Russell Long, however, attempted to block repeal entirely in the Senate and, eventually, a compromise continuing the allowance for natural gas and small oil producers was struck. Despite this defeat for one industry, however, the TRA75 also included a bevy of breaks for businesses. Most notably, it increased the Investment Tax Credit from seven to ten percent – a provision that had been the centerpiece of Ford's initial proposals. The Investment Tax Credit increase, in fact, was more than double the value of the EITC.[377]

Despite its mild reforms, relatively modest (and largely temporary) individual income tax cuts, and expansion of the Investment Tax Credit, conservatives strongly disliked the Tax Reduction Act of 1975.[378] The American Conservative Union scored a vote for the bill as a negative in its ratings of Congress.[379] Ford and his advisers believed the bill was too expensive and too tilted towards low- and middle-income taxpayers. Ford believed the repeal of the Oil

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[376] Dennis J. Ventry, "The Collision of Tax and Welfare Politics: The Political History of the Earned Income Tax Credit, 1969-99," *National Tax Journal* 53:4 (December 2000); Christopher Howard, "Protean Lure for the Working Poor: Party Competition and the Earned Income Tax Credit," *Studies in American Political Development* 9 (Fall 1995)

[377] *Summary of Major Provisions of Public Law 94-12 Tax Reduction Act of 1975*, Committee on Ways and Means, April 1, 1975 (GPO 1975); *Tax Reduction Act of 1975*, Senate Committee on Finance (GPO 1975); *Summary of the Tax Reduction Act of 1975 As Passed by the House*, Senate Committee on Finance (GPO 1975); "Congress Votes Largest Tax Cut in History," *CQ Almanac* (1975)

[378] On the revenue effects of TRA75, see Christina D. Romer and David H. Romer, "A Narrative Analysis of Postwar Tax Changes (June 2009); Jerry Tempalski, "Revenue Effects of Major Tax Bills," Department of Treasury, Office of Tax Analysis Working Paper 81 (September 2006)

[379] American Conservative Union, *Ratings of Congress 1975* (http://oldsecure.conservative.org/ratingsarchive/uscongress/1975/)

Depletion Allowance would discourage energy production, and White House economic advisers considered many of the extraneous measures, particularly the EITC, to be little more than "junk."[380] Indeed, the EITC particularly enraged conservatives, who had dreaded its potential inclusion in the bill. A memo summarizing TRA75 prepared for Ford called the EITC "a new and undesirable welfare type program," seeings its only "redeeming aspect" as the fact that the enactment of the EITC made "other, worse approaches somewhat less likely."[381] HEW Secretary Caspar Weinberger called the EITC "disastrous…from almost any perspective" in a memo to Ford.[382] Treasury Secretary William Simon told Ford's Economic Policy Board members that he "opposed this [EITC] strongly." The most generous reading of the EITC, Simon noted, was that it relieved low-income taxpayers of their half of the payroll tax. Simon objected to this on distributional grounds. Social Security, in Simon's view, already redistributed to the poor. There was no reason to make it even more downwardly redistributive. "Low-income persons get much more than they pay for from social security," Simon wrote. "Effect of tax <u>and</u> benefits is <u>very progressive</u>."[383] Both Simon and Arthur Burns recommended that Ford veto the TRA75. However, Congressional Democrats threatened to pass an even more generous bill if Ford vetoed TRA75 and a majority of Ford's advisers suggested he grudgingly sign TRA75. Ford did. His signing statement, however, scolded Congress for "distribut[ing] the cuts differently" than Ford's proposals and adding "a lot of extraneous changes to our tax laws" beyond the temporary across-the-board individual cuts and Investment Tax Credit increase Ford had urged.[384] Whatever the

[380] Yanek Mieczkowski, *Gerald Ford and the Challenges of the 1970s*. (University of Kentucky, 2005), 168-169
[381] Memo for President: Tax Cut Bill, March 1975, John Marsh Files, B 32, F Taxes-Tax Reduction, GFPL
[382] Weinberger to Ford, February 26, 1975, Presidential Handwriting, B c14, F Presidential Handwriting 2/28/75, GFPL
[383] Memo for EPB, March 3, 1975, Seidman Papers, B 21, F EPB Meeting Minutes March 1-11, 1975, GFPL
[384] Gerald Ford, "Address to the Nation Upon Signing the Tax Reduction Act of 1975," *Public Papers of the President* (March 29, 1975)

bills merits or defects, beyond the partial repeal of the Oil Depletion Allowance, TRA75 could hardly be considered reform.

The second tax bill to emerge from Congress in the Ford years would go under the banner of reform, but would be almost as disappointing at the Tax Reduction Act of 1975. Work on what would become the Tax Reform Act of 1976 had begun with hearings in 1973 and run through the "capital formation"-heavy 1975 hearings in the House Ways and Means Committee that had also featured more than few tax justice activists. In December 1975, the House had passed a reform package, but the Senate did not pass its own bill until August 1976. Overall, the bill that emerged from the House included a solid menu of reforms, even if it fell decidedly short of the type of sweeping loophole-closing, let alone downwardly redistributive, reform favored by the tax justice left. Nonetheless, the Ways and Means Committee had felt the influence of the grassroots tax left. Stanley Surrey, in fact, credited Robert Brandon of Nader's Tax Reform Research Group, Taxation with Representation, and the AFL-CIO for pushing the shaky Ways and Means Committee to fend off the Ford administration's calls for "capital formation." The Senate Finance Committee, however, was another story. "[I]t was all down hill" for reform once the bill reached the Finance Committee, as Surrey put it. From the beginning, left-liberal Democrats spent much of their time battling the enlargement of loopholes. Chair Russell Long initially moved to increase the capital gains preference, prompting Ted Kennedy to call the process "a fraud in the name of tax reform." Surveying work in the Finance Committee, Nader's *People & Taxes* quipped, "The Tax Reform Act of 1976 could well prove to be the Loophole Enlargement Act of 1976." Thanks to Long's efforts, the passage of TRA76 would, at every stage – Finance Committee, full Senate, and conference committee – prove to be a fraught battle, with reformers winning, as well as losing, some battles.

As passed by both chambers, the TRA76 was a decidedly mixed bag. Perhaps the most significant loophole-closing measures, in the eyes of reformers, came in a tightening of the rules that allowed upper-income taxpayers to generate paper losses with ta shelters. Thanks to a robust pushback from the tax shelter lobby, aided by Long, however, plenty of loopholes remained. As for "capital formation," Surrey quipped that the TRA76's "major gain was in avoiding major damage," since "[t]he Wall Street-Washington lobbyists axis worked hard in 1974 to drastically reduce the tax on capital gains." An extension of the 10 percent Investment Tax Credit, though, certainly qualified as a win for business. Likewise, the bill tripled the amount of ordinary income against which capital losses could be deducted. However, it tightened the capital gains preference in other ways. By increasing the minimum tax, it increased in the effective capital gains tax rate for the highest earners. It also lengthened from six months to one year the time an asset needed to be held to qualify as a long-term capital gain. The mixed bag on capital gains, Surrey noted, was the result of a "Congress [that] seems unwilling to lower the present rate directly, but also unwilling to raise that rate directly." Ultimately, Surrey concluded that the bill at least "lies on the reform side of the tax spectrum," if barely. Likewise, TRRG's quipped that the bill was only "euphemistically" the Tax Reform Act of 1976. However, with its mix of genuine reforms and some steps backward, Brannon wrote that the "hydra-headed tax bill" was something that, for better or worse, "both tax reformers and money interests can live with, although they will never learn to love it." If TRA76 was, overall, seen as lackluster for reformers, it also did little to alleviate the pocketbook squeeze faced by low- and middle-income Americans. Beyond making some of the changes made in TRA75 permanent, TRA76 did little to affect the tax burden on average Americans.[385]

[385] "Tax Bill Cleared: A 'Legislative Miracle,'" *CQ Almanac* (1976); "House Passses Wide-Ranging Tax Revision

All told, the mid-1970s saw the tax justice left unable to translate its state and local victories in federal policy and, as a result, the pocketbook squeeze facing average Americans remained unabated. The National Committee for Tax Justice's Tax Justice Act of 1975 never made it out of Ullman's Ways and Means Committee and was never discussed again. Likewise, the notion of using the federal government to relieve low- and middle-income Americans from rising local property taxes was not revived following the Ford administration's brief and unsuccessful overture to Long and Ullman. At substantial part of this failure could be traced to the divided Democratic caucus. The party's large majority concealed not only traditional divisions between Southern and Northern Democrats, but between older New Deal Democrats and the new crop of "neoliberal" Democrats. Indeed, by mid-1975, the *New York Times* observed that the new Democratic majority was "fractured today by rancor of an intensity seldom seen in the normally chummy atmosphere of Congress." While some of it could be traced to icy relations with the Ford White House, a large portion of discord was attributable what the paper called the "aggressive group of young freshman Democrats" whom many party leaders saw as "politically naïve" and intent on "seeking instant solutions to complex problems."[386]

The "New Democrats" ideological pull was felt on a variety of issues beyond taxes, too. Whereas House Democrats had approved legislation calling for the creation of a federal consumer agency by better than two-to-one margins in both 1971 and 1974, the party lost 20 Democratic votes in the House when the issue came up again in 1975, despite a larger majority.

Bill," *CQ Almanac* (1975); Stanley Surrey, "Reflections on the Tax Reform Act of 1976," *Cleveland State Law Review* 25 (1976); William Pietz, "Long Short on Reform," *People & Taxes* (March 1976); Susan Knipps and Scott Shabel, "Tax Reformers Still Swinging," *People & Taxes* (August 1976); David Fink, "'Tax Equity' Now in Lap of Join Conference," *People & Taxes* (August 1976); "The Senate Debates…," *People & Taxes* (August 1976); Robert Brandon, "Congress Passes Compromise Tax Bill," *People & Taxes* (September 1976); Eileen Shanahan, "Long Opposes Outlawing Tax Shelters," *New York Times*, April 28, 1976; Eileen Shanahan," Senate Unit Votes Capital Gains Cut," *New York Times*, June 12, 1976; Anne Witte and Robert McIntyre, "Tax Reform in the 70s," *People and Taxes* (December 1979)

[386] Majorie Hunter and David E. Rosenbaum, "Defeats Split Bitter House Democrats," *New York Times*, July 2, 1975

Most of the defectors were "normally liberal northern Democrats concerned about bureaucratic expansion," as one report noted. Freshman Montana Representative Max Baucus, for example, successfully pushed for an amendment that would have sunset the agency in seven years.[387] For many "New Democrats," then, economic justice was out, while economic growth and fiscal responsibility was in.

With so many federal doors closed, the late-1970s would see many of the decisive battles over taxes return to the state level. Two states on opposite coasts – California and Massachusetts – would see tax justice activists battle with New Democrat governors, and the outcomes of these battles would permanently shift the direction of American tax politics.

The Battle in the States, from Coast to Coast

For all the attention to the "Watergate Babies" in the Congress, the New Democrats that garnered the most media attention, as well as the most praise from like-minded Democrats, were found in the statehouses of perhaps the two most liberal states in the union, California and Massachusetts. In his controversial "New Democratic Agenda" presented to the 1975 Democratic Issues Convention, Ted Van Dyk singled out California Governor Jerry Brown and Massachusetts Governor Michael Dukakis as models of Democrats who had successful distanced themselves from what Van Dyk called the "New Deal ethic." Once in office, Van Dyk noted, they had followed through on their New Democrat campaigns by "refus[ing] a priori to accept or endorse pre-existing government programs and practices within their own states, even if they were instituted by Democrats and continue to have their support" and standing up against

[387] Alan Ehrenhalt, "Last Hurrahs for the New Deal," *Washington Monthly* (January 1976)

"Democratic Party establishments and traditional supportive interests groups, including teachers and labor unions."[388]

Van Dyk was far from alone in his praise for the Golden and Bay states' governors. The *Boston Globe* linked Dukakis and Brown, billing them as "realistic Liberal Democrats" who "cut welfare and attacked tax increases" while personally eschewing the old political of patronage and profligacy. "There's nothing inconsistent about being liberal and progressive and fiscally responsible," Dukakis told the paper, though he conceded that some critics said that he "sounds like the Republicans."[389] Not surprisingly, Dukakis was invited by the Democratic Forum to address one of its gatherings.[390] In his speech, Dukakis recommended cuts to federal aid for the poor, saying, "We have seen enough of failing Great Society programs."[391] Going beyond the Great Society, Dukakis declared, "[M]uch of what the government has tried to do over the past 15 years has failed."[392] Brown likewise counseled Americans to stop looking to the government. "The conclusion is that merely because there's a problem doesn't mean we retain the ability to find the solution," Brown said. "There are problems government cannot solve."[393] Inactive government could be a virtue, in Brown's view. "You don't have to *do* things. Maybe by avoiding doing things you accomplish quite a lot…," Brown philosophized. "Inaction may be the highest form of action."[394] For good reason, journalist Sidney Blumenthal called Brown and Dukakis part of a "new breed of lowered-expectations liberals."[395] *Newsweek* called Dukakis and Brown "national symbols of the pragmatic new conservatism – tight-fisted political hybrids who

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[388] Ted Van Dyk, "Fixing the Potholes: The Need for a New Democratic Agenda," *National Democratic Issues Convention Program* (November 21-23, 1975);
[389] Georgie Anne Geyer, "Dukakis: Something 'New'…," *Boston Globe*, November 20, 1975
[390] Georgie Anne Geyer, "Dukakis: Something 'New'…," *Boston Globe*, November 20, 1975
[391] David Broder, "Liberal Democrats Split on Issues," *Washington Post*, November 23, 1975
[392] Alan Ehrenhalt, "Last Hurrahs for the New Deal," *Washington Monthly* (January 1976)
[393] "Thoughts of California's 'Guru Governor,'" *Kansas City Times*, May 16, 1976
[394] "Thoughts of California's 'Guru Governor,'" *Kansas City Times*, May 16, 1976
[395] Sid Blumenthal, "Less Is Better in Massachusetts, Too," *Mother Jones* (July 1976)

seek to limit the further spread of government and place a balanced budget at the top of the public agenda." These two governors, the magazine continued, were joined by "a new breed in Congress – cost-conscious liberals like Democratic Sen. Gary Hart, who was George McGovern's campaign manager in 1972 but now tells his Colorado constituents that to 'get the government off your back, get your hands out of the government's pockets.'" These Democrats, the magazine noted, echoed many of the anti-government, pro-market positions being put forth by the new "neoconservative" writers publishing in journals like *Commentary* and *Public Interest*.[396] The media's attention to Brown made them, as the *Los Angeles Times* put it, the topic of "political conversation in Washington." These two young new style" Democrats, the paper noted, seemed to be viewed by many beltway insiders as the future of politics.[397]

Just how much attention Brown and Dukakis deserved, however, was another question. Their victories in liberal states were hardly surprising, especially in the first post-Watergate election of 1974. Nonetheless, by 1975 Brown and Dukakis were seen by many observers inside and outside the Democratic Party as embodying the party's future. This future, presumably, depended upon Brown and Dukakis successfully addressing the issues facing their states. Undoubtedly, in both California and Massachusetts, the tax burden rested near the top of that list, and Brown and Dukakis were taking over states where anger about rising regressive state and local taxes was undoubtedly founded in fact. By most tax measures, the Golden and Bay states sat in the top five states nationwide, often occupying the top two spots. In the early-1970s, for example, California and Massachusetts were number one and number two, respectively, in property taxes per capita. Distributionally, the total state and local tax burden in Massachusetts were more regressive than California's, thanks to the Golden State's progressive income tax. In

[396] David Gelman, et al., "Is America Turning Right," *Newsweek* (November 7, 1977)
[397] Georgie Geyer, "The New Style," *Los Angeles Times*, November 21, 1975

fact, Massachusetts had the highest taxes on low- and middle-income families in the entire country, whereas California's were above average. By the late-70s, however, collected a far disproportionate share of their state and local revenues from the property tax compared to the national average. When the ACIR devised a "fiscal blood pressure" formula in 1977 to measure detect states facing fiscal crises, California and Massachusetts were not only categorized as having "high and rising" fiscal blood pressure, but also occupied two of the top five spots on the list.[398] These were problems on which grassroots left had clear views. But, as the two governors' dealings with these groups during their first terms would show, Brown and Dukakis had little interest in tax justice.

Jerry Brown's meteoric rise in California politics was inextricably linked with both his upbringing and Watergate. Brown drifted into politics from a life of privilege. The son of former California governor Edmund "Pat" Brown, Jerry Brown had dropped out of the seminary, earned a degree in classics, traveled Latin America, then entered Yale Law School on a scholarship given to him by a San Francisco foundation headed by a friend of his father. Eventually, after passing the California bar on his second try, Brown began practicing at a prestigious Los Angeles law firm Tuttle & Taylor. Within a few years, Brown grew dissatisfied with law. In 1969, he won a seat on the Los Angeles Community College Board of Trustees. By 1971, Brown was California's Secretary of State and just three years later he would be campaigning for governor. On the campaign trail in 1974, Brown openly advertised himself as "Pat Brown's son."[399] Jerry Brown not only benefitted from his status as Pat Brown's son, but also from Watergate, which the younger Brown expertly exploited.

[398] Table 1, *1972 Census of Governments, Part 2, Taxable Property Values and Assessment-Sales Price Ratios* (GPO 1973); ACIR, *Measuring the Fiscal "Blood Pressure" of the States – 1964-1975* (GP0 1977)
[399] Paul Jacobs, "Nothing for Everyone: Brown's New Politics," *Mother Jones* (July 1976);

As California Secretary of State, Brown successfully magnified a tangential scandal in the Watergate saga into a large issue. A side story in the backdating of Nixon's donation of his presidential papers to the National Archives in order to secure a soon-to-be-infamous $500,000 tax deduction was that, Frank DeMarco, Jr., a law associate of Nixon's personal attorney, had been the one to notarize the phony donation document. Brown maneuvered this small side story into a headline-grabbing matter by publicly revoking the attorney's notary license. DeMarco argued that he was not responsible for ensuring the date of the gift and called Brown's actions an "obvious ploy" in his planned gubernatorial campaign. Indeed, even Brown conceded that his investigation was "not directly related to the president's tax situation." However, the California press, eager for a local Watergate angle, ate up the story. "Reporters in the state capitol know very well that jerry was reaching for headline by using a trifle to take advantage of a national obsession with Nixon's misdeeds…" one reporter remembered. "I knew we were being had, and so did my fellow reporters. But we wanted a bite of the Nixon-Watergate apple somehow, so we gleefully went along with it." This small act helped position Brown publicly as an anti-corruption crusader just months before 1974 gubernatorial primaries, elevating Brown, an otherwise unremarkable candidate, into a poster boy for post-Watergate good government.[400] Throughout his gubernatorial campaign, however, Brown avoided taking clear stances on any issues. As a result, even with the Watergate boost, Brown's victory over his Republican opponent, former professor and current California State Controller Houston Flournoy, proved to be narrower even than his father's victory 12 years earlier over a stronger opponent, Richard Nixon, with the elder Brown receiving larger margins even in Democratic strongholds like San Francisco County than his son.

[400] Chuck McFadden, *Trailblazer: A Biography of Jerry Brown* (University of California Press), 55-58; "Brown Files Action to Revoke Nixon Lawyer's Notary License," *Los Angeles Times*, March 7, 1974; William Endicott, "Brown Moves Against Nixon Tax Lawyer," *Los Angeles Times*, March 8, 1974

In office, Brown would do little to endear himself to Democratic voters and activists. In an era of a tightening pocketbook squeeze on low- and middle-income Californians, Jerry Brown preached austerity. "Many people thought now Brown would change Reagan's tight fiscal policies…," ABC's Dick Shoemaker noted in a 1975 profile of Brown. "They were wrong."[401] Brown's budget, in fact, called for an increase of less than half Ronald Reagan's average.[402] "People always say money….," Brown argued. "Well I would only say 'the Vietnam War'…. The other side had less…and they won!"[403] The new governor handed out copies of *Small Is Beautiful*, a tract of "Buddhist economics" by British economist E.F. Schumacher from which Brown was fond of quoting. Yet, in most cases, Brown sounded more like a conservative economist as a Buddhist one. Brown repeatedly declared, "There is no free lunch," a quote paraphrased from a book by science fiction writer Robert Heinlein that was popularized by libertarian economist Milton Friedman in articles and columns throughout the '60s and '70s, as well as his 1975 book, *There's No Such Thing as a Free Lunch*. For Friedman and other conservatives who deployed it, the phrase served as an argument against government in all forms, but especially redistributive government. Even if the poor or the working-class thought they were getting a "free lunch" when the government raised taxes on business or rich individuals to fund a new program, Friedman argued, they were actually being hurt by the negative effects of all government interference on the economy. Brown's meaning was little more optimistic. "You don't get something for nothing," Brown told San Diegans in 1975 after repeating his "free lunch" truism. While some to the governor's left were encouraging him to raise taxes, especially on upper-income Californians, rather than cut the budget, Brown

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401 "California Governor/Brown," ABC News, August 23, 1975
402 "Jerry Brown/California," CBS News, May 19, 1976
403 "California Governor/Brown," ABC News, August 23, 1975

explained that he preferred cuts. Citizens needed to "recognize the inherent limits of government," Brown instructed.[404]

Brown bristled at what he saw as Democrats overweening concern with the disadvantaged and the poor. "We have got to be compassionate," Brown said. "But you can only take that so far before you begin to reward those characteristics of your society that are not building it. You've got to reward those who are making the more significant contributions reward them mostly by getting off their backs…." It was a "difficult balance" to care for the disadvantaged while encouraging success, Brown conceded, but he believed that the post-Great Society U.S. was erring on the wrong side. "More and more of our resources are devoted to trying to prop up failures in society, rather than a positive vision," Brown continued. "When we won the West, explored the moon or advanced technology, there was a societal recognition. By a peculiar reversal [in today's society], it gives unconsciously the rewards to the very kinds of attitudes and behavior patterns that we're trying to minimize. Whereas, the person who is not doing any wrong, nobody pays any attention to him. Nobody gives him any recognition." Recent government interventions, Brown suggested, were perversely encouraging poverty and bad behavior. "[The government is] making welfare, unemployment insurance, and all these various programs available…[while] making it more difficult for people to go out and undertake their own enterprise…," Brown said. "It's a strange combination that is really weakening the spirit of this country. And in my own modest way, I'd like to reduce that."[405] In an "era of limits," Brown counseled, the left could not achieve all it wanted. "Freeways, child care, schools, income

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[404] Richard Lamm, "Whither the Democratic Party?" *New York Times*, February 1, 1976; Rowland Evans and Robert Novak, "Jerry Brown: 'Catching Hold,'" *Washington Post*, November 29, 1975; Thomas Elias, "Has Jerry Brown's Era of Limits Returned?" *Mercury News*, April 7, 2009; "Free Lunch" in William Safire, *Safire's Political Dictionary* (Oxford, 2008); Milton Friedman, "Myths that Conceal Reality," *Milton Friedman Speaks* (http://www.freetochoose.tv/ideachannel.php?series=mfs)

[405] "Jerry Brown: He's Astounding the Bureaucrats and Winning Praise from the Conservatives," *Pomona Progress Bulletin*, June 15, 1975

assistance, pensions, health programs, prisons, environmental protection all must compete with one another…," Brown said. "[D]ifficult choices" had to be made. Some of the left's objectives had to be abandoned.[406] Like Reagan, Brown singled out welfare recipients as those who deserved a dose of austerity. "We cannot go on much longer in this country paying people when they don't do very much," Brown said. "We are going to have to slowly change our ways so that people put in a hard day's work for a good part of their lives."[407]

Brown's austerity did not extend to business and California's well-off, though. Instead, the Democratic governor self-consciously appealed to business. Standing against the Naders and McGoverns of the world who were critiquing the motives of business and the wealthy, Brown defended greed and profit-seeking by appealing to innate urges. "The profit motive," the governor argued, "builds on a basic aspect of human nature. You know you can call it profit or greed or self-assertion or self-seeking. That is part of our makeup, and a system that takes advantage of that is certainly in tune with human nature and I think the opposite side of the coin, central planning, has major defects…."[408] Keeping with his desire to woo business, Brown's gubernatorial office formed an economic advisory board that consisted of chief executives from Bank of America and Standard Oil of California, along with former Nixon administration staffer and GOP fundraiser David Packard.[409] The California governor also spoke openely of his annoyance with bureaucrats, skepticism of the "alphabet soup" of government agencies, and belief that public employees were simply "pad[ding] payrolls in the public sector," rather than doing meaningful work – a view that echoed not only business conservatives, but also public

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[406] "Thoughts of California's 'Guru Governor,'" *Kansas City Times*, May 16, 1976
[407] Paul Jacobs, "Nothing for Everyone: Brown's New Politics," *Mother Jones* (July 1976); "Thoughts of California's 'Guru Governor,'" *Kansas City Times*, May 16, 1976
[408] Paul Jacobs, "Nothing for Everyone: Brown's New Politics," *Mother Jones* (July 1976); Jerry Brown, *Thoughts* (City Lights, 1976)
[409] Paul Jacobs, "Nothing for Everyone: Brown's New Politics," *Mother Jones* (July 1976)

choice theory-influenced libertarians. Government, in Brown's view, needed to be "leaner." Federal policymakers and bureaucrats, Brown said, were "completely mindless, muddleheaded" planners constructing a "Tower of Babel" in the form of needless regulations and pointless proposals. "Government regulations are making it tougher for the smaller businessman to prosper. Economic power is concentrating, and that calls forward the bigger unions and bigger government," Brown said. "The private sector has a lot of potential left."[410] For well-off Californians, Brown's was a reassuring message. They were the ones, they believed, who were paying the tab for the state's social programs. Given his steadfast opposition to tax hikes of any kind, the clear implication in Brown's austerity rhetoric was that California's upper-middle and upper classes would feel no pinch on Brown's watch. The most Brown would say was that "those at the upper reaches" of the income spectrum might have to "cut back a bit" on their "corporate and special privileges."[411] It was a decidedly mild reprobation from a Democratic governor busy scolding government workers and public aid recipients.

Embedded in Brown's worldview was a distinct distaste for transactional pocketbook politics. The government, Brown believed, not the market created the problems that angered the public. The governor argued that American would accept economic hardship that came from "the market," but not ones caused by policymaking.[412] Hence, he decided to err on the side of doing less. "I'm not going to twist arms and threaten people the way old-time politicians would have done," Brown said. "That's the old kind of politics, and I won't do it." The catchphrase around Brown's office was "creative inaction." "I reject get-it-done, make-it-happen thinking," Brown

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[410] "Jerry Brown: He's Astounding the Bureaucrats and Winning Praise from the Conservatives," *Pomona Progress Bulletin*, June 15, 1975
[411] Paul Jacobs, "Nothing for Everyone: Brown's New Politics," *Mother Jones* (July 1976); "Thoughts of California's 'Guru Governor,'" *Kansas City Times*, May 16, 1976
[412] "Brown," CBS News, July 5, 1977

philosophized. "I want to slow things down so I understand them better."[413] As a result, Brown purposely avoided stances on tough issues, and few issues were tougher in mid-to-late '70s California than taxes. "Jerry Brown has seldom risked any of his enormous popularity on any difficult issue," Democratic California assembly member Willie Brown, Jr., quipped bitterly in 1976.[414] On issue after issue, Brown was content with inaction. Few issues were subjected to more inaction from Brown than taxes. Even his personal taxes evidenced neglect. When Brown made his tax return public in 1975, it revealed that he had failed to take all available deductions. Why did Brown neglect to take those deductions? "[I]t doesn't turn me on," he told UPI.[415] Brown had little concern for the pocketbook woes of average Californians, either.

Whereas many Democrats, as well as Republicans like Nixon, argued that poor and working-class Americans had yet to reach economic security and were instead suffering through a pocketbook squeeze, Brown argued that fiscal and environmental realities demonstrated the opposite. It was not the inflation Americans faced at their local markets that was the issue, in Brown's view, but Americans inflated assumptions of what businesses could pay them and what government should do for them. "The day is coming when people will have to work more and get paid less for it…" Brown argued. "I'm trying to bring some reality to the political process at a point in history when I see a lot of unreality and a lot of inflated expectations about what can be done. I see that the easy life that many have enjoyed is going to get tougher. And no commission or politician has any magic wand to wave that away."[416] The goal of left-distributive tax justice groups in California, however, was to get Brown to address the tax- and inflation-induced pocketbook squeeze facing low- and middle-income Californians.

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[413] Paul Jacobs, "Nothing for Everyone: Brown's New Politics," *Mother Jones* (July 1976);
[414] Paul Jacobs, "Nothing for Everyone: Brown's New Politics," *Mother Jones* (July 1976);
[415] "Brown Tax Payment Figure Told," *Argus*, April 23, 1975
[416] "Thoughts of California's 'Guru Governor,'" *Kansas City Times*, May 16, 1976

Throughout the 1970s, the ACORN-affiliated Citizens Action League – often joined by labor unions and the California Tax Reform Association – had been sounding the alarm on the coming tax revolt. CAL argued that rising property taxes were squeezing the pocketbooks of homeowners and renter. In response, CAL sought tax relief for low- and middle-income homeowners, as well as an upward redistribution of the tax burden in the state. Specifically, CAL focused on the intertwinted issues of rising properties taxes and inequitable assessments. In 1975, the group captured media attention by orchestrating a "Taxpayers' Tour of Downtown S[an] F[rancisco]," which pointed out commercial properties, like the Embarcadero Center and the Standard Oil Building, which had seen their assessments stay flat, or even fall, at the same time that assessments for average homeowners were soaring. CAL orchestrated campaigns in cities across California targeting assessors viewed as favorable to business at the expense of homeowners. It also publicized how large companies like Prudential Insurance were using appeals board to reduce already-favorable assessments. CAL called for a reassessment of downtown commercial properties and the use of the new revenue to fund homeowner tax relief.[417]

Yet, CAL had struggled to get Governor Brown and many legislative Democrats interested in property tax reform for years. The only issue on which Brown and CAL were able to find common ground was energy pricing and they did so at least partly for different reasons. CAL had pushed a "lifeline" utility rate measure, designed to apply the logic of progressive

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[417] "Tea for Tinney," B 18, F 2, MEJ, WHS; CAL Release, August 24, 1976, B 18, F 2, MEJ, WHS; "Firm's Appeal for Tax Cut Protested," *Los Angeles Times*, May 18, 1976; "Taypayers' Tour of Downtown S.F.," B 18, F 3, MEJ, WHS; Map of Tour (with assessment data), Undated [1975], B 18, F 3, MEJ, WHS; Jim Wood, "Rich Property Owners Get a Free Ride," *San Francisco Examiner*, July 3, 1975; CAL Release, September 3, [1975], B 18, F 3, MEJ, WHS; "Assessor Taxes His Lumps Againt from Crowd," *San Francisco Examiner*, July 18, 1975; "Re-Assesses Downtown, Group Demands," *San Francisco Examiner*, July 22, 1975; CAL, "Meet Joe Tinney, City Assessor" Flier, July 17, 1977, B 18, F 3, MEJ, WHS; "City Losing Millions on Assessments," *San Francisco Examiner*, July 16, 1975

taxation to energy. Rather than energy getting cheaper with each unit consumed – known as "declining block pricing," which favored large commercial and industrial users – a "lifeline" rate structure charged small energy users less than large energy users. CAL and other grassroots groups, such as Electricity and Gas for People (EG&P) and Toward Utility Normailization (TURN), successfully prodded Brown and the legislature to make California the first state in the country to adopt lifeline rates. Brown's support, though, likely had much more to do with the belief that progressive electric rates would encourage conservation as with a left-distributionist outlook.[418] Despite signing the "lifeline" utility rates legislation, Brown remained cool to their proposals for property tax relief.

Given Brown's evident lack of interest, by 1977, CAL was ready to act on its own. The group with CTRA, labor unions, and various other left-leaning grassroots groups to sponsor a tax reform package. Echoing the now-defunct grassroots-pushed federal reform legislation, the California tax justice coalition dubbed the bill the Tax Justice Act of 1977, and it was introduced by friendly state legislators as Senate Bill 154. The Tax Justice Act proposed to cut the tax bill of the median-income homeowner in half. The bill also provided "tax insurance" by pegging relief to increasing property tax bills. It paid for the new tax relief through a variety of progressive means, including increasing income taxes on upper-income Californians and curtailing the preferential rate for capital gains. The left-coalition stage three mass rallies throughout the

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[418] U.S. Department of Energy, *Lifeline Electric Rates and Alternative Approaches to the Problems of Low-Income Ratepayers: Cross Program Summary* (July 1980); U.S. Department of Energy, *Lifeline Electric Rates and Alternative Approaches to the Problems of Low-Income Ratepayers: Cross Program Summary* (July 1980); U.S. Department of Energy, *Lifeline Electric Rates and Alternative Approaches to the Problems of Low-Income Ratepayers: Ten Case Studies of Rejected Programs* (July 1980); U.S. Department of Energy, *Lifeline Electric Rates and Alternative Approaches to the Problems of Low-Income Ratepayers: Ten Case Studies of Implemented Programs* (July 1980); Russel J. Profofzich, "Electric Utility Lifeline Rates: Concepts and Practices," Congressional Research Service (October 19, 1977); Kirk Scharfenberg, "Consumer's Seek 'Lifeline' Power Rates," *Berkshire Eagle*, October 13, 1975

summer of 1977 to drum up support for the bill, each drawing thousands of protestors, including many elderly homeowners particularly alarmed by the effects of rising property taxes bills, given their fixed incomes. Some middle-aged homeowners invoked the symbolism of Vietnam draft resisters by burning their tax assessment notices in protest of the legislature's delay in passing SB 154. Republicans countered with a bill offering only $155 in relief to the same middle-income family – relief that would not rise with inflation.[419]

Despite Republican opposition, the Tax Justice Act passed the Senate by a one-vote margin, and later passed the Assembly in a slightly altered form. However, the bill languished in conference. The first conference report substantially watered down the bill by adding in relief for business, and a coalition of Democrats – with the support of CAL – killed it. A second conference bill added more relief for middle-income homeowners, ensuring that nearly 70 percent of homeowners would receive substantial relief from the bill.[420] But in the press and among activists, Governor Brown was seen as willing to let the Tax Justice Act die. "The biggest obstacle to Tax Justice in California at this moment is Governor Brown," the CTRA put it bluntly. Business groups – particularly realtors – strenuously opposed SB 154. Seeking the support of business for his 1978 reelection campaign, Brown favored a bill that was less costly than SB 154, aimed more relief at upper-income homeowners, and spared businesses the tax hikes contained in SB 154, thereby garnering the endorsement of major real estate and business lobbies. Brown, as one adviser later put it, "did not want to run in November with such a liberal

[419] CAL Letter, Undated [1977], B 18, F 2, MEJ, WHS; AFL-CIO Release, January 18, 1977, B 18, F 2, MEJ, WHS; Petris Press Release, "Major Property Tax Relief Bill Introduced," January 18, 1977, B 18, F 2, MEJ, WHS; "Who Supports SB 154?" B 18, F 2, MEJ, WHS; "Facts about SB 154," B 18, F 2, MEJ, WHS; "Taxpayers' Capital Protest," *Oakland Tribune*, April 28, 1977; 'Tax Justice in California," *Public Works*, Winter 1977; "Robin Hood Was Right" photo, *Montclarion*, May 4, 1977; "SM County Group Burns Tax Assessment Notices," *Palo Alto Times*, April 20, 1977; Dean C. Tipps, "California's Great Property Tax Revolt: The Origins and Impact of Proposition 13," in *State and Local tax Revolt: New Directions for the 80s*, Dean C. Tipps and Lee Webb, eds. (Transaction, 1980), 68-90.

[420] "Brown vs. The People," *Tax Back Talk* 3:4 (July 1977); "15 Senators Defeat Tax Relief," *Tax Back Talk* 3:5 (October 1977); David Doerr, *California's Tax Machine* (California Taxpayers' Association, 2008) , 166-171;

bill hanging around his neck." Brown refused to meet with the CAL-fronted tax coalition to discuss his opposition to the Tax Justice Act, and the governor did not expend any political capital to cultivate the two votes necessary for SB 154's passage. In response, CAL held a 21-day vigil outside Brown's Los Angeles office. Each day, hundreds of activists gathered to read the names of the 150,000 Los Angeles-area residents who had signed CAL's petition calling for property tax relief and reform. But CAL's efforts were to no avail. Needing a two-thirds majority to become law, the second conference bill fell two votes shy of passing, thanks in part to Brown's clear lack of support for the legislation.[421] Keeping with his emphasis on austerity, Brown believed that his sizable budget surplus, which he hinted might eventually be used for tax relief (though clearly not for the Tax Justice Act) was a selling point for his 1978 reelection campaign.[422] As we shall see in the conclusion, it was a belief that the seemingly moribund tax right would prove wrong in mid-1978, much to the surprise of Brown and the despair of tax justice activists.

In Massachusetts, the story was much the same as in California. Unlike the populist Democrats of the 1970 midterms, Dukakis campaigned in 1974 on pledge not to increase taxes on anyone, including the rich, even if it meant the state would be unable to provide relief to low-

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[421] CAL Release, December 7, 1977, B 18, F 2, MEJ, WHS; CAL Release, December 22, 1977, B 18, F 2, MEJ, WHS; "Brown vs. The People," *Tax Back Talk* 3:4 (July 1977); 15 Senators Defeat Tax Relief," *Tax Back Talk* 3:5 (October 1977); Derek Shearer, "Can He Take Credit after Contributing to a Crisis?" *Los Angeles Times*, June 27, 1978; Doug Shuit, "Cost Factor Stalls 2 Key Bills," *Los Angeles Times*, August 17, 1977; Larry Stammer, "Brown Lauds State's Business Prospects," *Los Angeles Times*, August 27, 1977; Tom Goff, "Showdown Nears for Tax Relief Package," *Los Angeles Times*, August 28, 1977; Robert Fairbanks, "Property Tax Relief Bill Dies," *Los Angeles Times*, September 3, 1977; "Lesson in Civics Flunked," *Los Angeles Times*, September 13, 1977; George Skelton and Robert Fairbanks, "Tax Relief Bill Defeated," *Los Angeles Times*, September 16, 1977; George Skelton, "Administration Rethinking Its Property-Tax Bill," *Los Angeles Times*, October 7, 1977; George Skelton, "Brown Changes Strategy on Property-Tax Relief," *Los Angeles Times*, October 20, 1977; George Skelton, "Brown Concedes Defeat in Property Tax Fight," *Los Angeles Times*, December 14, 1977; Joe Matthews and Mark Paul, *California Crackup: How Reform Broke the Golden State and How We Can Fix It* (University of California Press, 2010), 40-43; Dean C. Tipps, "California's Great Property Tax Revolt: The Origins and Impact of Proposition 13," in *State and Local tax Revolt: New Directions for the 80s*, Dean C. Tipps and Lee Webb, eds. (Transaction, 1980), 68-90; Robert Cruickshank, "Who Was Jerry Brown?" *California Northern* 1:1 (June 2010); Roger Rapoport, *California Dreaming: The Political Odyssey of Pat and Jerry Brown* (Berkeley: Nolo Press, 1982)
[422] "Brown," CBS News, July 5, 1977

and middle-income taxpayers. When cities like Boston, filled with homeowners groaning under steep property taxes, looked to the state capitol for fiscal aid, Dukakis told them there was no chance. Even a proposal by the conservative Massachusetts Taxpayers Foundation to broaden the sales tax base and use the revenue to let cities freeze and then roll back their property taxes was dismissed out-of-hand by Dukakis. "We ought to stop talking about additional taxes – whether state or local – at this time," the governor said. When real estate taxes at the local level continued to spiral in the years that followed, the head of the MTF quipped that Dukakis's fiscal policy was "a euphemism for balancing the state budget at the expense of the cities and towns."[423] Dukakis's politics were dubbed the "new pragmatism." Other observers just called him "Jerry Brown East."[424] But Dukakis's former aide, Barney Frank, charged that Dukakis was balancing his budget "on the backs of poor." To the title of the "new pragmatism," Frank responded, "It's the new opportunism, the new electability. It's Calvin Coolidge with a smile."[425]

Like Brown, Dukakis sought to signal his break with Great Society liberalism, as well as McGovern's Demogrant proposal, by taking a hard line on welfare. Dukakis's cuts were protested by groups like the League of Women Voters, the Americans for Democratic Action, and the Massachusetts Council of Churches. The elderly and persons with disabilities joined other welfare recipients and social workers for a three-hour "People's Hearing" organized by a coalition dubbed the Alliance for Economic Justice to protest Dukakis's proposed cuts. Representatives of the Dukakis administration had been invited to defend their proposals, but

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[423] Ken Hartnett, "Dukakis says he 'won't accept inevitability' of new taxes," *Boston Globe*, February 7, 1975; Jonathan Fuerbringer and Robert Turner, "Dukakis tells White 'no' on new taxes," *Boston Globe*, November 19, 1976; "Outlines of the Taxpayer Foundation Plan," *Boston Globe*, November 19, 1976; "Massachsuetts Taxes Up 13.1%," *Boston Globe*, January 28, 1977; Michael Kenney and Robert Turner, "Dukakis 'regrets' no-new-taxes pledge," *Boston Globe*, November 7, 1975; Ken Hartnett, "Dukakis Pledges to Wipe Out Expected Deficit in 6 Months," *Boston Globe*, October 23, 1974; Jonathan Fuerbringer, "Dukakis says state needs $687 million in new taxes," *Boston Globe*, June 17, 1975;

[424] David Gelman, et al., "Is America Turning Right," *Newsweek* (November 7, 1977)

[425] David Gelman, et al., "Is America Turning Right," *Newsweek* (November 7, 1977)

none showed. Researchers at Boston College, including economist Barry Bluestone, presented a report that argued the administration's cuts were based on "myths," rather than facts, about the state's expenditures. The sense that Dukakis was channeling the public's anger over taxes toward the disadvantaged was palpable. "The governor has been trying to direct the resentment of the middle class over economic conditions in this state against the needy," a daycare worker at the "People's Hearing" told the *Boston Globe*. One welfare advocate alleged that, in a private meeting, Dukakis told her, "I see those kids on food stamps in the supermarkets in Brookline. Eighty percent of the foot stamp recipients in Brookline are students. I see them stuffing roast beef in their carts and paying with food stamps – my money – while Kitty [Dukakis's wife] and I have to settle for hamburger." While it was implausible that the governor could not afford whatever cut of meat he desired, Dukakis's sentiment was clear. Indeed, all the protest and studies urging Dukakis to take another budget path had no effect, and Dukakis signed bills enacting steep cuts to welfare and human services.[426] The ultimate effects were cuts medical care and cost-of-living increases for families on welfare and the institution of a mandatory "workfare" program that required unemployed fathers on government assistance to work three days a week in government or non-profit jobs or lose benefits. [427]

Massachusetts tax justice groups attempted to push Dukakis to the left on taxes and spending by putting forward plans for graduated income taxes, a "lifeline" utility plan, and property tax relief. During his gubernatorial campaign, Dukakis said that, philosophically, he preferred a graduated income tax to a sales tax, but promised not to raise any taxes or pursue

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[426] Jonathan Fuerbringer, "Dukakis Seeks New Powers to Deepen Welfare Cutbacks," *Boston Globe*, May 17, 1975; Jonathan Fuerbringer, "Battle for Welfare Cuts Won, Dukakis Signs Bill," *Boston Globe*, August 21, 1975; Ken Hartnett and Jonathan Fuerbringer, "Aide tells Dukakis ways to cut millions from welfare budget," *Boston Globe*, March 5, 1975; Jean Dietz, "Protesters say Dukakis holds the needy responsible for state's economy," *Boston Globe*, April 25, 1975; "Gov. Dukakis's Budget Message," *Boston Globe*, June 17, 1975; Sid Blumenthal, "Less Is Better in Massachusetts, Too," *Mother Jones* (July 1976)

[427] David Gelman, et al., "Is America Turning Right," *Newsweek* (November 7, 1977)

graduated taxes in Massachusetts, which were prohibited by the state's constitution. During his first year in office, when it became clear he would have to break his no-tax pledge, Dukakis proposed cushioning low- and middle-income people's tax increase by instituting a "vanishing exemption" – essentially, a tax exemption that decreased in value as one made more money, rendering income tax rates effectively progressive. However, many experts still questioned its constitutionality, and after Dukakis's initial proposal of the idea, it evaporated, despite Democratic control of the legislature. Ultimately, Dukakis was forced to propose increases in both the state's flat-rate income tax and its sales tax, not to fund new programs or local tax relief, but simply to balance the budget.[428] Dukakis's politics were dubbed the "new pragmatism." Other observers just called him "Jerry Brown East."[429] The combined cuts to social welfare programs and increases in regressive taxes angered even many formerly sympathetic Democrats. Dukakis's former aide, Barney Frank, charged that Dukakis was balancing his budget "on the backs of poor." To the title of the "new pragmatism," Frank responded, "It's the new opportunism, the new electability. It's Calvin Coolidge with a smile."[430]

In the wake of the regressive tax increase, left-leaning grassroots groups attempted to force Dukakis's hand on the graduated income tax. The most notable activist group pushing the measure was the Alliance for Fair Share, which had been begun pressing for tax reform in the Bay State in the early-1970s. "Mass Fair Share," as it was commonly called, was an MEJ-backed project started by former NWRO and SDS members. Fair Share focused on organizing English- and Spanish-speaking low- and middle-income residents in cities like Chelsea around

[428] Jonathan Fuerbringer, "Battle for Welfare Cuts Won, Dukakis Signs Bill," *Boston Globe*, August 21, 1975; Michael Kenney, "Dukakis Signs Budget-Tax Bill," *Boston Globe*, November 9, 1975; Francis W. Hatch, Jr., "Mass. GOP Still Has Role," *Boston Globe*, April 27, 1975; Jonathan Fuerbringer, "Dukakis Proposes Record State Tax Increase," *Boston Globe*, July 2, 1975; Steven A. Cohen, "Dukakis Seeks Graduated Exemptions," *Lowell Sun*, July 8, 1975

[429] David Gelman, et al., "Is America Turning Right," *Newsweek* (November 7, 1977)

[430] David Gelman, et al., "Is America Turning Right," *Newsweek* (November 7, 1977)

pocketbook issues like taxes, utility pricesa bridge tolls, and school lunches.[431] In addition to organizing, Fair Share focused on offering services to its members, like free tax preparation, legal assistance, and ambulance care.[432] By 1977, Fair Share had 7,000 members.[433]Fair Share and other like-minded groups formed the Coalition for Tax Reform. CFTR succeeded in placing Issue 2 on the 1976 ballot, giving Bay State voters the fourth chance in the past 14 years to vote on graduated tax rates. CFTR argued that 80 percent of Massachusetts residents would pay less under a graduate income tax, which the group said was fairer to low- and middle-income taxpayers than the state's current flat tax. The group also argued that the legislature should use any additional income tax revenue collected from graduated rates to lower local property taxes, which CFTR said was the truly unfair tax in the state. Supporters' goals were decided distributive. Fair Share's Lional Vincent said the group's main concern was that the rates were "graduated" once all of the "exemptions and deductions" were calculated. "Under the present flat rate system the $10,000 per year person is taxed at the same rate as the person who earns $100,000 a year. For the family living on $10,000, a tax bill of a few hundred dollars means less money available for the necessities of life," Florence Rubin, the president of the LWV, argued. "For the $100,000 a year family, a tax payment of a few thousand dollars is little more than nuisance." Or, as another LWV's member put, the new rates would "provide relief for low and middle income taxpayers."[434]

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431 "A Report on the Massachusetts Alliance for a Fair Share," January 1974, MEJ, B 9 F 9, WHS; Fair Share pamphlet, MEJ, B 9 F 9, WHS; Michael Kenney, "Chelsea Fair Share Efforts Point Way for New Movement," *Boston Globe*, September 1, 1973.

432 "Membership Benefits Plan," MEJ, B 9 F 9, WHS; "Tax Returns Done Free," MEJ, B 9 F 9, WHS; "Free Tax Service," MEJ, B 9 F 10, WHS; Dear Friend, March 15, 1974, MEJ, B 9 F 10, WHS; "Fair Share Legal Care," MEJ, B 9 F 10, WHS;

433 Ansara to Stern, October 12, 1977, MEJ, B 9 F 12, WHS. By 1980, it was even larger, with "enrollment of 40,000 statewide, an active membership of 8,000, and a core of truly dedicated participants totaling about 500." Kirk Scharfenberg, "Fair Share: A Larger Slice?" *Boston Globe*, March 29, 1980

434 R.S. Kindleberger, "Graduated income tax on the ballot again," *Boston Globe*, October 2, 1976; "Mass. ballot issues... 2 graduated income tax," *Boston Globe*, October 21, 1976; R.S. Kindleberger and Janathan Fuerbringer,

That same year, essentially the same coalition behind the graduated income tax proposal were also pushing a ballot measure that would have replaced Massachusetts's declining-block electric pricing with flat-rate pricing. Fair Share had initiated the petition to the flat-rate electricity proposition, Issue 7, on the ballot. The measure was expected to lower bills for three-quarters of ratepayers, while limiting most increases to large businesses. Fair share and other supporters also estimated that average residential customers would see their bills drop by 10 to 20 percent, since they were currently paying the highest rates.[435] Undoubtedly, though, the Massachusetts flat-rate referendum would save Bay Stay residents less than California's graduated-rate electric law. According to some estimates, this could have been as little as $50-per-year savings (more than $200 in 2015 dollars) – a not altogether inconsequential amount – or as much as $100 per year. Issue 7 also granted the legislature the ability to charge less for the first 300 kilowatts of residential electricity use, effectively opening the door for future progressive rates. For large users, the measure encourage conservation by offering lower rates on

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"Ballot Pits Citizen Groups vs. Business," *Boston Globe*, September 5, 1976; A.A. Michelson, "Grad Tax Needs Long Slumber Before New Try," *Boston Globe*, November 6, 1976; Jonathan Fuerbringer, "Dukakis Aide Admits Error in Graduated Tax Benefit Figures," *Boston Globe*, September 17, 1976; Michael Kenney, "Grad Tax Strategy Stymied," *Boston Globe*, March 26, 1976; John Dane, Jr., "One Way to Kill Jobs," *Boston Globe*, October 20, 1976; Florence R. Rubin, "Savings Due for Many," *Boston Globe*, October 20, 1976; "Results of Poll," *Boston Globe*, October 20, 1976; "Voters Not Sure on Graduated Tax," *Boston Globe*, October 6, 1976; R.S. Kindleberger, "Graduated Tax – 4th Test in 14 Years," *Boston Globe*, October 31, 1976; R.S. Kindleberger, "Voters Won't Know What Gradauted Tax Will Cost," *Boston Globe*, October 21, 1976; A.A. Michelson, "Industry Amasses War Chest to Fight November Referenda," *Boston Globe*, August 28, 1976; David Farrell, "Flat Rate Dim on Electricity," *Boston Globe*, April 26, 1976; R.S. Kindleberger, "Fair Share, Legislators Discuss Flat Rate Plan," *Boston Globe*, April 27, 1976; R.S. Kindleberger, "Cost of Electricity: The Rate Fight Grows," *Boston Globe*, February 8, 1976

[435] R.S. Kindleberger, "Graduated income tax on the ballot again," *Boston Globe*, October 2, 1976; "Mass. ballot issues... 2 graduated income tax," *Boston Globe*, October 21, 1976; R.S. Kindleberger and Janathan Fuerbringer, "Ballot Pits Citizen Groups vs. Business," *Boston Globe*, September 5, 1976; A.A. Michelson, "Grad Tax Needs Long Slumber Before New Try," *Boston Globe*, November 6, 1976; Jonathan Fuerbringer, "Dukakis Aide Admits Error in Graduated Tax Benefit Figures," *Boston Globe*, September 17, 1976; Michael Kenney, "Grad Tax Strategy Stymied," *Boston Globe*, March 26, 1976; John Dane, Jr., "One Way to Kill Jobs," *Boston Globe*, October 20, 1976; Florence R. Rubin, "Savings Due for Many," *Boston Globe*, October 20, 1976; "Results of Poll," *Boston Globe*, October 20, 1976; "Voters Not Sure on Graduated Tax," *Boston Globe*, October 6, 1976; R.S. Kindleberger, "Graduated Tax – 4th Test in 14 Years," *Boston Globe*, October 31, 1976; R.S. Kindleberger, "Voters Won't Know What Gradauted Tax Will Cost," *Boston Globe*, October 21, 1976; A.A. Michelson, "Industry Amasses War Chest to Fight November Referenda," *Boston Globe*, August 28, 1976; David Farrell, "Flat Rate Dim on Electricity," *Boston Globe*, April 26, 1976; R.S. Kindleberger, "Fair Share, Legislators Discuss Flat Rate Plan," *Boston Globe*, April 27, 1976; R.S. Kindleberger, "Cost of Electricity: The Rate Fight Grows," *Boston Globe*, February 8, 1976

consumed during off-peak hours, a policy known as peak load pricing. Even if the legislature never enacted graduate rates, Issue 7 was expected to shift between $60 and $90 million in electricity costs from homeowners and small businesses to large commercial and industrial firms. This shift, Fair Share argued, was not only distributionally just, but would also stimulate the state economy by putting money into the pockets of consumers and the registers of small businesses. In the long run, too, it would encourage energy conservation, according to Fair Share.[436]

Bay State conservative activists and businesses groups strenuously opposed both the graduated tax and flat-rate electricity pricing. The tax initiatives main opponent, Citizens for Limited Taxation, was led by Edward F. King, whom the *Boston Globe* called "Mr. Anti-Grad Tax." In his campaign to keep the governor from supporting the measure, King made headlines by presenting Dukakis with what the *Boston Globe* described as a "Haitian witch mask," which King said was relevant because Proposal 2 was "just so much mumbo jumbo and had about as much chance of succeeding as the spells cast by a Haitian witch doctor." CFLT was joined by People Against Increased Income Taxation a group of anti-tax businesspersons formed for those who opposed the income tax but also objected to King's "flamboyant and hard-hitting style." CFLT was, as its executive director said, "the responsible voice of the opposition," which did not use any "inflammatory language." Additional opponents included the Massachusetts Taxpayers Foundation, the Associated Industries of Massachusetts, and the Greater Boston Chamber of Commerce, among other business groups. Opponents of the income tax, "flamboyant" and otherwise, argued not only that individuals would pay higher taxes under graduate rates, but that businesses would leave the state en masse if progressive tax rates were instituted in the Bay State. The Chamber's Gerald Holtz, for example, predicted that graduated rates would lead to

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[436] Jonathan Fuerbringer, "Flat rates for electricity: Not simply little vs. big," *Boston Globe*, October 21, 1976

higher taxes on "individuals with high incomes," whom he noted were "a mobile group." "They are also, typically, the group who control most of the key economic decisions made by business," Holtz added ominously. Likewise, the chair of People Against Increased Income Taxes, John Dane, Jr., argued, "The high technology industries, such as those found in the Route 128 area, require a large pool of highly-trained and well paid employees and executives…[who] would be most seriously hurt by a shift from a flat rate at 5.375 percent to a graduated tax. And if our Massachusetts high technology concerns cannot attract highly skilled personnel….they obviously will have fewer jobs for production workers, secretaries, file clerks, maintenance staff and the like." [437]

Business groups' arguments against flat-rate energy were much the same. Opponents argued that businesses would flee the state if flat-rate pricing were put into effect, since the primary beneficiaries of the existing declining-block pricing were large businesses. The forces against Question 7 were many of the state's "major manufacturers, bankers, insurance companies, and commercial interests," as the *Globe* summarized. These interests gathered in the Council for Economic Energy Use. [438] The CEEU and other opponents regularly predicted that the measure would cost the state 35,000 jobs, a figure derived from a University of Massachusetts model that placed the range between 17,500 and 62,000. The model's designer,

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[437] R.S. Kindleberger, "Graduated income tax on the ballot again," *Boston Globe*, October 2, 1976; "Mass. ballot issues... 2 graduated income tax," *Boston Globe*, October 21, 1976; R.S. Kindleberger and Janathan Fuerbringer, "Ballot Pits Citizen Groups vs. Business," *Boston Globe*, September 5, 1976; A.A. Michelson, "Grad Tax Needs Long Slumber Before New Try," *Boston Globe*, November 6, 1976; Jonathan Fuerbringer, "Dukakis Aide Admits Error in Graduated Tax Benefit Figures," *Boston Globe*, September 17, 1976; Michael Kenney, "Grad Tax Strategy Stymied," *Boston Globe*, March 26, 1976; John Dane, Jr., "One Way to Kill Jobs," *Boston Globe*, October 20, 1976; Florence R. Rubin, "Savings Due for Many," *Boston Globe*, October 20, 1976; "Results of Poll," *Boston Globe*, October 20, 1976; "Voters Not Sure on Graduated Tax," *Boston Globe*, October 6, 1976; R.S. Kindleberger, "Graduated Tax – 4th Test in 14 Years," *Boston Globe*, October 31, 1976; R.S. Kindleberger, "Voters Won't Know What Gradauted Tax Will Cost," *Boston Globe*, October 21, 1976; A.A. Michelson, "Industry Amasses War Chest to Fight November Referenda," *Boston Globe*, August 28, 1976; David Farrell, "Flat Rate Dim on Electricity," *Boston Globe*, April 26, 1976; R.S. Kindleberger, "Fair Share, Legislators Discuss Flat Rate Plan," *Boston Globe*, April 27, 1976; R.S. Kindleberger, "Cost of Electricity: The Rate Fight Grows," *Boston Globe*, February 8, 1976

[438] Jonathan Fuerbringer, "Flat rates for electricity: Not simply little vs. big," *Boston Globe*, October 21, 1976

though, cautioned that the estimates were not to be taken as existing jobs eliminated necessarily, but instead as future jobs not created. "You can't take these numbers too literally," he told the *Globe*. Harvard economist Kenneth Arrow, in contrast, conducted a study that supported Question 7. "Electricity is a very small fraction of total costs [for businesses], and the adverse effect must be very small," Arrow said. "In addition, the slower growth of eclectic generating will mean that….with a few years the price of electricity, even to industry, will be no higher than it is today, while the rest of the population has lower rates [than today]."[439] Nonetheless, the CEEU's claims were echoed by other business groups. A representative of the Greater Boston Chamber of Commerce, for example, claimed that the flat-rate electricity measure would cost the state 16,000 manufacturing jobs .[440] The CEEU also bolstered its anti-flat rate argument by asserting that that the measure would not only cost jobs, but also drive up the prices that consumers would pay for goods and services offered by the large businesses paying the higher costs.[441]

The battle was, as a *Globe* headline summarized, "Citizen Groups vs. Business." The business groups had the decided spending advantage. In 1972, the last time a graduated income tax was on the ballot, opponents outspent proponents $118,000 to $15,000 to defeat the measure. In 1976, CFTR, in fact, had less money in 1976 than in 1972. Fair Share did better than CFTR,

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[439] Jonathan Fuerbringer, "Flat rates for electricity: Not simply little vs. big," *Boston Globe*, October 21, 1976
[440] R.S. Kindleberger, "Graduated income tax on the ballot again," *Boston Globe*, October 2, 1976; "Mass. ballot issues... 2 graduated income tax," *Boston Globe*, October 21, 1976; R.S. Kindleberger and Janathan Fuerbringer, "Ballot Pits Citizen Groups vs. Business," *Boston Globe*, September 5, 1976; A.A. Michelson, "Grad Tax Needs Long Slumber Before New Try," *Boston Globe*, November 6, 1976; Jonathan Fuerbringer, "Dukakis Aide Admits Error in Graduated Tax Benefit Figures," *Boston Globe*, September 17, 1976; Michael Kenney, "Grad Tax Strategy Stymied," *Boston Globe*, March 26, 1976; John Dane, Jr., "One Way to Kill Jobs," *Boston Globe*, October 20, 1976; Florence R. Rubin, "Savings Due for Many," *Boston Globe*, October 20, 1976; "Results of Poll," *Boston Globe*, October 20, 1976; "Voters Not Sure on Graduated Tax," *Boston Globe*, October 6, 1976; R.S. Kindleberger, "Graduated Tax – 4th Test in 14 Years," *Boston Globe*, October 31, 1976; R.S. Kindleberger, "Voters Won't Know What Gradauted Tax Will Cost," *Boston Globe*, October 21, 1976; A.A. Michelson, "Industry Amasses War Chest to Fight November Referenda," *Boston Globe*, August 28, 1976; David Farrell, "Flat Rate Dim on Electricity," *Boston Globe*, April 26, 1976; R.S. Kindleberger, "Fair Share, Legislators Discuss Flat Rate Plan," *Boston Globe*, April 27, 1976; R.S. Kindleberger, "Cost of Electricity: The Rate Fight Grows," *Boston Globe*, February 8, 1976
[441] Jonathan Fuerbringer, "Flat rates for electricity: Not simply little vs. big," *Boston Globe*, October 21, 1976

though, raising a little less $120,000, mostly from door-to-door canvassing and fundraising raffles.[442] Proponents' spending, though, paled in comparison to opponents' war chest. Business pledged $2 million dollars – ten percent of Jimmy Carter's 1976 president campaign spending and as much as both Dukakis and his opponent, Francis Sargent, had spent in the 1974 primary and general elections combined, as the *Boston Globe* observed – to defeat the four 1976 ballot measures (the graduated tax proposal, the flat-rate electricity proposal, one allowing for public power, and another calling for a deposit for returnable bottles and cans). All four were labeled by Bay State corporations as "anti-business" and "anti-jobs." Individual industries took the lead on the issues most relevant to them. Utility companies, for example, had already spent half a million dollars by September, thanks to the flat-rate ballot measure.[443] The CEEU raised $350,000, mostly from large businesses, to oppose flat electric rates.[444] Not included in spending reports by anti-initiative forces was the – ostensibly voluntary – time spent by the employees of Massachusetts companies in defeating the initiatives.[445] Businesses also worked hard at

[442] Jonathan Fuerbringer, "Flat rates for electricity: Not simply little vs. big," *Boston Globe*, October 21, 1976
[443] R.S. Kindleberger, "Graduated income tax on the ballot again," *Boston Globe*, October 2, 1976; "Mass. ballot issues... 2 graduated income tax," *Boston Globe*, October 21, 1976; R.S. Kindleberger and Janathan Fuerbringer, "Ballot Pits Citizen Groups vs. Business," *Boston Globe*, September 5, 1976; A.A. Michelson, "Grad Tax Needs Long Slumber Before New Try," *Boston Globe*, November 6, 1976; Jonathan Fuerbringer, "Dukakis Aide Admits Error in Graduated Tax Benefit Figures," *Boston Globe*, September 17, 1976; Michael Kenney, "Grad Tax Strategy Stymied," *Boston Globe*, March 26, 1976; John Dane, Jr., "One Way to Kill Jobs," *Boston Globe*, October 20, 1976; Florence R. Rubin, "Savings Due for Many," *Boston Globe*, October 20, 1976; "Results of Poll," *Boston Globe*, October 20, 1976; "Voters Not Sure on Graduated Tax," *Boston Globe*, October 6, 1976; R.S. Kindleberger, "Graduated Tax – 4th Test in 14 Years," *Boston Globe*, October 31, 1976; R.S. Kindleberger, "Voters Won't Know What Gradauted Tax Will Cost," *Boston Globe*, October 21, 1976; A.A. Michelson, "Industry Amasses War Chest to Fight November Referenda," *Boston Globe*, August 28, 1976; David Farrell, "Flat Rate Dim on Electricity," *Boston Globe*, April 26, 1976; R.S. Kindleberger, "Fair Share, Legislators Discuss Flat Rate Plan," *Boston Globe*, April 27, 1976; R.S. Kindleberger, "Cost of Electricity: The Rate Fight Grows," *Boston Globe*, February 8, 1976
[444] Jonathan Fuerbringer, "Flat rates for electricity: Not simply little vs. big," *Boston Globe*, October 21, 1976
[445] R.S. Kindleberger, "Graduated income tax on the ballot again," *Boston Globe*, October 2, 1976; "Mass. ballot issues... 2 graduated income tax," *Boston Globe*, October 21, 1976; R.S. Kindleberger and Janathan Fuerbringer, "Ballot Pits Citizen Groups vs. Business," *Boston Globe*, September 5, 1976; A.A. Michelson, "Grad Tax Needs Long Slumber Before New Try," *Boston Globe*, November 6, 1976; Jonathan Fuerbringer, "Dukakis Aide Admits Error in Graduated Tax Benefit Figures," *Boston Globe*, September 17, 1976; Michael Kenney, "Grad Tax Strategy Stymied," *Boston Globe*, March 26, 1976; John Dane, Jr., "One Way to Kill Jobs," *Boston Globe*, October 20, 1976; Florence R. Rubin, "Savings Due for Many," *Boston Globe*, October 20, 1976; "Results of Poll," *Boston Globe*, October 20, 1976; "Voters Not Sure on Graduated Tax," *Boston Globe*, October 6, 1976; R.S. Kindleberger,

persuading their own employees. The 25,000 workers at the Raytheon Company received instructions to vote "no" on Question 7 in their paychecks. Question 7, Raytheon told its workers, "could substantially hurt our ability to maintain jobs in our energy intensive operations." "This could affect as many as 30,000 jobs in Massachusetts," the letter continued, "of which 200 are at Raytheon."[446]

The grassroots left received little help from the Dukakis administration in encouraging voters to support their initiatives. Activists' relationship with Dukakis had, in fact, turned south the previous year. In February 1975, 500 "housewives, elderly persons, and [members of] consumer groups" descended upon the Massachusetts State House's Gardner Auditorium for a meeting with Dukakis and his consumer affairs secretary, Lola Dickerman, about high electric rates. The meeting was called for by a Boston-based coalition of consumer groups known as the Citizens Action Program on Energy (CAP-Energy). While Dukakis talked of President Ford's energy policies, CAP-Energy's Jack Kittredge pointed to the state's declining block electric rates. "Consumers must not continue to subsidize big office buildings and industries," he said. Instead, Kittredge urged Dukakis and the state legislature to enact "lifeline" rates, which charged lower prices for less usage. Other left-grassroots activists agreed. "There's a Bob Dylan song which goes 'You don't need a weather vane to know which way the wind blows," Myrna Brodstof of the Fenway Tenants Union quipped, noting that blue-collar wages were stagnating while profits and executives salaries at the companies could not absorb higher electric rates were

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"Graduated Tax – 4th Test in 14 Years," *Boston Globe*, October 31, 1976; R.S. Kindleberger, "Voters Won't Know What Gradauted Tax Will Cost," *Boston Globe*, October 21, 1976; A.A. Michelson, "Industry Amasses War Chest to Fight November Referenda," *Boston Globe*, August 28, 1976; David Farrell, "Flat Rate Dim on Electricity," *Boston Globe*, April 26, 1976; R.S. Kindleberger, "Fair Share, Legislators Discuss Flat Rate Plan," *Boston Globe*, April 27, 1976; R.S. Kindleberger, "Cost of Electricity: The Rate Fight Grows," *Boston Globe*, February 8, 1976
[446] Jonathan Fuerbringer, "Flat rates for electricity: Not simply little vs. big," *Boston Globe*, October 21, 1976

soaring.[447] While Dukakis had given his tentative support to an activist-backed lifeline bill that had died in the state Senate the previous year, he now changed his tune, telling consumer activists that he was no longer sure how rates should be structured. His argument was pure fiscalism. "The question is," he told activists, "can we set up a system that protects consumers but doesn't throw another 10,000 people out of work."[448] It was part of a larger effort by Dukakis to woo business.

Now, the Dukakis administration focused on shaking Massachusetts's – and Democrats' – "anti-business" image. "[N]ew and different things are going on," Howard N. Smith, Dukakis's secretary of manpower and economic development bragged, pointing to Dukakis's decision to cut the budget rather than raise taxes. "Massachusetts is changing." Or, as a *Boston Globe* headline on the Dukakis administration's efforts to curry favor with business put it, "The State House View: We're PRO-Business."[449] Indeed, many of Dukakis's budget decisions directly reflected the suggestions of the state's "bankers and business community," as Sidney Blumenthal put it in a 1976 profile of Dukakis.[450] To make the Democrat's new ideology abundantly clear, the Dukakis administration launched a $100,000 advertising campaign touting his business-friendly policies. Large ads ran in newspapers throughout the state declaring in bold letters, "We're starting to run this state like a business." The ads, signed by Dukakis and his secretary of economic affairs, outlined the policies Dukakis had pursued, bragging how Massachusetts employees who quit their jobs could no longer collect unemployment benefits, how the Dukakis administration had "started to treat people in business like paying customers," and how "[f]or the first time in 39 years we're spending less money than we spent the year before – in spite of 10

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[447] Benjamin Taylor, "500 at Hearing Urge State to Trim Electric Rates," *Boston Globe*, February 9, 1975
[448] Benjamin Taylor, "Mass. Legislators Urged to Lower Electric Rates," *Boston Globe*, March 27, 1975
[449] Anthony J. Yudis, "The State House View: We're PRO-Business," *Boston Globe*, August 29, 1976
[450] Sid Blumenthal, "Less Is Better in Massachusetts, Too," *Mother Jones* (July 1976)

percent inflation."[451] The state's business interests were thrilled. William McCarthy, the chief State House lobbyist for the Associated Industries of Massachusetts, the state's largest business group, gushed, "They [the governor's office] advocate our interests regularly, effectively, and vigorously. There has never been anything like it."[452]

The public relations blitz with business seemed to be working working. By the end of 1976, *Boston Globe*'s political columnist David Farrell was noting that "talk about Dukakis…throughout the business community is most favorable now." One businessman told the paper that Dukakis was doing "a hell of a job." What made business leaders so pleased? Dukakis's staunch resistance of calls by other Democrats, like Boston Mayor Mike White, to raise taxes and the governor's generally "austerity-minded administration," not to mention his "firm position against the flat-rate electricity and public power referenda."[453] One political, however, reporter noted the irony of the fact that Democrats, led by Dukakis, had tried made "giving business a big lift" a "big priority," while business was repaying them by amassing a "big war chest" to oppose initiatives favored by Democrats. "[I]n that spirit of cooperation [between Democrats and business]," *Globe* reporter A.A. Michelson quipped, "business executives are now trying to expand the philosophy that what's good for business is good for the state….[to] what's good for the personal well-being of the high-paid executive is good for Massachusetts." [454]

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[451] Sid Blumenthal, "Less Is Better in Massachusetts, Too," *Mother Jones* (July 1976); "We're Starting to Run This State Like a Business," *Berkshire Eagle*, March 10, 1976
[452] Sid Blumenthal, "Less Is Better in Massachusetts, Too," *Mother Jones* (July 1976)
[453] David Farrell, "Michael Dukakis's Remarkable Resurgence," *Boston Globe*, December 5, 1976
[454] R.S. Kindleberger, "Graduated income tax on the ballot again," *Boston Globe*, October 2, 1976; "Mass. ballot issues... 2 graduated income tax," *Boston Globe*, October 21, 1976; R.S. Kindleberger and Janathan Fuerbringer, "Ballot Pits Citizen Groups vs. Business," *Boston Globe*, September 5, 1976; A.A. Michelson, "Grad Tax Needs Long Slumber Before New Try," *Boston Globe*, November 6, 1976; Jonathan Fuerbringer, "Dukakis Aide Admits Error in Graduated Tax Benefit Figures," *Boston Globe*, September 17, 1976; Michael Kenney, "Grad Tax Strategy Stymied," *Boston Globe*, March 26, 1976; John Dane, Jr., "One Way to Kill Jobs," *Boston Globe*, October 20, 1976; Florence R. Rubin, "Savings Due for Many," *Boston Globe*, October 20, 1976; "Results of Poll," *Boston Globe*,

Keeping with his new pro-business image, Dukakis declared his open opposition to flat-rate electricity, arguing that it would hurt business, as well as potentially drive up costs for schools and government buildings.[455] Speaking for Dukakis, Smith called the lifeline electricity proposal “an unmitigated disaster.” Supporters of the measure, the secretary of manpower and economic development said, needed to be confronted with the “economic facts.” Echoing the business line against the measure, Smith asked rhetorically, “What good is a $2.50 savings [on an electricity bill] to a person if he loses his job?”[456] Legislative Democrats, worried that it would be viewed as anti-business, soured on flat-rate electric, too. The speaker of the House, for example, switched his position from support to opposition.[457] Electricity bills themselves proved to be supporters’ best advertising for Question 7. “I will vote for [Question 7],” one resident old a Fair Share canvasser gauging support for flat rates. “I got an electric bill of $118 last month and $87 this month.” Median income for a four-person family in Massachusetts in 1975 was

October 20, 1976; “Voters Not Sure on Graduated Tax,” *Boston Globe*, October 6, 1976; R.S. Kindleberger, “Graduated Tax – 4th Test in 14 Years,” *Boston Globe*, October 31, 1976; R.S. Kindleberger, “Voters Won’t Know What Gradauted Tax Will Cost,” *Boston Globe*, October 21, 1976; A.A. Michelson, “Industry Amasses War Chest to Fight November Referenda,” *Boston Globe*, August 28, 1976; David Farrell, “Flat Rate Dim on Electricity,” *Boston Globe*, April 26, 1976; R.S. Kindleberger, “Fair Share, Legislators Discuss Flat Rate Plan,” *Boston Globe*, April 27, 1976; R.S. Kindleberger, “Cost of Electricity: The Rate Fight Grows,” *Boston Globe*, February 8, 1976

[455] Carol Surkin, “Governor’s ‘Town Meeting’ Sessions Reflect an Optimistic Note,” *Boston Globe*, October 24, 1976

[456] Anthony J. Yudis, “The State House View: We’re PRO-Business,” *Boston Globe*, August 29, 1976

[457] R.S. Kindleberger, “Graduated income tax on the ballot again,” *Boston Globe*, October 2, 1976; “Mass. ballot issues... 2 graduated income tax,” *Boston Globe*, October 21, 1976; R.S. Kindleberger and Janathan Fuerbringer, “Ballot Pits Citizen Groups vs. Business,” *Boston Globe*, September 5, 1976; A.A. Michelson, “Grad Tax Needs Long Slumber Before New Try,” *Boston Globe*, November 6, 1976; Jonathan Fuerbringer, “Dukakis Aide Admits Error in Graduated Tax Benefit Figures,” *Boston Globe*, September 17, 1976; Michael Kenney, “Grad Tax Strategy Stymied,” *Boston Globe*, March 26, 1976; John Dane, Jr., “One Way to Kill Jobs,” *Boston Globe*, October 20, 1976; Florence R. Rubin, “Savings Due for Many,” *Boston Globe*, October 20, 1976; “Results of Poll,” *Boston Globe*, October 20, 1976; “Voters Not Sure on Graduated Tax,” *Boston Globe*, October 6, 1976; R.S. Kindleberger, “Graduated Tax – 4th Test in 14 Years,” *Boston Globe*, October 31, 1976; R.S. Kindleberger, “Voters Won’t Know What Gradauted Tax Will Cost,” *Boston Globe*, October 21, 1976; A.A. Michelson, “Industry Amasses War Chest to Fight November Referenda,” *Boston Globe*, August 28, 1976; David Farrell, “Flat Rate Dim on Electricity,” *Boston Globe*, April 26, 1976; R.S. Kindleberger, “Fair Share, Legislators Discuss Flat Rate Plan,” *Boston Globe*, April 27, 1976; R.S. Kindleberger, “Cost of Electricity: The Rate Fight Grows,” *Boston Globe*, February 8, 1976

$16,500.[458] Despite the energy crisis, Fair Share's attempts to win back support among Democrats were swamped by the strength of big business and Dukakis's opposition.

Democrats were little more help on taxes. Perhaps the most serious problem facing the pro Issue 2 forces was the legislature's unwillingness to approve a graduate tax plan to go into effect should the issue pass. "Supporters of a graduated tax…argued that if people knew the rates that would be in effect if the constitutional amendment were passed," one report noted, "then they would not fear the open-ended nature of the amendment which has been a factor in its three successive defeats." The Democratic leadership in the Massachusetts legislature, however, did not want to force its members tangle with the difficult issue of formulating tax brackets in an election year. A Fair Share representative slammed the legislature for "muddying the waters" by failing to approve a rate structure. Likewise, the president of CFTR, Diane Kessler, lamented, "In an election year, legislators don't want to talk about taxes, regardless of the issues of the matter." In contrast, the reaction from Issue 2 opponents to the legislature's failure to pass a rate schedule was gleeful. "We've got the thing beat now," brimmed Donald A. Feder, a spokesperson for CFLT.[459] Thanks to the legislature's inaction, Issue 2's supporters had only hypothetical responses to opponents claims that Issue 2 would lead to increased taxes on most Bay State residents. The Dukakis administration did not help matters, either, by touting a set of

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[458] Census, "Median Income for 4-Person Families, By State" (http://www.census.gov/hhes/www/income/data/statistics/4person.html)

[459] R.S. Kindleberger, "Graduated income tax on the ballot again," *Boston Globe*, October 2, 1976; "Mass. ballot issues... 2 graduated income tax," *Boston Globe*, October 21, 1976; R.S. Kindleberger and Janathan Fuerbringer, "Ballot Pits Citizen Groups vs. Business," *Boston Globe*, September 5, 1976; A.A. Michelson, "Grad Tax Needs Long Slumber Before New Try," *Boston Globe*, November 6, 1976; Jonathan Fuerbringer, "Dukakis Aide Admits Error in Graduated Tax Benefit Figures," *Boston Globe*, September 17, 1976; Michael Kenney, "Grad Tax Strategy Stymied," *Boston Globe*, March 26, 1976; John Dane, Jr., "One Way to Kill Jobs," *Boston Globe*, October 20, 1976; Florence R. Rubin, "Savings Due for Many," *Boston Globe*, October 20, 1976; "Results of Poll," *Boston Globe*, October 20, 1976; "Voters Not Sure on Graduated Tax," *Boston Globe*, October 6, 1976; R.S. Kindleberger, "Graduated Tax – 4th Test in 14 Years," *Boston Globe*, October 31, 1976; R.S. Kindleberger, "Voters Won't Know What Gradauted Tax Will Cost," *Boston Globe*, October 21, 1976; A.A. Michelson, "Industry Amasses War Chest to Fight November Referenda," *Boston Globe*, August 28, 1976; David Farrell, "Flat Rate Dim on Electricity," *Boston Globe*, April 26, 1976; R.S. Kindleberger, "Fair Share, Legislators Discuss Flat Rate Plan," *Boston Globe*, April 27, 1976; R.S. Kindleberger, "Cost of Electricity: The Rate Fight Grows," *Boston Globe*, February 8, 1976

distributional calculations that it had to later retract when Citizens for Limited Taxation found errors. This only provided further fodder for opponents and added to the public's confusion.[460]

After a strong start to their campaign, Fair Share and other graduated tax and flat rate electricity supporters began to feel the effects of a well-funded business opposition and apathetic, or downright oppositional, Democrats. Support for Issue 2 eroded over the summer. In June, 49 percent of Massachusetts residents said they planned to vote for the measure, with 31 percent against and 20 percent undecided. This was before the opposition campaign had rolled out its advertising blitz, though. By June, support had dropped to 41 percent, while opposition had ticked up three points and undecided voters had increased by five points. One additional data point, however, indicated that the drop in support may have had little to do with voter disapproval of progressive taxation. Indeed, 60 percent of voters said they supported graduated income tax rates, even as only 40 percent in the same poll said they planned to vote for Issue 2. Significantly, most Massachusetts residents who said they planned not to vote supported the principle of progressive taxation. A quarter of those making less than $10,000 per year – "a natural and large graduated tax constituency," as the *Globe* noted – said they planned to stay home. The opposition campaign, as well as the legislature's failure to enact a rate schedule and the Dukakis administration's math gaffe, seemed to turn voters against Issue 2, polls suggested.

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[460] R.S. Kindleberger, "Graduated income tax on the ballot again," *Boston Globe*, October 2, 1976; "Mass. ballot issues... 2 graduated income tax," *Boston Globe*, October 21, 1976; R.S. Kindleberger and Janathan Fuerbringer, "Ballot Pits Citizen Groups vs. Business," *Boston Globe*, September 5, 1976; A.A. Michelson, "Grad Tax Needs Long Slumber Before New Try," *Boston Globe*, November 6, 1976; Jonathan Fuerbringer, "Dukakis Aide Admits Error in Graduated Tax Benefit Figures," *Boston Globe*, September 17, 1976; Michael Kenney, "Grad Tax Strategy Stymied," *Boston Globe*, March 26, 1976; John Dane, Jr., "One Way to Kill Jobs," *Boston Globe*, October 20, 1976; Florence R. Rubin, "Savings Due for Many," *Boston Globe*, October 20, 1976; "Results of Poll," *Boston Globe*, October 20, 1976; "Voters Not Sure on Graduated Tax," *Boston Globe*, October 6, 1976; R.S. Kindleberger, "Graduated Tax – 4th Test in 14 Years," *Boston Globe*, October 31, 1976; R.S. Kindleberger, "Voters Won't Know What Gradauted Tax Will Cost," *Boston Globe*, October 21, 1976; A.A. Michelson, "Industry Amasses War Chest to Fight November Referenda," *Boston Globe*, August 28, 1976; David Farrell, "Flat Rate Dim on Electricity," *Boston Globe*, April 26, 1976; R.S. Kindleberger, "Fair Share, Legislators Discuss Flat Rate Plan," *Boston Globe*, April 27, 1976; R.S. Kindleberger, "Cost of Electricity: The Rate Fight Grows," *Boston Globe*, February 8, 1976

A majority of those who said they had seen an anti-2 advertisement said they opposed the measure and when presented with the argument that Issue 2 would result in a "tax increase," rather than a redistribution of the tax burden, support for Issue 2 fell further, to only 33 percent. The collapse of support for flat rate billing was even more dramatic. After seeing support for the measure peak at a whopping 71 percent in February, it fell to just 42 percent in October. [461]

In November, both the tax and electricity went down to overwhelming defeat. Perhaps most disheartening for activists, however, was the fact that progress seemed not only to have stalled, but moved backwards. In 1962, the vote was five to one against the graduated tax. In 1968, it was three to one. In 1972, it was two to one and many towns in the state actually voted for the measure. This narrowing of the margin, however, ended in 1976, when it lost three to one. As one political reporter put it, the reasons for the defeat likely went beyond the anti-Issue 2 force's spending and a bungled "yes" campaign. But the economy of 1976 was far different from the economy of 1972. In the intervening four years, inflation, unemployment, and taxes had all soared. "People are hurting," *Globe* political reporter A.A. Michelson noted. "State and local taxes are escalating to the point where they are really hurting. Thousands wonder when the plant they've worked in all their lives is either going to close or move to the South or Southwest. They were obviously in no mood for what the opponents falsely called a 'new tax.'" Michelson noted

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[461] R.S. Kindleberger, "Graduated income tax on the ballot again," *Boston Globe*, October 2, 1976; "Mass. ballot issues... 2 graduated income tax," *Boston Globe*, October 21, 1976; R.S. Kindleberger and Janathan Fuerbringer, "Ballot Pits Citizen Groups vs. Business," *Boston Globe*, September 5, 1976; A.A. Michelson, "Grad Tax Needs Long Slumber Before New Try," *Boston Globe*, November 6, 1976; Jonathan Fuerbringer, "Dukakis Aide Admits Error in Graduated Tax Benefit Figures," *Boston Globe*, September 17, 1976; Michael Kenney, "Grad Tax Strategy Stymied," *Boston Globe*, March 26, 1976; John Dane, Jr., "One Way to Kill Jobs," *Boston Globe*, October 20, 1976; Florence R. Rubin, "Savings Due for Many," *Boston Globe*, October 20, 1976; "Results of Poll," *Boston Globe*, October 20, 1976; "Voters Not Sure on Graduated Tax," *Boston Globe*, October 6, 1976; R.S. Kindleberger, "Graduated Tax – 4th Test in 14 Years," *Boston Globe*, October 31, 1976; R.S. Kindleberger, "Voters Won't Know What Gradauted Tax Will Cost," *Boston Globe*, October 21, 1976; A.A. Michelson, "Industry Amasses War Chest to Fight November Referenda," *Boston Globe*, August 28, 1976; David Farrell, "Flat Rate Dim on Electricity," *Boston Globe*, April 26, 1976; R.S. Kindleberger, "Fair Share, Legislators Discuss Flat Rate Plan," *Boston Globe*, April 27, 1976; R.S. Kindleberger, "Cost of Electricity: The Rate Fight Grows," *Boston Globe*, February 8, 1976

that moderate-income counties like Berkshire had nearly approved the graduated income tax measure in 1972. In 1976, though, Berkshire voters went against it two to one.[462]

Despite the losses, the tax justice left in Massachusetts pushed onward. Now, Fair Share turned to state-level solutions to rising Bay State property taxes, a topic on which, at the local level, the group had already enjoyed success. Fair Share's early tax activism focused on picketing underassessed and tax-delinquent businesses. But its ultimate goal was reducing property taxes on homeowners.[463] In 1975, during the middle of the busing crisis, the Dorchester Community Action Committee, which would become the Dorchester chapter of Fair Share, brought 350 black and white residents together to strategize challenging high assessments, and over a period of four years, they won 2,500 reductions for Dorchester residents.[464] But Fair Share's ultimate goal was a legislative solution to rising property taxes on low- and middle-income Massachusetts homeowners, who faced the highest property tax rates in the country.[465] Fair Share would get its opportunity to square off with Dukakis on the property tax issue, but not until after a right-distributionst tax earthquake shook California.

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[462] R.S. Kindleberger, "Graduated income tax on the ballot again," *Boston Globe*, October 2, 1976; "Mass. ballot issues... 2 graduated income tax," *Boston Globe*, October 21, 1976; R.S. Kindleberger and Janathan Fuerbringer, "Ballot Pits Citizen Groups vs. Business," *Boston Globe*, September 5, 1976; A.A. Michelson, "Grad Tax Needs Long Slumber Before New Try," *Boston Globe*, November 6, 1976; Jonathan Fuerbringer, "Dukakis Aide Admits Error in Graduated Tax Benefit Figures," *Boston Globe*, September 17, 1976; Michael Kenney, "Grad Tax Strategy Stymied," *Boston Globe*, March 26, 1976; John Dane, Jr., "One Way to Kill Jobs," *Boston Globe*, October 20, 1976; Florence R. Rubin, "Savings Due for Many," *Boston Globe*, October 20, 1976; "Results of Poll," *Boston Globe*, October 20, 1976; "Voters Not Sure on Graduated Tax," *Boston Globe*, October 6, 1976; R.S. Kindleberger, "Graduated Tax – 4th Test in 14 Years," *Boston Globe*, October 31, 1976; R.S. Kindleberger, "Voters Won't Know What Gradauted Tax Will Cost," *Boston Globe*, October 21, 1976; A.A. Michelson, "Industry Amasses War Chest to Fight November Referenda," *Boston Globe*, August 28, 1976; David Farrell, "Flat Rate Dim on Electricity," *Boston Globe*, April 26, 1976; R.S. Kindleberger, "Fair Share, Legislators Discuss Flat Rate Plan," *Boston Globe*, April 27, 1976; R.S. Kindleberger, "Cost of Electricity: The Rate Fight Grows," *Boston Globe*, February 8, 1976

[463] Michael Ansara, "Fair Share Aims to Save Neighborhoods," *Boston Globe*, November 21, 1975;

[464] Clarence Y. H. Lo, *Small Property Versus Big Government: Social Origins of the Property Tax Revolt* (University of California Press, 1990), 178-179.

[465] Table 76, Advisory Commission on Intergovernmental Relations, *Federal-State-Local Finances: Significant Features of Fiscal Federalism, 1976-1977*, M-110 (U.S. GPO, 1977).

Left-distributionist grassroots activists in California and Massachusetts were not alone in their frustrations with conservative Democrats, either. In Arkansas in 1978, Bill Clinton, in middle of his campaign for governor, refused to support an ACORN-pushed referendum, Amendment 59, to exempt food and drugs from the sales tax, even though it had the backing of some major Democrats, like Secretary of State Winston Bryant, who chaired the Citizens Committee to Fight Unfair Taxes, which was formed to back the measure.[466] However, the state's major businesses and Chamber of Commerce opposed the measure. They were fearful that any lost revenue would be made up for in higher taxes on business, which is exactly what ACORN was proposing.[467] So they formed an anti-59 front group dubbed the Committee to Save the People Services and dramatically outspent ACORN and its allies. In a well-financed ad campaign, the anti-59 business coalition argued that Amendment 59 would actually raise taxes on average homeowners. Clinton and many Democrats sided with business, and the measure narrowly lost.[468] When Clinton wrote to ACORN's founder Wade Rathke to explain that even though he opposed the sales tax cut he would still be "the best governor the working people of our state ever had," Rathke responded, "A working people's governor with a fixation for the sales tax is not likely under any condition to be the best of anything we have ever had in Arkansas."[469]

In other cases, activists faced the combined resistance of both Republicans and Democrats. In Illinois, a left coalition led by the Illinois Public Action Council successfully

[466] CCFUT Press Release, October 16, 1978, ACORN-AR, B 18, F 26, WHS; CCFUT Press Release, October 14, 1978, ACORN-AR, B 18, F 26, WHS; "Vote for Amendment 59," ACORN-AR, B 19, F 27, WHS

[467] "ACORN's Revenue Replacement Proposal," ACORN-AR, B 18, F 40, WHS

[468] "Sales Tax Campaign" Handwritten Notes, February 13, 1979, ACORN-AR, B 35m F [Unmarked], WHS; Lamb to Chamber Members, Septmebr 8, 1978, B 18, F 37, WHS; Ernest Dumas, "Clinton in Uncomfortable Spot on Sales Tax Vote," *Arkansas Gazette*, September 10, 1978; "Opponents to Amendment 59," ACORN-AR, B 18, F 37, WHS

[469] Rathke to Clinton, September 15, 1978, ACORN-US, Box 11, Folder C, WHS; Rathke to Clinton, October 16, 1976, ACORN-US3, Box 11, Folder C, WHS; Clinton to Rathke, September 19, 1978, ACORN-US3, Box 11, Folder C, WHS

lobbied the legislature to pass a "circuit breaker" property tax bill, capping assessments for low- and middle-income households. However, Republican Governor James Thomson vetoed the measure.[470] The next year, labor and public interest groups in Illinois pushed a bill exempting food and medicine from the sales tax through both the House and Senate only to see Thompson veto it, too. Then an attempt to override the veto was scuttled by the Chicago delegation who, under the influence of Democratic Mayor Jane Byrne, worried about lost state revenue for the city. Instead, to the frustration of most Democrats and grassroots activists, Byrne and Thompson proposed an unpopular alternative to cut only once cent from the sales tax on food and drugs, producing scant savings that even the supportive *Chicago Tribune* called "hardly noticeable" to struggling families.[471]

Little wonder, then, that the public would soon grow wary of promises of pocketbook squeeze-relieving reform. Time and time again, policymakers failed to deliver.

Conclusion

In retrospect, the first half of the 1970s proved to be the high watermark for the tax justice left. By the time the dust settled from Watergate and the "Watergate Babies" took office in 1975, left-distributionists' window of opportunity was nearly closed. As first federal relief for rising local property taxes, then federal tax reform, then progressive state initiatives fell by the

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470 Suzanne Read, "Reform in Illinois," *People and Taxes* 6:8 (August 1978).
471 "Illinois Sales Tax Exemption Defeat," *People and Taxes* 7:11 (November 1979); F. Richard Ciccone, "Byrne Hits Daley Opposition to Alternate Food Tax Cut," *Chicago Tribune*, September 20, 1979; James Yuenger, "GOP Studying Veto Override," *Chicago Tribune*, September 13, 1979; "Realism on Tax Relief," *Chicago Tribune*, November 12, 1979; Daniel Egler and Mitchell Locin, "Food, Drug Tax Cut OKd: Thomson Hails 1 Cent Reduction," *Chicago Tribune*, November 9, 1979; David Axelrod and Andy Knott, "Byrne Denies Being Misled on Tax Cut Bill," *Chicago Tribune*, November 3, 1979; Daniel Egler and Mitchell Locin, "1 Cent Sales Tax Cut Gains as Senate Defeats Rival Plan," Novemebr 8, 1979; Diane Amann, "Override of Sales Tax Veto Vowed," *Chicago Tribune*, July 15, 1979; Ivonne Cueva, "Dems Urge Food Sales Tax Protest," *Chicago Tribune*, July 9, 1979; Mark Polzin and Mitchell Locin, "House Gets Bill to End Food Sales Tax," *Chicago Tribune*, April 26, 1979; Mitchell Locin, "Sales Tax to Drop 1c on Essentials," *Chicago Tribune*, December 31, 1980.

wayside thanks to a combination of New Democrats' indifference or hostility and a resurgent business lobby, it became clear that the institutional landscape of politics – if not public opinion – was becoming less and less welcoming to entreaties of the tax justice movement. Reflecting on the 1975 Democratic Issues Convention, the editor of *Congressional Quarterly* observed, "A weekend in Louisville…made it clear that Brown and Dukakis are not abberations…."[472] As if to reaffirm the party's shift to the right prior to the 1976 presidential elections, Colorado Governor Richard Lamm took the pages of the *New York Times* to call for the Democratic Party to abandon its New Deal and Great Society inclinations. "The Democratic Party should take care neither to be frozen into the rhetoric of thirty years ago nor to its past tendency to call for federal solutions," Lamm wrote. While during the New Deal era such "traits" may have "built the Democratic Party," continuing them today could lead the part to its "downfall." "Tax dollars for new programs will become ever more scarce," he concluded. "It is doubtful that we will have the tax dollars to fulfill the expectations we already offered the public: national health insurance, housing, etc."[473] It was a conclusion with which many of the Democrats vying for the presidency in 1976 would agree.

One of those candidates was, surprisingly, Jerry Brown, despite having served as the governor of California for less than two years. During his presidential run, Brown did not run away from either his youthful image or his fiscally conservative philosophy. He embraced he embraced. Brown's 1976 presidential campaign buttons equally evoked Bob Dylan ("THE TIMES ARE CHANGING"), Eugene McCarthy ("THE NEW POLITICS"), and the model conservative fiscalist, President Eisenhower (with a button that read, "IN THE TRADITION OF

[472] Alan Ehrenhalt, "Last Hurrahs for the New Deal," *Washington Monthly* (January 1976); ACIR, *Significant Features of Fiscal Federalism, 1976* (GPO June 1976); ACIR*, Significant Features of Fiscal Federalism, 1978-1979* (GPO June 1979)
[473] Richard Lamm, "Whither the Democratic Party?" *New York Times*, February 1, 1976

EISENHOWER, JERRY BROWN, PRESIDENT 1976" and displayed headshots of both Eisenhower and Brown).[474] Brown's coalition, a *Mother Jones* profile suggested, consisted of three groups: "the young eco-freak types," "the older, conservative less-government-is-more people," and "the intellectuals."[475] On the campaign trail, Brown touted his "small is beautiful" brand of austerity. His disquisition on federal power, for example, sounded a great deal like the conservative argument for Revenue Sharing that Nixon had abandoned in favor of one that stressed RS's potential for progressive tax relief. "Everywhere we look in this federal government we find that they are forcing us to do things that we don't have the tax base to do and for which they are unwilling to pay," Brown said. "The federal government is taking onto itself more and more power for local matters, meddling in affairs because of their lack of faith in the ability of the people to govern themselves. Decentralized power – that's important to me."[476] Another California governor on the campaign trail in 1976 agreed. "We can and must reverse the flow of power to Washington," Ronald Reagan declared during his GOP primary challenge to Gerald Ford.[477] With his youth and his decidedly right-leaning views, however, Brown could not defeat the Democrats' eventual nominee, Georgia Governor Jimmy Carted.

Carter raised tax reformers' hopes, at least temporarily. Carter had, after all, participated in Fred Harris's Tax Action Campaign's Tax Action Day in 1973.[478] Keeping with that image, Carter ran on a platform of unabashed progressive tax reform during the 1976 presidential election. "Last year there were 24 people in the nation that made over a million dollars in income that didn't pay one nickel in income tax," one Carter television commercial noted. "Jimmy

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[474] Paul Jacobs, "Nothing for Everyone: Brown's New Politics," *Mother Jones* (July 1976); Eisenhower button in author's posession
[475] Paul Jacobs, "Nothing for Everyone: Brown's New Politics," *Mother Jones* (July 1976); Eisenhower button in author's posession
[476] "Thoughts of California's 'Guru Governor,'" *Kansas City Times*, May 16, 1976
[477] David Rosenbaum, "Reagan's Economics Basically Laissez-Faire," *Kansas City Times*, May 16, 1976
[478] "Tax Action Day Summary of Activities," MEJ, B 17, F 4, WHS

Carter believes we need to reform our tax laws now for people who don't have lobbyists working to find tax loopholes for the privileged few."[479] In another commercial, Carter called "the tax laws of this country…a disgrace to the human race," because of the tax "loopholes for people who are rich and who have those lobbyists working in Washington full time to retain their special privilege."[480] On most economic issues, however, Carter was an avowed fiscalist and a balanced-budget conservative. Carter favored "sunset laws" (setting expiration dates for programs and agencies), "zero-based budgeting" (forcing each agency write a budget from scratch each year), and "cost-benefit analysis" (an attempt, drawn from business, to calculate all of the cost and benefits, however indirect, from a new program of regulation).[481]

Carter's seemingly left-distributionist rhetoric on taxes sprang more from his good government inclinations and his black-and-white sense of morality than from a deeply left-distributionist outlook. Carter indicated that he wanted to make the tax code more progressive by closing loopholes, including the capital gains preference, but was generally short on specifics. Moreover, reformers like Nader's TRRG got worried when Russell Long claimed that, in a private conversation, Carter assured him that he would not push reforms that would hurt business or investors – a claim Carter denied.[482] However, considering that the last tax action of the Ford administration would be the release of a study by William E. Simon's Treasury Department touted the possibility of moving from a federal income tax to a federal consumption tax, Carter's vagaries seemed like the best reformers could hope for.[483] His first year-and-half in office, though, saw Carter put tax reform on the backburner. With the Consumer Price Index once again

[479] Carter 1980 TV Commercial #12158, JKPA
[480] Carter 1980 TV Commercial #14993, JKPA
[481] David Gelman, et al., "Is America Turning Right," *Newsweek* (November 7, 1977)
[482] "Carter for All New Tax Bill in 1977," *People & Taxes* (September 1976)
[483] *Blueprints for Basic Tax Reform, January 1, 1977* (GPO 1977)

marching upward as Carter took office, inflation-fighting austerity dominated Carter's economic agenda.[484]

For average Americans, the main story of the mid-to-late 1970s was the pocketbook squeeze, which seemed to be getting worse by the day. Despite all the tax wrangling between White House administrations and Congresses over those years, for the average American taxpayer, it must have seemed that federal inaction – and indifference to their plight – had ruled the past fifteen years. In the 1977, the federal tax burden actually looked remarkably similar to how it had looked prior to the JFK-LBJ tax cuts. The top one percent of Americans paid a total of 46.2 percent in federal taxes in 1962 and 46 percent in 1977. For the lowest 20 percent of the population, the shift was from 15.5 to 14.4. For the middle 20 percent, the federal tax burden had actually increased from 17.9 in 1962 to 19.7 in 1977. On the state and local level, however, things were very different. The steep rise in regressive state and local taxes, along with the now-seemingly-ever-present threat of stagflation, meant that the pocketbook squeeze was more acute than ever. In 1953, the "average family" in ACIR's study paid a total of 11.8 percent in state, local, and federal taxes. By 1977, it had nearly doubled to 22.5. A family making four times the average, however, had seen its tax burden go up only by half, from 20.2 in 1957 to 31.5 in 1977. This "narrowing of the gap" between the taxes paid by the rich and the poor, as noted by the ACIR, meant that the U.S. tax system was, indisputably, becoming less and less progressive.[485]

By the late-1970s, low- and middle-income taxpayers' patience was running out. With promises of federal relief from rising state and local beginning to 1972, various state-level vows of relief beginning even earlier, and assurances of federal loophole-closing tax reform stretching

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[484] FRED Graph
[485] Data from Emanuel Saez and Thomas Piketty, "How Progressive is the U.S. Federal tax system? A Historical and International Perspective," *Journal of Economic Perspectives* 21:1 (Winter 2007), online table A3 (http://elsa.berkeley.edu/~saez/jep-results-standalone.xls); Table 22 in ACIR, *Significant Features of Fiscal Federalism, 1978-1979* (GPO June 1979)

back all the way to the Kennedy administration, their patience had run out for good reason. In June of 1978, policymakers across the country would see the results of this loss of patience, and the battle over the meaning of that event would define the direction of American tax policy for the next quarter century.

CONCLUSION

Spinning the Tax Revolt

"We have a new revolution against the arrogant politicians and insensitive bureaucrats whose philosophy of tax, tax, tax, spend, spend, spend, elect and elect and elect is bankrupting we the American people and the time has to put a stop to it!...," Howard Jarvis bellowed from the podium, surrounded by supporter and jutting his finger forward from the podium. "We, the taxpayers, have spoken."[1] Just a year earlier, the moribund middle-aged white businessman had been little more than a conservative political gadfly in California, failing four previous times gather enough get his tax limitation measure on the ballot, including as recently as 1976. Now, Jarvis was the undisputed king of California and American tax politics.[2] Californians went to the polls on June 6th, 1978, and nearly two-thirds of voters cast their votes for Jarvis's property tax-slashing measure. The battle to define what Prop 13 meant – and, most importantly, how policymakers across the country should respond – began the night of Jarvis's victory speech. As we shall see, the framing of Prop 13, rather than why voters actually approved it, would define American tax politics for decades to come.

But why *did* voters approve Prop 13? Despite the political spin that would follow, the reason was simple. It was the pocketbook squeeze. Californians' ideology had not changed since Ronald Reagan's Prop 1 went down in defeat in 1973. But the economic circumstances had. As one *Los Angeles Times* headline put it, "Prop. 13's Biggest Booster Was Inflation, Not Anger

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[1] Jarvis speech in KPBS, "Prop 13 History" (http://blip.tv/kpbs-san-diego/prop-13-history-3294882)

[2] Howard Jarvis, *Mad as Hell:* KPBS, "Prop 13 History" (http://blip.tv/kpbs-san-diego/prop-13-history-3294882)

Against All Government."[3] Throughout mid-1970s, homeowners in California cities were seeing their assessments increase by 50-100 percent each year. By 1977, many middle-income Californians paid as much as 10 percent of their income in property taxes and, very often, even more.[4] Despite angry letters from homeowners, streams of distraught homeowners at assessors' offices year-after-year, and organized campaigns by groups like CAL, many legislators in California believed that the long-promised "tax revolt" would never really materialize. "I think that anger developed over a number of years as California real estate went through the roof…," Assembly speaker Leo McCarthy remembered later. "I think a lot of us in Sacramento, who really didn't measure the distress of homeowners accurately enough, sort of said, 'Well, they've got this big asset, a home, that's being greatly inflated now, and that's going to be good for their kids, their families, whoever inherits it,' and so on. We didn't understand, and should have, the fears of a lot of these homeowners. Jarvis was able to capitalize on Sacramento's relative inaction versus this growing rage out there among homeowners. So the old curmudgeon was able to ride the crest of the waves."[5] Ride them Jarvis did.

Once Governor Jerry Brown and the legislature failed to enact the CAL-backed Tax Justice Act of 1977 (SB 154), the passage of Prop 13 was nearly assured. Howard Jarvis began collecting signatures for Prop 13 in July 1977. By December, Jarvis had gathered more than a million signatures, and secured Prop 13's place on the June ballot. Still, even as Brown, CAL, and the legislature wrangled over SB 154, many Democrats and political observers dismissed the

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[3] William Schneider, "Punching Through the Jarvis Myth: Prop. 13's Biggest Booster Was Inflation, Not Anger Against All Government," *Los Angeles Times*, June 11, 1978. Interestingly, the author of the article was a fellow at the conservative Hoover Institution.
[4] "3 Homeowners in Pain," *San Francisco Chronicle*, July 4, 1975
[5] Leo T. McCarthy, Oral History Interview, Conducted 1995 and 1996 by Carole Hicke, Regional Oral History Office, University of California at Berkeley, for the California State Archives State Government Oral History Program.

idea that Jarvis's initiative would succeed.[6] "Most knowledgeable Californians are predicting that the amendment will be defeated," Richard Reeves wrote in *Esquire* in May, "that nothing can stand up to the political juggernaut of the government- union-business-newspaper complex and the threat of chaos if Jarvis wins."[7] After all, Prop 13 was nearly identical to Philip Watson's two initiatives – in 1968 and 1972 – which voters soundly defeated, along with Reagan's Prop 1 in 1973.

But 1978 would prove to be different. During the past decade, Californians had been asked by Democrats and left-leaning activists to resist conservative tax initiatives. During the campaign against the Watson initiative in 1972, the liberal Californians Against Higher Taxes told voters that opponents of conservative tax limited agreed that tax reform was necessary, but argued that Californians would be better off waiting for a different, more progressive plan. "<u>It [Prop 14] means higher taxes</u> for everyone except land developers and speculators who will receive huge breaks if this is adopted…," CAHT argued. "California needs tax reform, but <u>not</u> this proposition, which <u>shifts the tax burden from large landowners to homeowners and renters</u> [emphasis in original]."[8] Opponents of Reagan's Prop 1 delivered the same message. Each time, voters obeyed, defeating one conservative tax limitation proposal after another. But the promise of a progressive alternative had not materialized until the "Tax Justice Act of 1977." Now it was dead, and Prop 13 appeared to many voters to be the only alternative.

Jarvis's message was simple. "Save Our Homes, Yes on 13," as one pro-13 yard sign put it. Prop 13's biggest selling point was the safety it provided homeowners. It rolled back

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[6] Peter H. Behr, Oral History Interview, Conducted 1988 and 1989 by Ann Lage, Regional Oral History Office, University of California at Berkeley, for the California State Archives State Government Oral History Program, 324-325

[7] Richard Reeves, "Will California send them a message on cutting taxes?" *Esquire*, May 23, 1978

[8] "Rebuttal to Argument in Favor of Proposition 14" and "Argument Against Proposition 14" in *Proposed Amendments to Constitution*, California, General Election, Tuesday November 7, 1972.

assessments to 1976 levels, capped property taxes at one percent of property value, and limited assessment increases to two percent per year. For years, the left had been arguing that most homeowners needed this type of security, and SB 154 was designed to give it to lower- and middle-income homeowners. While Prop 13 would undoubtedly help those same homeowners, it also gave huge tax breaks to upper-income homeowners and business, while also making it harder for the state legislature to increase other taxes, including progressive income taxes. In many ways, it was a repeat of Reagan's Prop 1. However, unlike the Prop 1 battle, the coalitional dynamics of the Prop 13 campaign gave Jarvis the opportunity to claim the mantle of populism.

Throughout the Prop 13 campaign, Jarvis justifiably argued that business, government, and labor were aligned against Prop 13. Nearly all of California's major corporations joined in the effort to defeat Prop 13. While the opposition of labor and the Brown administration to Prop 13 was not surprising, business's opposition was. But companies like Bank of America, U.S. Steel, Hewlett-Packard, and Coca-Cola made large donations to the anti-13 coalition. The California Chamber of Commerce and California Manufacturers Association, as well as the business-backed California Taxpayers Association, all opposed Prop 13, too. As left-leaning activists had long argued, large companies already received favorable assessments. Even though many would have received even more benefits from Prop 13, large businesses were not clamoring for property tax relief in the same way that low- and middle-income homeowners were. Moreover, many large businesses worried that Prop 13 would cut taxes too much for homeowners, and that the legislature would seek to make up the lost revenue by hiking taxes on business. The business opposition to Prop 13 proved to be crippling for the anti-13 coalition.

Because of its hefty investment in the "No on 13" campaign, business called the shots. For obvious reasons, the Chamber and other business groups did not want the official "No on

13" campaign to argue that Prop 13 would be a handout to businesses and the rich. But that had been the successful message of Prop 1's opponents five years earlier. Jarvis argued that he was on the side of the small homeowner. The "No on 13" campaign's strategy was to argue that Prop 13 was too expensive. Yet, the slogan repeated in every "No on 13" commercial – "It may look good, but it costs too much" – inadvertently complimented Prop 13 by implying that it would cut homeowners' taxes, just by "too much." To the frustration of labor unions and left grassroots groups, the "No on 13" campaign drastically underemphasized Californian's real pocketbook fears. "Tax grievances are real," the CTRA's Dean Tipps argued. "When the issue is taxes, we'd better talk about taxes." But the businesses funding "No on 13" did not want Prop 13's opponents to emphasize the legislature's hastily-crafted Prop 13 alternative, Proposition 8 – which was far less generous than SB 154 – because many corporations backing "No on 13" felt Prop 8 was too hard on business.

Instead of focusing on taxes, the "No on 13" campaign talked only about the budget deficits and cuts to services that would result after Prop 13 passed. But California had been accumulating a surplus for years, making it difficult for voters to believe Prop 13 would impose a hardship. Just days before the Prop 13 vote, in fact, the Brown administration announced that the state's already substantial surplus had become "huge" and pledged to use some of the surplus to help localities if Prop 13 passed. Making matters worse, just weeks before the vote, the Los Angeles County assessor Alexander Pope – who opposed Prop 13 – began allowing homeowners to come to his office and view their new assessments. The "Yes on 13" campaign ran television ads arguing, "The politicians have a surprise for you. But they don't want you to know about it until after the election." Democrats tried to get Pope wait until after the election to release the new values, but under pressure from Jarvis, he relented. Quickly, homeowners realized that, thanks to Los Angeles's overheated housing market, the average assessment was about to jump 125 percent. "I don't know if I can walk to the car," one woman said after finding out that her assessment had nearly tripled, raising her taxes from $2,000 to $5,500. [9] The release of the Los Angeles County Assessments proved to be a turning point in the campaign. After trending against Prop 13, polls began shifting in the initiatives favor.[10]

In the end, many of Prop 13's opponents ignored the official "No on 13" strategy and instead tried to portray Jarvis's initiative as a handout to business. But it was too late, and Jarvis had a ready comeback. He simply rattled off a list of the major corporations opposed donating to "No on 13."[11] It worked. As Frank Taylor, who by 1978 was struggling to make property tax payments on the modest home in Santee he had bought with his wife in 1962 for $13,000, remembered, "I thought [Jarvis] was a crackpot. I thought this guy is a Republican! He's not going to be for the people. But he was. And the more I listened to him, the more I liked him."[12] Like him or not, most California voters cast their ballots for Jarvis's Prop 13, giving Jarvis his first victory after more than a decade of attempts.

Immediately, the debate over the meaning of Prop 13 kicked into high gear. Within California, many on the left and in Brown's own party blamed the passage of Prop 13 on the governor for his inaction when it came to SB 154. "By failing to go to bat for [the Tax Justice

[9] KPBS, "The Legacy of Prop 13" (http://video.kpbs.org/video/1695956926)

[10] Author's analysis of data from California Field Poll, 1978, UC Data

[11] The above account of Prop 13 draws on Richard Reeves, "Will California Send Them a Message on Cutting Taxes?" *Esquire*, May 23, 1978; "California Voters Pamphlet" (June 6, 1978); Jerry Gillam, "Economic Boom Created Surplus, Fiscal Chief Says," *Los Angeles Times*, June 3, 1978; Dean C. Tipps, "California's Great Property Tax Revolt: The Origins and Impact of Proposition 13," in *State and Local tax Revolt: New Directions for the 80s*, Dean C. Tipps and Lee Webb, eds. (Transaction, 1980), 68-90; Robert Kuttner, *Revolt of the Haves* (Simon and Schuster, 1980); David O. Sears and Jack Citrin. *Tax Revolt: Something for Nothing in California* (Harvard, 1982); Clarence Y. H. Lo, *Small Property Versus Big Government: Social Origins of the Property Tax Revolt* (University of California Press, 1990); Howard Jarvis, *I'm Mad as Hell* (Berkley 1985); David Koistine, "Resentment of Government and Taxes and America's Shift to the Right: The California Tax Revolt," Unpublished Paper, March 1999; Joel Fox, *The Legend of Proposition 13: The Great California Tax Revolt* (Xlibris, 2003).

[12] KPBS, "The Legacy of Prop 13" (http://video.kpbs.org/video/1695956926)

Act of 1977], Brown effectively killed it – and Jarvis stepped into the vacuum," one of Brown's former economic wrote in the *Los Angeles Times*. Had Brown lobbied for SB 154, he argued, it would have passed, and Prop 13 would have never succeeded. Privately, the Democratic legislators who had backed SB 154 agreed. Brown had "misjudged" the budding "tax revolt," as Democratic Senator Barry Keene later recalled. Instead, Brown saw the state's growing surplus, which some critics called "obscene" as the proof of his fiscal responsibility, an issue that he believed was more significant than providing the type of property tax relief contained in SB 154. "[I]t was a very critical juncture, and things might have been different had Jerry Brown gone to the legislature and said, 'We need property tax relief now. You guys better pass it, or there's going to be an explosion…,' Keene explained. "[H]e didn't see that [growing 'revolt']."[13]

Nationally, however, the discourse was very different. The national media elevated Prop 13 to watershed political event and made Jarvis a celebrity. Above the words "Tax Revolt!" *Time* placed Jarvis on its, his fist thrust defiantly in the air, head framed by the stars in a revolutionary-era American flag. *Newsweek* countered with a Prop 13 cover featuring an all-white group of Californians sporting "Yes on 13" signs and t-shirts. The passage of the ballot initiative and its aftermath was covered in multiple reports on all three television networks' evening news broadcasts. In the furor following the passage of Prop 13, the history of the tax revolt was erased. Suddenly, the press that had been covering the revolt since the wave of levy defeats in the 1960s and Barr's congressional testimony in 1969 forgot that Jarvis's victory was a long time in coming. "The California revolt had raced the middle-class pulse of the country as feverishly as anything since the invention of the station wagon," *Newsweek* exclaimed. Prop 13 was not just a desire for a rollback in specific, regressive tax, most publications concluded. Rather, they argued

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[13] Derek Shearer, "Can He Take Credit after Contributing to a Crisis?" *Los Angeles Times*, June 27, 1978; Barry Keene, Oral History Interview, Conducted 1994 by Carole Hicke, Regional Oral History Office, University of California at Berkeley, for the California State Archives State Government Oral History Program, 196-199.

that it was a rebellion against all taxes. More than that, it was proof that the public wanted to shrink government and slash spending. As *U.S. News and World Report* explained, Prop 13 was a "message to city halls, state houses, and Washington, 'Roll back spending and cut our taxes.'"[14] The idea that the causes of Californians' vote for Prop 13 were more nuanced and varied was almost nowhere to be found.

Conservatives encouraged this interpretation. From the moment Jarvis took the podium to declare victory, the right-distributionist framing of the measure began. Activists and politicians, like Reagan and Friedman, who had repeatedly tried, and failed, to get voters to support right-distributionist initiatives now claimed victory. Past defeats were retrospectively reframed as prescient moral victories. Reagan argued that Prop 13 vindicated his failed Prop 1 effort and showed that conservatives were on the right side of history when it came to taxes. In a speech delivered just after Prop 13's passage, Reagan said he agreed with those who said that Prop 1 was "the beginning of the tax revolt." According to Reagan, Prop 1 "was an idea whose time had not quite arrived… But, on June 6, this year, Californians went to the polls and…passed Proposition 13 by a two-to-one margin." Reagan even mocked CAL's failed SB 154, calling it a "socialist redistribution scheme."[15] Friedman agreed with Reagan. Though he had previously dismissed the notion that the failure of Prop 1 or Prop C represented any type of referendum on the right's tax arguments, now Friedman argued that Prop 13 was proof that the public had finally seen the light and was embracing the strident anti-tax, anti-government message he had been pushing since the Goldwater campaign. "The 'brewing' tax revolt is no longer brewing. It is boiling over," Friedman wrote in a *Newsweek* column about Prop 13's victory. "The populace is coming to recognize that throwing government money at problems has a way of making them

[14] See press quotes in Joel Fox, *The Legend of Proposition 13: The Great California Tax Revolt* (Xlibris, 2003).
[15] Reagan Remarks, June 17, 1978, Steiger Papers, B 32A, F 7, WHS.

worse, not better, that people are likely to get more out of spending their own money than out of turning it over to bureaucrats to spend for them."[16]

Both conservative and liberal commentators seemed to agree with the conservative interpretation of Prop 13 offered by Reagan and Friedman. The public, pundits declared, had lurched to the right. *Fortune* magazine said that those who approved Prop 13 were "Voting For Capitalism." Prop 13 proved that lower- and middle-income Americans were now on the side of the wealthy, the magazine explained. It was a call to unleash capital from the shackles of taxation and big government. "This property-owning class…by now includes most members of what used to be referred to as the working class," the *Fortune* article explained. "What this *vox mediorum* is saying to government at all levels is: get out of our pocketbooks and give us back control of our own resources. What the middle class is also saying, or rather assuming, is that if the load of government could be lightened, if young and old were allowed not only to get capital but to keep it, the private economy could propel the country into a new era of expansion."[17] Liberal economist Robert Lekachman agreed. According to Lekachman, while some on the left might try to convince themselves that Prop 13 was simply a reaction to California's skyrocketing property taxes, it did not. "[J]ust for the record," he argued, "American taxpayers are less burdened than the citizens of most other advanced societies." Genuine pocketbook concerns did not cause Prop 13. Rather, Lekachman explained, a "sour, cynical, and self-regarding" "public mood" was to blame for Prop 13's passage. Since voters began defeating school levies in the 1960s and voting Nixon into office, they had been "drifting inexorably rightward." Prop 13 was a rejection not only of "the New Deal, New Frontier, and Great Society," it was a rejection of liberalism itself and a wholesale acceptance of Reagan's vision of America, according to Lekachman.

[16] Milton Friedman, "The Message from California," *Newsweek*, June 19, 1978.
[17] John Davenport, "Voting for Capitalism," *Fortune*, July 17, 1978.

"Proposition 13 and its progeny offer a politically acceptable cover for penalization of the economically vulnerable, in those articles of true conservatism which assert the inherent wastefulness of all government action, the superiority of private markets, the immorality and sloth of many or most welfare recipients, the pathetic incompetence of teachers and public schools, and the stifling impact of high taxes on incentives to work and invest," he concluded.[18]

More importantly, most Democrats came to the same conclusion as Friedman, Lekachman, and *U.S. News*. President Carter said that Prop 13 "sent a shock wave through the consciousness of every public servant."[19] His pollster, Pat Caddell, confirmed the conservative view for the president, telling him, "This isn't just a tax revolt. It's a revolution against government."[20] In a memo analyzing the effects of Prop 13, Carter's advisers recommended that he link his economic policies "to the sentiment behind tax-cut initiatives."[21] Unlike Nixon, Muskie, and McGovern, who had all considered ways to use federal revenue to allow states to lower regressive property taxes, Carter's advisers warned the president not to consider any entreaties from California or other states to devise new plans to replace lost property tax revenue with federal funds.[22] The message of California voters was clear, they said. Giving the state – or any state where voters enacted a tax limitation – revenue to save it from drastic program cuts would be an insult to voters. "We should not willy-nilly replace state spending with federal spending," OMB director James McIntyre warned Carter, "unless we are willing to ignore the message from the voters of California."[23] With that, the belief that the federal government could

[18] Robert Lekachman, "Proposition 13 and the New Conervatism," *Change* 10:8 (September 1978).
[19] Jimmy Carter, "Interview With the President Remarks and a Question-and-Answer Session With a Group of Editors and News Director," July 28, 1978, *Public Papers of the President*
[20] Caddell quoted in Peter N. Carroll, *It Seemed Like Nothing Happened: America in the 1970s* (Rutgers, 1982)
[21] Watson, Wexler, and Eizenstat to Carter, June 9, 1978, Handwriting File, B 90, F 6/12/78 [No. 2] [1], JCPL
[22] Schultze to Carter, June 10, 1978, Handwriting File, B 90, F 6/13/78, JCPL; McIntyre to Carter, June 9, 1978, Handwriting File, B 90, F 6/12/78 [No. 2] [1], JCPL
[23] McIntyre to Carter, June 9, 1978, Handwriting File, B 90, F 6/12/78 [No. 2] [1], JCPL

aid in solving the tax revolt – an idea embraced by everyone from Nixon to McGovern just a handful of years earlier – was erased. Nor was Carter the only New Democrat to embrace Prop 13.

In California, Jerry Brown now enthusiastically embraced both Prop 13 – which he had opposed prior to the vote – and Howard Jarvis. Prop 13 was, as *Newsweek* put it, "a kind of Damascus West for him [Brown] – a blinding revelation that frugality is to this generation of voters what free-spending was to the last." [24] The California governor called himself a "stimulus-response politician." He would do whatever the voters seemed to want, even if it went against Democratic Part traditions. What guided him, Brown said, was a sense of "planetary realism" that embraced the "small is beautiful" ethos of E.F. Schumacher. [25] Now, Brown enthusiastically spun Prop 13 as a ratification of his "small if beautiful" fiscal conservatism. "The concept that we're in an era of limits has been ratified by 65 per cent of the people," Brown declared.[26] In a long speech delivered just two days after Prop 13's passage, Brown expanded upon his interpretation of the ballot initiative. "Over four million of our fellow citizens have sent a message to city hall, to Sacramento, and to all of us," Brown said. "The message is that the property tax must be sharply curtailed, and that government spending – wherever it is – must be held in check. We must look forward to lean and frugal budgets." Brown also dismissed the idea that voters were angry at the property tax, specifically. Rather, he argued that Prop 13 proved the public's resentment of all taxes, no matter the type or the distribution of the burden. "No new state taxes," Brown declared. "Voters have told us they want a tax cut, not a shell game."

[24] David Gelman, et al., "Is America Turning Right," *Newsweek* (November 7, 1977)
[25] David Gelman, et al., "Is America Turning Right," *Newsweek* (November 7, 1977)
[26] "The Pop Politics of Jerry Brown," *Newsweek* (April 23, 1979)

Instead, he pledged, he would cut the state budget.[27] So convincing was Brown's retroactive endorsement of Prop 13, that within a month polls showed that half of California voters believed that Brown had supported the measure from the beginning.[28] Brown followed the logic of Prop 13 by declaring – against the advice of his advisers – that he now supported a federal balanced budget amendment. It was, Brown told the press, "the major priority of the 1980s." "I think that the country cannot indulge the illusion that printing money and endlessly pouring responsibilities and burdens onto the next generation is a mature solution to any problem," Brown said. Most observers believed that this radical proposal would be the centerpiece of a challenge to Jimmy Carter in the 1980 Democratic primaries or, if not, a campaign for the presidency in 1984.[29] In Brown's 1978 gubernatorial reelection campaign, Brown even successfully lured Jarvis into doing a campaign commercial for Brown.[30] Reporters soon dubbed the governor "Jerry Jarvis."[31]

With the Democrats back on their heels and the media embracing a favorable interpretation of Prop 13, right-distributionist Republicans and activists moved quickly to capitalize on the moment. Thanks to the power shifts within the GOP following Watergate, they were well positioned to do so. Whereas distributionist tax justice groups like CAL and Fair Share struggled to get support from Democrats like Brown and Dukakis, the Republican Party was becoming increasingly amenable to the appeals of the upwardly distributionist grassroots tax right. The same shifting political sands that led to the rise of the conservative, fiscalist New Democrats in the 1970s also moved the GOP in the direction of right-distributionism. Watergate

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[27] Brown address in reaction to Proposition 13, made available by UCLA Professor Daniel J.B. Mitchell (https://www.youtube.com/watch?v=xCueOgnluDg)
[28] "The Pop Politics of Jerry Brown," *Newsweek* (April 23, 1979)
[29] "The Pop Politics of Jerry Brown," *Newsweek* (April 23, 1979); Joyce Purnick, "Jerry Brown and the Art of Ambiguity," *New York* (March 12, 1979)
[30] "Did Prop 13 Godfather Endorse Jerry Brown?" *San Francisco Gate*, September 8, 2010 (http://blog.sfgate.com/nov05election/2010/09/08/did-prop-13-godfather-howard-jarvis-endorse-jerry-brown-and-his-opponent-in-1978-or-neither)
[31] George Skelton, "The Parable of 'Jerry Jarvis,'" *Los Angeles Times*, March 4, 2010; Peter Schrag, *Paradise Lost: California's Experience and America's Future* (University of California, 2004).

created a political vacuum in the Republican Party, and few conservatives were enthused by the moderate, "fiscalist" Gerald Ford, even if Ford was still to Nixon's right. Ford's defeat in 1976 created an opening for the right, embodied by Reagan's surprisingly strong challenge to Ford in GOP primary that year.[32] The group of libertarian-leaning anti-government conservatives surrounding Reagan rejected the fiscalist idea that Republicans should worry about worried about balancing the budget above all else.[33] Milton Friedman, who had helped Goldwater formulate the sweeping across-the-board tax cut proposed in his 1964 campaign and Reagan draft his Prop 1 proposal, argued that Democrats were exploiting the GOP's balanced-budget fiscalism. "The standard scenario has been that the Democrats – in the name of the New Deal, the Fair Deal, or the Great Society – push through large spending programs...and produce deficits," Friedman wrote in *Newsweek* in 1968. "The Democrats then appeal to the Republicans' sense of fiscal responsibility to refrain from cutting tax rates or, as in this case [the surtax], to raise them. The Republicans cooperate, thereby establishing a new higher revenue base for further spending. The Democrats get the 'credit' for the spending; the Republicans, the 'blame'

[32] On the post-Watergate shifts within the GOP, see Laura Kalman, *Right Star Rising: A New Politics, 1974-1980* (W.W. Norton, 2010); Jules Witcover, *Marathon: The Pursuit of the Presidency, 1972-1976* (Viking, 1977). On Reagan's return to prominence in the GOP after the Prop 1 defeat, which some observers initially argued doomed his career, see Lou Cannon, *Governor Reagan: His Rise to Power* (Public Affairs, 2005); Craig Shirley, *Reagan's Revolution: The Untold Story of the Campaign that Started It All* (Thomas Nelson, 2005).

[33] On the shifting view of taxes among conservatives, see Milton Friedman, "Spend, Tax, Elect," *Newsweek*, July 15, 1968; Jude Wanniski, "It's Time to Cut Taxes," *Wall Street Journal*, December 11, 1974; Jude Wanniski, "Taxes and the Kennedy Gamble," *Wall Street Journal*, September 23, 1976; Jude Wanniski, "The Mundell-Laffer Hypothesis," *Public Interest* 39 (Spring 1975); Jude Wanniski, "Should a GOP Scrooge Shoot St. Nick? – Taxes and a Two-Santa Theory," *National Observer*, March 6, 1976, available online (http://capitalgainsandgames.com/blog/bruce-bartlett/1701/jude-wanniski-taxes-and-two-santa-theory) and reprinted in *Congressional Record*, May 4, 1976, 12455 and *Congressional Record*, May 6, 1976, 12903, entered into the record by Robert Taft and Jack Kemp; Bruce Bartlett, " 'Starve the Beast': Origins and Development of a Budgetary Metaphor," *Independent Review* 12:1 (Summer 2007); Bruce Bartlett, "Supply-Side Economics: 'Vodoo Economics' Or Lasting Contribution?" Laffer Associates (November 11, 2003); Bruce Bartlett, *The New American Economy: The Failure of Reaganomics and a New Way Forward* (Macmillan, 2009); Corey Robin, "We're Going to Tax Their Ass Off!" (http://coreyrobin.com/2012/08/30/were-going-to-tax-their-ass-off); Iwan Morgan, "Taxation as a Republican Issue in the Era of Stagflation," in *Seeking a New Majority: The Republican Party and American Politics, 1960-1980*, Robert Mason and Iwan Morgan, eds. (Vanderbilt, 2013).

for the taxes[.]"[34] At the time Friedman wrote those words, his views were in the minority among Republicans.

By the mid-1970s, however, the view that balanced-budget fiscalism was to blame for the right for the GOP's inability to challenge Democrats' dominance on pocketbook issues had become the standard explanation among conservatives. "The Democrats, the party of income redistribution, are best suited for the role of Spending Santa Claus," *Wall Street Journal* columnist Jude Wanniski wrote in a 1976 article popular among conservative Republicans. "The Republicans, traditionally the party of income growth, should be the Santa Claus of Tax Reduction." The problem, Wanniski explained, was that the GOP had been "playing into the hands of the Democrats [by agreeing to Democrats' requests for tax hikes to balance the budget], who know the first rule of successful politics is Never Shoot Santa Claus." Only two choices existed for the GOP. "The political tension in the marketplace of ideas must be between tax reduction and spending increases," Wanniski explained, "and as long as Republicans have insisted on balanced budgets, their influence as a party has shriveled, and budgets have been imbalanced." The conclusion was inescapable. "[T]he Two-Santa Claus Theory holds that the Republicans should concentrate on tax-rate reduction," Wanniski declared.[35] Wanniski had been at least partly inspired by Arthur Laffer, who explained to Wanniski and Ford advisers Dick

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[34] Milton Friedman, "Spend, Tax, Elect," *Newsweek*, July 15, 1968. On Friedman's role in the Goldwater campaign and Goldwater's departure from GOP orthodoxy on taxes, see M.J. Rossant, "Goldwater and Taxes," *New York Times*, September 21, 1964; Chesly Manly, "U.C. economic Experts Advise Goldwater," *Chicago Tribune*, April 12, 1964; M.J. Rossant, "A Talk With A Goldwater Man," *New York Times*, October 8, 1964; Paul Samuelson, "The Case Against Goldwater's Economics," *New York Times*, October 25, 1964; Milton Friedman, "The Goldwater View of Economics," *New York Times*, October 11, 1964; Philip W. McKinsey, "Goldwater Tax- Cut Plan Challenges Fiscal Policy," *New York Times*, September 10, 1964

[35] Jude Wanniski, "Should a GOP Scrooge Shoot St. Nick? – Taxes and a Two-Santa Theory," *National Observer*, March 6, 1976, available online (http://capitalgainsandgames.com/blog/bruce-bartlett/1701/jude-wanniski-taxes-and-two-santa-theory) and reprinted in *Congressional Record*, May 4, 1976, 12455 and *Congressional Record*, May 6, 1976, 12903, entered into the record by Robert Taft and Jack Kemp.

Cheney and Donald Rumsfeld over dinner in 1974 that tax cuts could actually raise revenue.[36] In an era of rising inflation, this proposition also dovetailed, indirectly, with the monetarism of libertarian economist Milton Friedman, which argued that the Fed's control of the money supply, not Congress's control of fiscal policy, primarily determined the inflation rate.[37] If, under the twin auspices of the so-called "Laffer Curve" and monetarism, taxes were no longer necessary for fiscalist inflation fighting, what was to stop enterprising members of the GOP from focusing almost solely on an upwardly disributionist view of taxation?

While Eisenhower Republicans had never embraced a tax-cuts-at-all-costs mentality, and Ford had only reluctantly agreed to propose a small tax cut during the 1976 campaign, anti-government conservatives like Goldwater and Reagan had no qualms about putting the GOP's traditional concern about deficits aside in the name of slashing taxes – particularly progressive taxes on the rich and business, which these conservatives argued were both immoral and restrained growth. It also helped, of course, that these groups were the most loyal members of the GOP base. With Ford's near-loss to Reagan in the 1976 Republican primaries and Jimmy Carter's defeat of Ford in the general election, the last vestiges of Eisenhower-era balanced-budget Republicanism seemed to be extinguished. By the time Reagan announced his candidacy presidency in 1979, the classic conservative fiscalist notion of raising taxes – particularly on

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[36] Laura Kalman, *Right Star Rising: A New Politics, 1974-1980* (W.W. Norton, 2010); "The Laffer Curve," The Laffer Center (http://www.laffercenter.com/the-laffer-center-2/the-laffer-curve); Stephen Moore, "The Laffer Curve Turns 40," *Washington Post*, December 26, 2014; Brian Domitrovic, *Econoclasts: The Rebels Who Sparked the Supple-Side Reveolution and Restored American Prosperity* (ISI 2012)

[37] Allen J. Matusow, *The Unraveling of America: A History of Liberalism in the 1960s* (Harper, 1984), 53-58, 153-179; Daniel Steadman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton, 2012), 180-214; Harry G. Johnson, "The Keynesian Revolution and the Monetarist Counter-Revolution," *American Economic Review* 61:2 (May 1971), 1-14; Edward Nelson, "Milton Friedman and U.S. Monetary History: 1961-2006," *The Federal Reserve Bank of St. Louis Review* (May/June 2007), 153-182; Todd Buchholz, *New Ideas from Dead Economists (*Plume 1989), 229-252; Milton Friedman and Anna Schwartz, *A Monetary History of the United States* (Princeton 1963); Bennett T. McCallum, "Monetarism," *The Concise Encyclopedia of Economics* (http://www.econlib.org/library/Enc/Monetarism.html); Milton Friedman, "Taxes, Money, and Stabilization," *Newsweek*, November 5, 1967; Milton Friedman, "Money and Inflation," *Newsweek*, May 26, 1969; Milton Friedman, "Defining Monetarism," *Newsweek*, July 12, 1982; Milton Friedman, "Monetary Policy: Theory and Practice," *Journal of Money, Credit and Banking* 14:1 (February 1982), 98-118

business or the rich – in order to balance the budget and fight inflation was treated as absurd. Upwardly-distributive tax cuts took its place. "[T]he federal government has cynically told us that high taxes on business will in some way 'solve' the problem [of inflation] and allow the average taxpayer to pay less," Reagan said. "Well, business is not a taxpayer it is a tax collector. Business has to pass its tax burden on to the customer as part of the cost of doing business. You and I pay the taxes imposed on business every time we go to the store. Only people pay taxes and it is political demagoguery or economic illiteracy to try and tell us otherwise. The key to restoring the health of the economy lies in cutting taxes [emphasis in original]."[38]

This was a vision that Reagan and likeminded conservative grassroots activists had embraced since at least Prop 1, and it was one they continued to nurture throughout the 1970s, even in the face of defeat after defeat. Rather than view the defeat of their initiative as a rejection of their upwardly-redistributive small-government anti-tax vision, the leaders of the Prop 1 campaign, including Milton Friedman and Lewis Uhler, founded the influential National Tax Limitation Committee in 1975, an organization that joined other existing conservative anti-tax groups, like the National Taxpayers Union. The NTLC supported conservative tax-and-expenditure referenda across the country in the years that followed, usually with little success. In 1976, Reagan and Friedman rallied behind Michigan's NTLC-backed Proposal C, which was placed on the ballot by Michigan's Taxpayers United for Tax Limitation. By design, Prop C strongly resembled Prop 1. It froze state taxes at current levels and prevented the state from shifting services to localities by requiring any local tax increases to be approved by voters. Friedman was campaigning in Michigan for the measure when it was announced that he had won

[38] "Ronald Reagan's Announcement for Presidential Candidacy," November 13, 1979 (http://www.reagan.utexas.edu/archives/reference/11.13.79.html).

the Nobel Prize in Economics. When reporters inquired whether Friedman would return immediately to the University of Chicago to conduct the customary post-award press conference, Friedman demurred, arguing that staying in Michigan to campaign for Prop C was more important than the Nobel Prize. Unfortunately for Friedman, Reagan, and the NTLC, however, Prop C shared more in common with Prop 1 than its structure. Voters rejected Prop C, 57-to-43 percent.[39] That same year, however, Michigan voters did pass a measure backed by labor unions and the left-leaning Michigan Citizens Lobby exempting food and drugs from the sales tax.[40] In fact, the few successes that NTLC and other conservative groups could count in the mid-1970s came in the form of blocking – usually with the help of generous business backing – constitutional amendments allowing the graduated income tax in states like Michigan and Massachusetts. But in terms of passing their own measures, they had little to show for their efforts besides defeats.

The grassroots tax right and its GOP allies like Reagan were undeterred, though. Reagan devoted numerous episodes of his syndicated radio commentaries to tax limitation, including two analyzing the defeat of Prop C and one touting the vision of the NTLC, whose pamphlets Reagan encouraged listeners to purchase.[41] "In the State of Michigan, as in California three years ago, government employees and other special-interest groups have succeeded in bamboozling the

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[39] John Chamberlain, "Michigan Will Vote on Tax Issue," *Ludington Daily News*, October 26, 1976; Milton Friedman and Rose Friedman, *Two Lucky People: Memoirs* (University of Chicago, 1998); Milton Friedman, "Nobel Prize" Address, January 27, 1977; Milton Friedman, "After the Elections," *Newsweek*, November 15, 1976. On Prop C, see also materials in TUF, B 1 F Prop C [1 of 3], BHL; TUF, B 2 F Prop C [2 of 3], BHL; TUF, B 2 F Prop C [3 of 3], BHL.

[40] "Sales Tax Repeal the Issue," *Owosso Argus-Press*, October 17, 1974; "Drive to Restrict Sales Tax Backed," *Toledo Blade*, May 10, 1974; "State Citizens Lobby Finds Key Support in Drive to Remove Sales Tax on Food," *Owosso Argus-Press*, October 9, 1973; "Sales Tax Repealed," *Owosso Argus-Press*, November 6, 1974; Warren Hoyt, "Citizens Seek Accountability," *Northville Record*, February 23, 1977. The measure was opposed by Republican Governor William Milliken, who worried about the loss of revenue. Dave Dempsey, *William G. Milliken: Michigan's Passionate Moderate* (University of Michigan, 2006), 184.

[41] "Tax Limitation," September 1, 1975, Reagan Radio Commentaries, Box 2, Hoover. See Prop C commentaries in Kiron Skinner, Annelise Anderson, and Martin Anderson, eds. *Reagan's Path to Victory* (Free Press, 2004).

naive taxpayer…," Friedman despaired in his *Newsweek* column. In opposing Prop C, Friedman argued, these groups were issuing "a call for an authoritarian government, an explicit rejection of democratic self-government." The public had not really rejected conservatives' tax vision, he argued. They could not, because it was synonymous with democracy itself. "This second defeat is no reason for giving up…," Friedman concluded. "We must redouble our efforts."[42] And they did. When Prop 13 landed on the ballot, the tax right rallied behind it. Friedman touted it in *Newsweek*, Reagan promoted it on his radio broadcasts, and both taped endorsements for Prop 13.[43] Though Reagan and Friedman had played minor roles in boosting Prop 13 – given that their much stronger endorsement of Prop 1 had little effect – they saw it as their victory as much as Jarvis's.

In late-1978, Reagan and other likeminded conservatives were eager to consolidate their newfound influence over Democrats' understanding of tax politics. In September, thirty prominent Republicans – including Reagan, Jack Kemp, William Steiger, Bob Dole, David Stockman, and Alan Greenspan, among others – staged what they called the "Tax Cut Blitz." They grabbed national headlines by flying around the country in a jet dubbed the "Tax Clipper."[44] At stops in seven states, the GOP tax-cut team held rallies and gave speeches to drum up support for both the Kemp-Roth across-the-board income tax cut plan and a capital gains cut proposal authored by Steiger, a Wisconsin Republican.[45] The Kemp-Roth bill was a long-term

[42] Milton Friedman, "After the Elections," *Newsweek*, November 15, 1976
[43] "Tax Limitation 197 Style," Reagan Radio Commentaries, Box 2, Hoover; Milton Friedman, "A Progress Report," *Newsweek*, April 10, 1978; Sidney Blumenthal, *The Permanent Campaign* (Simon and Schuster, 1982); Joel Fox, *The Legend of Proposition 13: The Great California Tax Revolt* (Xlibris, 2003); Sidney Blumenthal, *The Rise of the Counter-Establishment* (Union Square, 2008); Joel Fox, "Proposition 13 and Milton Friemdan," August 6, 2009 (http://www.foxandhoundsdaily.com/2009/08/proposition-13-and-milton-friedman).
[44] See, for example, "Campaign '78 / Massachusetts Primary: Dukakis and Brooke / Republican Tax Cut Blitz," *CBS Evening News*, September 20, 1978; Bill Peterson, "GOP Grabs Tax Cut and Runs with It to 7 States," *Washington Post*, September 23, 1978
[45] The "Tax Cut Blitz" is covered extensively in the Steiger papers. See, for example, materials in Steiger, B 43, F 19, WHS

goal. It seemed unlikely even to the GOP that Democrats could be convinced to support such a costly income tax-slashing measure. The Steiger bill's two billion price tag was still steep, but it was more budgetarily achievable in the short term. Just as Russell Long had advised Ford that pro-capital tax cuts were politically untenable unless tucked into larger tax packages, Steiger's capital gains cut had languished in Congress with seemingly little support among either the public or most Democrats.

Few Americans had capital income – seventy percent of Americans told pollsters that they had never paid capital gains taxes – and a capital gains cut was one of the most regressive tax cuts possible. It was, without question, hard to spin the Steiger bill as something that would benefit low- or middle-income Americans. Ninety-eight percent of Steiger's proposed cut was earmarked for the top 10 percent of taxpayers. Sixty-six percent would go to the top 1/10th percent of taxpayers.[46] The average benefit for a median-income taxpayer was 25 cents. The average benefit for a millionaire was $145,302.[47] Carter had campaigned vowing to close the capital gains "loophole" and tax investment income the same as ordinary income – a change that both left-leaning tax activists and liberal tax experts had encouraged for years.

But the right-distributionist supporters of the Steiger and Kemp-Roth bills were unapologetic about their distributive impacts. The regressive effects of the tax cuts were part their virtue. The idea of big tax breaks for the rich "won strong Republican support," as *Congressional Quarterly* noted. Representative Barber Conable called the GOP's tax proposals "revolutionary" because they were not the typical "redistributional" Democratic plans that "take

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[46] Author's calculations from Joint Committee on Taxation data in Citizens for Tax Reform, "Tax Reform Alert," May 19, 1978, Reuss, B 67, F 15, WHS. Checked against *Current Population Reports: Consumer Income* P-60: 121 (February 1978) and updated tables from Thomas Pikkety and Emmanuel Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics* (February 2003), available online (http://elsa.berkeley.edu/users/saez/TabFig2012prel.xls)
[47] "Distribution," Reuss, B 74, F 14, WHS.

from one group of people through higher to give to other people in lower taxes."[48] Senator Orrin Hatch approvingly cited a William Simon speech, in which Simon blamed liberalism for its "coercive egalitarianism," which "punishes the hard working and ambitious and rewards those who are not" through "redistribution."[49] Republicans argued that progressive "redistribution" was immoral, and that the real moral purpose of taxation was to reward the investor class. They combined this distributionist justification with growth-oriented fiscalist rhetoric that suggested that other Americans would be better off, too, because of "capital formation." "Who will benefit from my amendment? Taxpayers in the upper bracket would benefit…," Steiger argued. "But…the high tax on capital gains has discouraged productive investment." To argue that capital income should be taxes the same as ordinary income was to deny the unique moral importance of investment and "capital formation" for the good of everyone. Moreover, Steiger suggested, "it begins from the premise that the government has a right to all income and capital" and "display[s] and irrational fear that someone, somewhere, somehow may be making money."[50]

Continuing the push for "capital formation" that the business lobby had begun years earlier, the Chamber of Commerce, National Association of Manufacturers, and American Council for Capital Formation all lobbied for Steiger's bill. Additionally, individual Wall Street firms like Merrill Lynch wrote to their customers to tout the benefits of the Steiger plan and encouraged customers to contact their representatives to voice their support for it.[51] The business-organized campaign flooded the Carter White House with letters supporting the Steiger

[48] *Congressional Record*, August 10, 1978, 25425; Congress Approves $18.7 Billion Tax Cut," *Congressional Quarterly Almanac* (1978).
[49] *Congressional Record*, August 9, 1978, 25127
[50] Steiger, "The Consumptive Society," Undated, Steiger Papers, B 1, F 14, WHS; For a more extensive argument by Steiger on the virtue of investment above other economic activity, which was a common view among conservatives, see Steiger, "How to Strangle Our Economy," Undated, Steiger Papers, B 1, F 14, WHS.
[51] Merrill Lynch, "To Our Customers," Steiger Papers, B 32A, F 13, WHS

amendment.[52] In many ways, however, the typical business-led push for pro-capital tax cuts was out of step with the Prop 13 mood. A technical fiscalist argument delivered by big business groups was not the image Steiger and the riders of the "tax clipper" wanted to present to the public. Privately, Steiger worried that business support for his measure would stoke public opposition.[53] "One could argue, as I suggested to [the National Association of Manufacturers' Tax Policy Group] that the best thing we could do would be to get NAM to oppose this!" Steiger joked to the chairman of Kohler Company.[54]

After Prop 13, even a highly regressive tax cut aimed at Wall Street could be given a populist veneer. Republicans linked the Steiger capital gains proposal and the Kemp-Roth plan to Prop 13. Calling the GOP's tax proposals an extension of Prop 13, Reagan justified the upwardly-skewed cuts in both fiscalist and moral, distributionst terms. "What these Republican proposals in Washington have in common with Proposition 13 here in California is that they are aimed at economic growth," Reagan said. "They show our party's faith in the good sense of the American taxpayer. They know that when his taxes are cut…he'll invest it…. And the economy will grow and jobs will be created." Finishing with a supply-side flourish, Reagan claimed,

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[52] See, for example, Hugh Carter to Carter, Handwriting File, B 96, July 21, 1978, July 21, 1978, F 7/21/78, JCPL
[53] Public opinion on capital gains was volatile, and associating the cut with business and the rich could easily hurt its chances of success. When questions about lowering or raising capital gains rates were framed in terms of growth versus an unfair tax cut for the rich, the public general chose fairness. But in most capital gains polls, nearly a third of respondents did not have an opinion. The tax affected so few Americans that many did not know what to think of it. But that meant that, when the capital gains tax was removed from distribution and fairness considerations, the public could be supportive of a cut. Overall, the polls suggest that, had Democrats maintained a united front and campaigned against Steiger's proposal by stressing its undeniable regressivity and its association with business, they could have created a public relations disaster for the Steiger bill. Notably, when it was explained that capital gains were taxed at lower rates than ordinary income, a fact of which many Americans were unaware, most Americans favored taxing them at the same rate. Louis Harris, July 25-27, 1978, Roper iPoll [USHARRIS.081478.R6]; Opinion Research Corporation, June 23-26, Roper iPoll [USORC.78JUL2.R7D]; H&R Block/Roper, May 6-13, 1978, Roper iPoll [USROPER.780648.Q19Q]; Cambridge Reports, January 1978, Roper iPoll [USCAMREP.78JAN.R043]; Cambridge Reports, July 1977, Roper iPoll [USCAMREP.77JUL.R279]; H&R Block/Rober, May 7-21, 1977, Roper iPoll [USROPER.770599.Q14B]; Louis Harris, March 15-21, 1977, Roper iPoll [USHARRIS.041477.R3E].
[54] Steiger to Kohler, Jr., May 9, 1978, Steiger Papers, B 32A, F 6, WHS

"And, not to incidentally, it results in new sources of revenue for public services, too."[55] Republicans' goal was to make upwardly-distributive tax cuts seem like they offered substantial benefits for the public. They argued that, besides spurring growth, the Steiger and Kemp-Roth cuts would actually have pocketbook benefits for middle-income taxpayers. For example, the GOP claimed that the Steiger bill would help the middle-class because selling a home constituted a capital gain. Of course, as many articles on the tax debate noted, the law already allowed homeowners "roll over" the gain from the sale of a home every 18 months, rendering that consideration moot for most taxpayers.[56] But Republican pressed forward. "Give us more Republicans in Congress and we'll see that every family in the nation gets a tax cut of major significance," GOP chair Bill Brock said on the "Tax Blitz" tour.[57]

The GOP's attempt to link the Steiger and Kemp-Roth bills with Prop 13 did not seem to be working as well as the party had hoped, though. Steiger's Wisconsin constituents sent him a stream of angry letters, decrying his bill as a giveaway to the rich.[58] UPI reported that the "Blitz"-ers were "met with skepticism" in Chicago.[59] "Everyone wants lower taxes," a Detroit woman asked Brock skeptically. "But how can you cut them 33 percent without creating huge

[55] Reagan Remarks, June 17, 1978, Steiger Papers, B 32A, F 7, WHS.
[56] "Tax-Cut Bill Fight Looms," *Spokane Daily Chronicle*, July 28, 1978; "Congress Approves $18.7 Billion Tax Cut," *Congressional Quarterly Almanac* (1978).
[57] "Republican Tax Blitz Hits Workers," *The Hour*, September 22, 1978
[58] In his replies, Steiger did not deny that fact. Instead, he argued that it was "not fair" that the Tax Reform Act of 1969 had slightly increased taxes on capital gains and that investment income was "eroded by inflation." Steiger did not mention that wage income was eroded by inflation, too. But the idea that well-off investors, not the poor, were the really victims of the "pocketbook squeeze" had become an article of faith among Republicans by the late-1970s. Just weeks after being sworn in as Ford's CEA chair, Alan Greenspan appeared before a group of an audience of grassroots groups – including labor union, NWRO, and Grey Panthers members, among others – and proclaimed that "if you really want to examine who, percentage-wise, is really hurt the most [by inflation] in these incomes, it's Wall Street brokers. I mean, their incomes have gone down most." See for example, Steiger to Peters, August 28, 1978, Steiger Papers, B 32A, F 13, WHS. See, also, other letters in same folder. For Greenspan's comments and the angry reaction from the audience, see "Economy Conference / Washington, DC," *CBS Evening News*, September 19, 1974; "Economy Conference / Washington, DC," *NBC Evening News*, September 19, 1974; "Economy News," *CBS Evening News*, September 20, 1974; John Stowell, *Schenectady Gazette*, September 19, 1974.
[59] "Republicans Defend 33% Tax Cut," *Lodi News-Sentinel*, September 22, 1978

budget deficits and cutting vital programs?"[60] She was not alone. "It's the same old stuff," a telephone repairman said dismissively after hearing the GOP's pitch at a Minneapolis rally. "All they tell you is that they want to cut taxes," another man complained. "It's frustrating that they don't tell you what they want to cut spending on. Is it national parks, cancer research, or what? It sounds like a meat-ax approach to me, a cheap shot." The *Washington Post* reported that the passengers of the "Tax Clipper" "found as much skepticism as excitement in the three-day trip."[61] At one Minneapolis rally, the "Tax Blitz" group attracted only 250 people, even though it had been advertised on the radio and in newspapers for two days – and that was the largest crowd at any of the more than a dozen "Tax Blitz" events in the city that day.[62] Brock dismissed the small crowds. "I haven't seen a good crows in politics for six years," he said. "I really don't think the crowd is an indication of interest. I think the interest level is high."[63] Moreover, the polls were showing that the public trusted Democrats more than the GOP on taxes.[64] When Reagan was told of a Harris/ABC poll showing Democrats ahead of Republicans on taxes by a 42-to-26 margin, he claimed that the public believed a "fairy tale."[65]

Luckily for Steiger, with the GOP soaring across the country in the "Tax Clipper" and framing the Steiger cut as the indistinguishable from Prop 13, most Democrats did not want to put up a fight, even against an upwardly redistributive, big business tax bill. The post-Prop 13 rhetoric worked. Democrats were too afraid of being on the wrong side of the "tax revolt." The

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[60] "Republicans Defend 33% Tax Cut," *Lodi News-Sentinel*, September 22, 1978
[61] Bill Peterson, "GOP Grabs Tax Cut and Runs with It to 7 States," *Washington Post*, September 23, 1978; "Republicans Defend 33% Tax Cut," *Lodi News-Sentinel*, September 22, 1978.
[62] Bill Peterson, "GOP Grabs Tax Cut and Runs with It to 7 States," *Washington Post*, September 23, 1978; "Detailed Guest List and Staff Schedule," September 19, 1978, Steiger, B 43, F 37, WHS
[63] Bill Peterson, "GOP Grabs Tax Cut and Runs with It to 7 States," *Washington Post*, September 23, 1978
[64] NBC News/Associated Press Poll, November, 1978, Roper iPoll Database [USNBCAP.36.R11]; NBC News/Associated Press, October 16-17, 1978, Roper iPoll Database [USNBCAP.35.R18]; Yankelovich, Skelly & White, October 5-8, 1978, Roper iPoll Database [USYANK.788161.Q12D1]; NBC News/Associated Press, June 12-13, 1978, Roper iPoll Database [USNBCAP.31A.R11]
[65] *Democratic Congressional Campaign Committee Report* 1:9 (November 1976), Reuss, B 68, F 24, WHS.

GOP was almost unanimously behind the Steiger cut, but the same could not be said for the other side. Almost immediately, influential Democrats in Congress clamored to join the capital gains cut chorus. In the key House Ways and Means Committee, Democrats Jim Jones of Oklahoma and Al Ullman of Oregon, the committee chair, teamed up to craft a "compromise" capital gains cut. Instead of lowering the maximum rate on long-term capital gains from 49 to 25 percent, as Steiger proposed, the Jones-Ullman proposal lowered it to 35 and included a minimum tax provision to help assuage the left that millionaires could not escape taxes completely due to the new lower capital gains rates. "The Democratic members are divided…," Carter's cabinet noted in a meeting. "The Republican members of the [Ways and Means] Committee are solidly supporting a significant reduction in capital gains taxes and are opposing the Administration's proposal." The White House's reform recommendations to Congress were already weaker than what the president had promised on the campaign trail. Instead of eliminating the preferential rate for capital gains, for example, Carter had only proposed curbing its benefits for upper-income taxpayers. Now, it seemed almost certain that Congress would present him with a bill slashing capital gains, handing a windfall to the rich and doing nothing for lower- and middle-income taxpayers. "Neither the Jones nor Steiger proposal would help the average taxpayer at all," the Carter cabinet concluded.[66]

The tax justice left and the populist Democrats who had been pushing for distributionist reforms since the 1960s both lobbied against any capital gains tax cut. "This massive redistribution of the tax burden away from the most well off would do serious damage to the progressivity and fairness of the tax system and is completely unjustified by any economic

[66] "Minutes of the Cabinet Meeting," July 24, 1978, Handwriting File, B 97, F 7/27/78, JCPL

rationale," Nader's Public Citizen wrote to representatives.[67] Twelve Democratic House members, including longtime reform advocate Henry Reuss, drafted a sharp denunciation of the Steiger proposal. "[W]e are so concerned about the impact of the Steiger amendment – both real and symbolic – that we want to point out how deeply the Steiger amendment threatens the concept of a fair tax system, and jeopardizes a fair distribution of tax relief this year." Likewise, the letter writers urged their fellow Democrats to reject the Jones-Ullman compromise. Instead of using the money to cut capital gains, the letter writers argued that rates should be reduced for the low- and middle-income taxpayers suffering from the squeeze of rising taxes and soaring inflation.[68] Carter agreed. He threatened to veto any bill that included a cut in capital gains, saying it would create "huge windfalls for millionaires and two bits for the average American."[69] One Carter aide put it more bluntly, calling the Steiger proposal "the greatest hoax ever perpetrated on the American people."[70]

But congressional Democrats were undeterred. The GOP's linking of Prop 13 and the capital gains cut worked, at least inside the Beltway. "To dozens of congressmen, slashing capital-gains taxes sounds like both good politics and good economics," *Newsweek* reported, "and the Steiger amendment, like Proposition 13 in California, has become a popular cause in the Tax Revolt of 1978." It was, the magazine put it, "Congress's own tax revolt."[71] Jones and Ullman pushed ahead with their proposal. "I think capital formation's one of the critical items in the country today and we have to have some capital gains relief," Jones explained. One-by-one,

[67] Public Citizen to Representative, May 25, 1978, Reuss, B 74, F 14, WHS. See also "Facts about the Jones 'Compromise' Tax Proposal," June 21, 1978, Reuss, B 74, F 14, WHS.
[68] "Statement on the Steiger Amendment," July 12, 1979, Reuss, B 74, F 14, WHS
[69] "Carter Opposes Cut in Capital Gains Tax," *Toledo Blade*, June 27, 1978.
[70] "Congress's Own Tax Revolt," *Newsweek*, July 10, 1978. Carter's CEA also produced an analysis casating doubt on research by conservative economist Martin Felstein that cuts to capital gains rates would produce an economic boom. Felstein, for his part, responded with a series of angry letters calling the CEA study "utter nonsense." See F Capital Gains: Steiger, B 10, Schultze Papers, JCPL
[71] "Congress's Own Tax Revolt," *Newsweek*, July 10, 1978

all but the most left-leaning “distributionist”-oriented Democrats turned towards the capital gains cut. Dick Gephart, who had cosigned the Reuss letter objecting to a capital gains cut, now told his fellow Ways and Means Committee members, “I think there is pretty broad agreement among a lot of people that it is a good time to be addressing the issue of reducing the capital gains tax.” By a 25-to-12 vote, thirteen Democrats joined twelve Republicans to send a tax bill out of the Ways and Means Committee. The bill included the Jones-Ullman capital gains compromise and a variety of other measures, but almost none of the reforms Carter had proposed in January.[72] “This obviously is not a tax reform bill,” Ullman explained in “fiscalist” terms. “It is an economic tax package. We have voted here a substantial reduction in the deficit. It is very counter-inflationary.”[73] Privately, Ullman tried to defend the bill to Reuss, who voted against it in Ways and Means. Ullman suggested that Prop 13 was driving “tax cut rhetoric” and making “taxation…one of the toughest political issues of the year.” Ultimately, though, Ullman echoed the GOP’s talking points from the “Tax Blitz” in asking Reuss to vote for the bill on the floor. “Capital gains taxes are reduced, but not irresponsibly…,” Al Ulman. “Homeowners, who watch inflation drive up the cost of housing, benefit most of all from the capital gains proposals.”[74]

The House passed the bill 362-49, with only 47 Democrats – mostly left-liberal stalwarts like Reuss, Shirley Chisholm, Pete Stark, and Louis Stokes – and two Republican voting against it.[75] In the Senate, Ted Kennedy attempted to strip the bill of any capital gains cut. But only ten Democrats joined his effort – including, most notably, both Muskie and McGovern – and it failed 10-82. Unable to reduce the tax cuts for the rich, Kennedy and Dale Bumpers turned to

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[72] “Congress Approves $18.7 Billion Tax Cut,” *Congressional Quarterly Almanac* (1978); “Tax Cut Bill, 1978 Legislative Chronology,” *Congress and the nation, 1977-1980* 5 (CQ Press, 1980); “Markup – H.R. 13511,” July 27, 1978, Committee on Ways and Means, U.S. House of Representatives, (US GPO, 1978)
[73] “Congress Approves $18.7 Billion Tax Cut,” *Congressional Quarterly Almanac* (1978).
[74] Ullman to “Henry,” August 4, 1978, Reuss, B 67, F 15, WHS
[75] “CQ House Votes 596-602,” *CQ Almanac* (1978), 170-H.

adding more tax cuts for working- and middle-class taxpayers in the bill to reduce its regressivity. The amendment narrowly passed. Conservative Republican, like Goldwater, and moderate Democrats, like Daniel Patrick Moynihan, voted against the Kennedy-Bumpers amendment, proving that all tax cuts were not equally popular in the post-Prop 13 tax cut fever.[76] The final bill passed the Senate 86-4.[77] The conference committee quickly hammered out a deal, and it was all over.

The idea of progressive reform that had taken hold in the late-1960s was dead, even though little reform had actually been accomplished in the intervening decade. "Congress scrapped almost all of Carter's proposed 'reforms,' including his celebrated 1976 campaign pledge to crack down on businessmen's tax breaks for 'three-martini lunches,'" *Congressional Quarterly* reported. "Indeed, lawmakers riding the crest of a middle-class 'taxpayers' revolt,' wound up reversing some 1976 tax 'reforms' that congressional liberals prized highly." Conservatives gloated. "We've turned around the whole thrust of what tax reform was two years ago," Republican Senator Clifford Hansen said.[78] The inclusion of the capital gains cut, in particular, was, as *Newsweek* put it, "a defeat for the populist reforms of Jimmy Carter."[79] Distributionally, the "compromise" on capital gains still gave the top 10 percent of taxpayers 90 percent of the cut. All told a, four-person family making $20,000 – just above median income – received less than $100 from the tax bill. The average reduction for a taxpayer making over $200,000 was more than $25,000.[80] "This reflects the American people's view of tax reform

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[76] "CQ Senate Votes 446-453," *CQ Almanac* (1978), 66-S.
[77] "CQ Senate Votes 470-476," *CQ Almanac* (1978), 69-S.
[78] "Congress Approves $18.7 Billion Tax Cut," *Congressional Quarterly Almanac* (1978).
[79] "Congress's Own Tax Revolt," *Newsweek*, July 10, 1978
[80] "Congress Approves $18.7 Billion Tax Cut," *Congressional Quarterly Almanac* (1978); "Tax Cut Bill, 1978 Legislative Chronology," *Congress and the nation, 1977-1980* 5 (CQ Press, 1980);

because it is a tax reduction," Conable argued.[81] Unable to beat the "Tax Blitz"-ers, Carter joined them. After having initially threatened to veto the bill, Carter tried to claim the mantle of tax cutter. "Do you want a government that cuts your income taxes?" Carter asked a Florida audience, who cheered loudly at his question. "Okay. Okay…. When I get back to Washington and get that bill, do you think I ought to sign it?" More cheering. "I'll take your advice, Carter said. "I've decided to sign the bill."[82] The Republican rebranding of the "tax revolt," it seemed, was complete

After their capital gains success in 1978, Republicans moved steadily towards a total embrace of an upwardly-distributionist tax philosophy. Reagan ran in 1980 touting the sweeping Kemp-Roth income tax cut. At the state level, the years after Prop 13 saw a flowering of conservative tax-limitation measures. Conservatives' on both levels had powerful allies. Nearly every measure – national, state, or local – pushed by left tax justice groups in the 1970s had been met with fierce resistance from business groups. But business only occasionally went on the offensive. In the late-1970s, however, a network of right-leaning business-backed groups turned to tax limitation. Most reflected the era of rising business activism following the "Powell Memo" – which was itself partly inspired by the type of left-distributionist activism practiced by Nader and Alinsky – and some were formed in response to Prop 13 itself.[83] Now, groups like the aforementioned National Tax Limitation Committee and American Council for Capital Formation were joined by the American Tax Reduction Movement, the National Taxpayers Union, the American Conservative Union's ACT Now, and the American Legislative Exchange

[81] "Congress Approves $18.7 Billion Tax Cut," *Congressional Quarterly Almanac* (1978).
[82] Jimmy Carter, "Miami Beach, Florida, Remarks," *Public Papers of the President*, October 26, 1978; "Carter to Sign Tax Cut," *Daytona Beach Morning Journal*, October 27, 1978legi
[83] For an overview of business activism in this era, see Kim Phillips-Fein, *Invisible Hands* (W.W. Norton, 2009); Cathie J. Martin, *Shifting the Burden* (University of Chicago, 1981); David Vogel, *Fluctuating Fortunes* (Beard, 2003); Kim McQuaid, *Uneasy Partners* (Johns Hopkins, 1993); Kim McQuaid, *Big Business and Presidential Power* (Morrow, 1982).

Council, among others. By the late-1970s, all of these groups were united in pressing for regressive tax policies at the state level, the federal level, or both.[84]

While groups like Nader's Tax Reform Research Group continued to fight against the rightward drift in taxation, more and more Democrats cleared the way for conservatives. By 1979, left tax reformers were calling Carter administration a "debacle." Nader's Tax Reform Research Group cited several reasons for Carter's move to the right, including structural ones like the sluggish state of the economy. But they also blamed Carter for proposing half-measure reforms at the beginning of his administration. Given the tone of Carter's 1976 campaign, lobbyists for big business and the wealthy were gearing up for battle, the TRRG argued. So when Carter delivered only timid reforms and they realized they had little to defend against, the lobbyists decided to go on the offensive and push for even greater loopholes, setting the stage for the Revenue Act of 1978, which – along with including the Steiger tax cut – weakened many previous reforms and included the Steiger capital gains cut.[85] By the 1980 presidential campaign, Carter had tilted so far towards business in his 1980 campaign platform that one Carter adviser noted in a memo that Reagan was actually running to the left of Carter on taxes. Carter slammed Reagan for proposing a tax cut for individuals. Instead, Carter cast taxes in fiscalist terms as a tool to fight inflation. Carter strenuously opposed indexing individual income taxes for inflation, which would have helped alleviate the pocketbook squeeze on low- and middle-income taxpayers, since brackets were closer together at lower levels of income.[86] Instead, in an echo of the "capital formation" diagnosis of stagflation, Carter took to the television airwaves in order to criticize his opponent's tax platform for being insufficiently generous to business and too

[84] *Democratic Congressional Campaign Committee Report* 1:9 (November 1976), Reuss, B 68, F 24, WHS.
[85] Anne Witte and Robert McIntyre, "Tax Reform in the 70s," *People and Taxes* 7:12 (December 1979).
[86] "The President Talks Tough," *U.S. News and World Report*, June 6, 1977 in Jimmy Carter and Don Richardson, *Conversations with Carter* (Lynne Rienner Publishers, 1998).

generous to individuals, which the Democrat argued would stoke inflation.[87] Instead, Carter proposed a large tax cut for business, which Carter said would "encourage industry to build new plants and to remodel existing plants" and "increase jobs."[88] When Reagan campaigned on both slashing taxes and combating inflation, many Americans were skeptical. Yet most reasoned that he was at least trying to do something about the pocketbook squeeze.[89] Just as Jarvis had flipped the script on opponents of Prop 13 by claiming the mantle of the populist reformer more concerned with individuals' pocketbooks than businesses' profits, Carter allowed Reagan to become the candidate concerned with average Americans' finances, not business. Weighed down by stagflation and an uninspiring platform, Carter lost to Reagan – though, like McGovern's loss, it was an outcome predicted by political scientists based on the poor state of the economy.[90]

Despite the favorable conditions for conservatives, their tax efforts in the late-1970s and early-1980s yielded mixed results. Even with the post-Prop 13 tax revolt fervor, voting on similar measures in other states was mixed. While numerous states passed some form of tax limitation in the late-1970s and early-1980s, they varied considerably in their content, comprehensiveness, and stringency.[91] Voters in some state, like Idaho, approved imitations of

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[87] "Campaign `80 / Debate / Reagan-Carter Interview / Anderson," *NBC Evening News*, October 21, 1980.

[88] Jimmy Carter, "Youngstown, Ohio Remarks and a Question-and-Answer Session During a Live Television Broadcast," *Public Papers of the President*, October 20, 1980; Jimmy Carter, "Toledo, Ohio Remarks and a Question-and-Answer Session at a Town Meeting," *Public Papers of the President*, October 25, 1980

[89] Albert R. Hunt, "Sizing Them Up: Carter and Reagan Get Bad Economics Grades from 2 Panels of Voters," *Wall Street Journal*, October 17, 1980.

[90] For accessible summaries of this notion, see Nate Silver, "What Do Economic Models Really Tell Us About Elections," *New York Times*, June 3, 2011 (http://fivethirtyeight.blogs.nytimes.com/2011/06/03/what-do-economic-models-really-tell-us-about-elections/); John Sides, "Underemphasized Points about Economy and Elections," *Monkey Cage*, November 18, 2011 (http://themonkeycage.org/2011/11/18/underemphasized-points-about-the-economy-and-elections/); Kevin Drum, "The Real Truth About Elections," *Mother Jones*, July 12, 2010 (http://www.motherjones.com/kevin-drum/2010/07/whos-going-win-year); Douglas Hibbs, "Bread and Peace Model" (http://www.douglas-hibbs.com); Larry Bartels and John Zaller, "Presidential Election Models: A Recount" (http://www.sscnet.ucla.edu/polisci/faculty/zaller/Pres.%20Election%20Models.pdf)

[91] In fact, even in some states – like Missouri and Tennessee – that passed measures ostensibly similar to Reagan's Prop 1, conservatives now complain that they were not stringent enough, given that many such measures included loopholes and overrides that allowed tax revenue go rise beyond the measure's limits under certain circumstances. This stands in stark contrast to California, which many observers argue has been permanently hampered by Prop 13.

Prop 13. Others rejected them. Oregon voters, in fact, rejected Prop 13-type measures four times between 1978 and 1984. Some states fell in between. Michigan, for example, defeated their state's Prop 13 lookalike and instead passed a more moderate measure. Modest initiatives in a variety of other states passed. But extreme measures like Prop 13 often struggled to win approval. Out of the more than five-dozen tax-limitation initiatives of various types placed on state ballots between 1978 and 1983, only slightly more than half were approved.[92] In general, bills that could be portrayed as boons to homeowners and middle-income taxpayers in states with rising regressive taxes and little previous meaningful tax relief were more likely to pass.[93] In contrast, many initiatives explicitly aimed at businesses – like a measure in Florida designed to increase property tax incentives for corporations – lost. Likewise, measures designed to cut progressive taxes, like income taxes, struggled. In 1980, Howard Jarvis sponsored "Jarvis II," which proposed a 50 percent across-the-board cut in state income taxes, and it lost by a three-to-one margin.[94] In November 1984, Michigan voters were offered an American Tax Reduction Movement-backed initiative that would have rolled back all state and local taxes to 1981 levels and required all future tax increases to be approved by voters. They defeated it 60-to-40 percent

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On Missouri tax limitation measure and conservatives' complaints about its effectiveness, see Bridget Kevin-Myers and Russ Hembree, "The Hancock Amendment: Missouri's Tax Limitation Measure" Report 17-2012 Missouri Legislative Academy (November 2012); Dean Stansel, "Missouri's Hancock II Amendment: The Case for Real Reform," CATO Briefing Papers (October 17, 1994). For the case of Tennessee, see James Kilpatrick, "Tennessee Considers Spending Lid," *Prescott Courier*, Febrary 20, 1978; Justin P. Wilson, "Copeland Cap Recommendations, December 17, 2003 (http://www.comptroller.tn.gov/repository/NR/CopelandCapReport.pdf); "The Copeland Cap Is a Toothless Tiger for TN Taxpayers," Taxing Tennessee (http://taxingtennessee.blogspot.com/2009/08/copeland-cap-is-toothless-tiger-for-tn.html); "Tennessee Spending Limit Needs Repair," *Times Free Press*, April 2, 2013

[92] Deciding what constitutes a "tax limitation" measure – let alone its comprehensiveness or ideological bent – is difficult. Jack Citrin and Isaac Martin, for example, have arrived at very different totals. And each missed measures that I have come across in my research. Eventually, I hope to compile a comprehensive list of tax limitation measures. However, it is quite possible that mine will be as partial and subjective as others. Jack Citrin, "Introduction: The Legacy of Proposition 13," in Terry Schwadron and Paul Richter, eds., *California and the American Tax Revolt: Proposition 13 Five Years Later* (University of California press, 1984); Isaac Martin, *The Permanent Tax Revolt: How the Property Tax Transformed American Politics* (Stanford, 2008)

[93] "The Tax Revolt that Wasn't," *People and Taxes* 6:11 (November 1978)

[94] Robert Studer, "Proposition 9," *Lodi News-Sentinel*, May 16, 1980; David O. Sears and Jack Citrin. *Tax Revolt: Something for Nothing in California* (Harvard, 1982), 126-127

in the same election that they voted for Reagan for president by the same margin, once again demonstrating the limitations of reading tax preferences into electoral decisions.[95] Despite the supposed public support for conservative tax measures, low turnout was the biggest help to most successful tax limitation. When few voters went to the polls, conservative activists were able to make a bigger impact with their own votes. However, when too much public attention turned to a tax limitation initiative, it mobilized voters worried about the potential distributional effects of the tax and budget cuts.[96]

Besides Prop 13, the tax right's greatest success at the state level came in the other state where a New Democrat governor had rebuked the entreaties of the grassroots left to enact progressive property tax relief. Following the defeat of the graduated income tax and flat-rate electricity ballot initiatives in 1976, Fair Share and other left-distributionist grassroots groups turned to a state-level solution Bay State's soaring property taxes. Like California under Brown, Massachusetts under Dukakis enjoyed a budget surplus, thanks to inflation-swollen tax receipts. Fair Share proposed using a portion of the $200 million surplus for property tax relief. So they drafted a "circuit breaker" plan similar to the one proposed by CAL in California, though less generous. Under Fair Share's plan, for residents making less than $30,000, the state would refund 80 percent of any homeowner or renter's property taxes that exceeded eight percent of income, up to a maximum of $500. A median-income family with a $1,200 property tax bill

[95] Campaigning in Michigan less than two months before the states voters casts their ballots in the November 1984 election, Reagan quipped. "I know you've had a taxpayer's revolt here in Michigan, But considering the magnitude of what's at stake today [in the upcoming election], would you agree that nothing could be quite so revolting as what they [Democrats] do to you and to all the taxpayers of America? Well, I've been traveling our nation, and I've heard what our people feel. And believe me, there's no doubt about where they stand on this question. Come November 6th, America will rise up and answer my opponent's issue number one – his tax increase – with an emphatic, unequivocal no." Ronald Reagan, "Remarks at a Reagan-Bush Rally in Grand Rapids, Michigan," Public Papers of the President (September 20, 1984). On the tax limitation measure, which – like the defeated 1976 measure – was known as Prop C, see "Analysis of Proposal C," *Fiscal Awareness Service* 3:8 (October 15, 1984); *1984 Ballot Question Committees*, Michigan Secretary of State (1984)

[96] Jack Citrin, "Introduction: The Legacy of Proposition 13," in Terry Schwadron and Paul Richter, eds., *California and the American Tax Revolt: Proposition 13 Five Years Later* (University of California press, 1984);

would have received a $243 rebate. Democrats Vincent Piro, the House Taxation Committee chair, and William Bulger, the Senate majority leader, agreed to sponsor the Fair Share bill, and it quickly gained strong support among Democrats in the legislature. But Governor Michael Dukakis was cool to the bill, preferring to save the surplus for future spending. Hoping to pressure the governor, Fair Share rallied in support of their "circuit breaker" on April Fools Day to send a message. "This [rally] will say to the governor, and to others who would like to sidetrack real tax relief – you can't fool us anymore," Kathy Gorman, Fair Share's president told the *Boston Globe*. "We don't want another 'lead pipe guarantee' from the governor. We want real tax relief."[97]

As the bill wound its way through the Massachusetts legislature, it kept pressure on the Democrats. During Ways and Means Committee hearings, a Fair Share spokesperson dramatized the pocketbook pressures facing average Bay State residents and predicted dire consequences if the legislature failed to act. "If you're talking tax relief," Chelsea's Mike Regan said. "People want something they can feel. They want something they can tough. They want something they can spend. They want money in their pockets, because they're blowing a fuse over property taxes." Regan then removed two fuses from his pocket and placed them in front of the committee's chairperson. Then 150 Fair Share members walked up and did the same.[98] Throughout the spring and summer, Fair Share members arrived at the capital in buses. They worked in shifts, staying overnight, to ensure that Fair Share members were always there, calling lesislators or confronting them in the hallways to ask whether they were going to vote for the

[97] Laurence Collins, "Fair Share Not Fooling on Tax Relief," *Boston Globe*, March 27, 1978; Clarence Y. H. Lo, *Small Property Versus Big Government: Social Origins of the Property Tax Revolt* (University of California Press, 1990), 181.
[98] Nick King, "Blown Fuses Light tax Issue Protest at State Hearing," *Boston Globe*, April 12, 1978

"circuit breaker." Finally, the bill passed both the House and the Senate, though the latter trimmed the "circuit breaker," and was sent to Dukakis.[99]

The governor had ten days to sign the bill. Dukakis had consistently argued that the "circuit breaker" was inequitable. Rather, Dukakis disingenuously argued that it would allow a "swinging bachelor" to receive property tax relief. Instead, he proposed sending money to localities to cut property taxes across-the-board, a plan Fair Share pointed out would create a windfall for of relief for corporations, given none to renters, and little to both poor and rich homeowners, alike. Fair Share's plan, in contrast, helped renters and homeowners, but only if they made less than $30,000 per year, and did nothing for business.[100] On the ninth day, Fair Share bused more than 500 protestors to a Dukakis "town meeting" in Revere. Only about 100 people had showed up to the meeting, but Fair Share packed the other 300 seats in the 400-seat hall with their members while the remaining 200-some Fair Share activists waited outside. Faced with questions from Fair Share members, Dukakis reiterated his opposition to the plan. "Okay," Carolyn Lucas of Fair Share said. "All those who want direct property tax relief may leave." Then 300 people walked out of the hall chanting, "We put you in. We'll pull you out." The governor left through a back door to avoid confronting Fair Share protestors outside. Rather than formally vetoing the bill and sending it back to the legislature, Dukakis announced he was "holding" the bill until after the legislature ended its session to ensure that they would not have

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[99] Laurence Collins, "House Adds Tax Rebate Plan to Budget," *Boston Globe*, May 5, 1978; Laurence Collins, "State Senate Panel Trims Property Tax Rebate Plan," *Boston Globe*, May 20, 1978.
[100] Laurence Collins, "Budget Passed; 4 Items Vetoed," *Boston Globe*, July 8, 1978; Elizabeth Bass, "Reassessing the Circuit Breaker" in *State and Local tax Revolt: New Directions for the 80s*, Dean C. Tipps and Lee Webb, eds. (Transaction, 1980), 130-132.

the opportunity to override his veto – a maneuver Fair Share claimed was likely illegal and certain against Dukakis's self-proclaimed "good government" ideals.[101]

With the support of Boston Mayor Kevin White, Fair Share tried another approach. They placed Issue 2 on the November 1978 ballot. The "classification" measure changed the state constitution to allow the legislature to tax homes and businesses at different rates. It had strong support on the left, but was opposed by a business group called the Committee Against Property Tax Discrimination. Nonetheless, the Fair Share plan passed by a by a two-to-one margin, supported by homeowners who thought the measure would cut their property taxes and shift the burden to business and commercial property.[102] However, as Fair Share knew, classification by itself did little to prevent property taxes on homeowners from skyrocketing and experts predicted that – if the legislature did nothing else to taxes for low- and middle-income homeowners – further tax limitation were in the offing for the Bay State.[103] When the legislature gave little indication that it would move to make use of classification, the group pushed for a "taxbreaker" plan to cut property taxes on residential property by 10 to 20 percent. Given the state's longstanding resistance to attempts to institute a progressive income tax, Fair Share settled on a plan to fund the "taxbreaker" by taxing banks and professional services, such as legal fees, real estate transactions, and stock transfers. The plan had the support of the state AFL-CIO, along

[101] Nick King, "300 Tax Demonstrators Walk Out on Dukakis Meeting in Revere," *Boston Globe*, June 27, 1978; Laurence Collins, "Dukakis Signs Budget; Vetoes Circuit Breaker," *Boston Globe*, July 11, 1978; Laurence Collins, "Budget Passed; 4 Items Vetoed," *Boston Globe*, July 8, 1978; Elizabeth Bass, "Reassessing the Circuit Breaker" in *State and Local tax Revolt: New Directions for the 80s*, Dean C. Tipps and Lee Webb, eds. (Transaction, 1980), 130-132; Clarence Y. H. Lo, *Small Property Versus Big Government: Social Origins of the Property Tax Revolt* (University of California Press, 1990), 181-182.

[102] Howard S. Bloom, "Public Choice and Private Interest: Explaining the Vote for Property Tax Classification in Massachusetts," *National Tax Journal* (December 1979); David Rogers, "Question 1 Funding OK'd," *Boston Globe*, November 7, 1978; David Rogers, "Question No. 1 – The Issue Is Property Tax," *Boston Globe*, October 9, 1978; David Rogers, "The Question 1 Legacy," *Boston Globe*, November 9, 1978; Ray Richard, "Chance to Sound off on Taxes," *Boston Globe*, October 29, 1978;

[103] John Avault, Alex Ganz, and Daniel Holland, "Tax Relief and Reform In Massachusetts," *National Tax Journal* (June 1979).

with dozens of other private and public employee unions, the state Public Interest Research Group, and other left-leaning organization. But the potentially-affected businesses instantly rallied to oppose it. The new governor, Edward J. King – a conservative Democrat – opposed it, and the Democratic legislators and liberal professionals who had previously supported Fair Share turned against the group. With no opportunity in the legislature, Fair Share scrambled to gather enough signatures in two months to put it on the 1980 ballot, but when a public employee union failed to deliver their promised share of the signatures, the initiative died.[104]

This gave right-distributionist conservatives an opening. Edward F. King was the Bay State's answer to Howard Jarvis. King was a business lobbyist with a long history in conservative politics in Massachusetts, including a previous failed attempt to qualify a tax-limitation initiative for the ballot. But in December 1979, King's Citizens for Limited Taxation barely submitted enough petitions to get a new tax-limitation measure on the 1980 ballot. Prop 2 ½ was so-called because it reduced property taxes to 2 ½ of values and limited the growth of property taxes to 2 ½ percent per year. It was a worthy heir to Prop 13. Jarvis even went to Massachusetts to stump for 2 ½.[105] As in California, the opposition to 2 ½ was divided. The business-backed Massachusetts Taxpayers Foundation also opposed Prop 2 ½, which limited the opposition's populist credibility. Likewise, Democrats provided an unconvincing opposition, given that the state's conservative Democratic governor had backed his own tax limitation law

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[104] Clarence Y. H. Lo, *Small Property Versus Big Government: Social Origins of the Property Tax Revolt* (University of California Press, 1990), 181-182; Robert Kuttner, *Revolt of the Haves* (Simon and Schuster, 1980), 316-317; Laurence Collins, "Property Tax Ideas Up to Legislature," *Boston Globe*, May 7, 1979; Robert Rosenthal, "Getting and Spending," *Boston Globe*, March 28, 1979; Peter Cowan, "King Cool to 'Taxbreaker' Bill," *Boston Globe*, May 13, 1979. King had his own pseudo-Prop 13 tax-and-expenditure plan in the works. A watered-down version eventually passed and was signed into law, but it did little to arrest the Bay State's soaring property taxes. Nick King, "King Lowers Sights to $400m Tax Relief," *Boston Globe*, May 10, 1979; Nick King, "4% Tax Cap Signed into Law by King," *Boston Globe*, May 15, 1979.

[105] Daniel A. Smith, *Tax Crusaders and the Politics of Direct Democracy* (Routledge, 1998); 183-188; Clarence Y. H. Lo, *Small Property Versus Big Government: Social Origins of the Property Tax Revolt* (University of California Press, 1990); Lawrence E. Susskind, ed., *Proposition 2 ½: Its Impact on Massachusetts* (Oelgeshlager, Gunn & Hain, 1983)

just a year earlier. Like the failed "No on 13" campaign, anti-2 ½ ads focused on the revenue loss to states and localities, rather than on alternative solution to rising taxes.[106]

King's CLT also had a powerful – and politically savvy – business ally in support of Prop 2 ½. The Massachusetts High Tech Council bankrolled much of the pro-2 ½ campaign. It established the Concerned Citizens for Lower Taxes front group, and hired a political consulting form led by Dick Morris, who would later go on to formulate President Clinton's centrist "triangulation" strategy. Morris's firm recommended that the pro-2 ½ side downplay the MHTC's backing and instead sell it as a "liberal compassionate measure" that would help struggling homeowners. "The voters are not particularly impressed by the fact that 2 1/2 is supported by CLT, High Tech, or the auto dealers…," the firm warned. "Therefore, it is advisable to begin your presentations by pointing out that Prop 2 1/2 is on the Nov. 4 ballot because *'100,000 of your friends and neighbors wanted it there'…. Don't sell 2 ½ as a conservative, limited government concept* [italics in original]."[107]

The CCLT's pro-2 ½ ads were positive and upbeat and portrayed the measure as voters' only chance go curb out-of-control property taxes. "In Massachusetts we've been fighting unjust taxes for a long time," one commercial showing men on a boat in revolutionary-era outfits began. "It started with the Boston Tea Party and it's still going on. Since 1932 there have been

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106 Daniel A. Smith, *Tax Crusaders and the Politics of Direct Democracy* (Routledge, 1998); 183-188; Clarence Y. H. Lo, *Small Property Versus Big Government: Social Origins of the Property Tax Revolt* (University of California Press, 1990); Lawrence E. Susskind, ed., *Proposition 2 ½: Its Impact on Massachusetts* (Oelgeshlager, Gunn & Hain, 1983); Walter Robinson, "Question 3 – Its Tax 'Limit' Is the Issue," *Boston Globe*, October 29, 1980; A.A. Michelson, "Question 3: It Limits – But Does Not Hack – Taxation," *Boston Globe*, November 1, 1980. For ant-2 ½ ads, see No on 2 TV Commercial # 31393, JKPA; No on 2 TV Commercial # 31398, JKPA. The first ad focuses on an elderly woman, who is worried about how post 2 ½ budget cuts could affect her. Strangely, the ad does not address the fact that most elderly homeowners were acutely concerned about rising property taxes.

107 Memo quotes from Daniel A. Smith, *Tax Crusaders and the Politics of Direct Democracy* (Routledge, 1998), 85-127. See also Clarence Y. H. Lo, *Small Property Versus Big Government: Social Origins of the Property Tax Revolt* (University of California Press, 1990); Lawrence E. Susskind, ed., *Proposition 2 ½: Its Impact on Massachusetts* (Oelgeshlager, Gunn & Hain, 1983); Bob Kuttner, "Proposition 13 vs. Prop 2 ½," Boston Globe, October 5, 1980; Peter Cowan, "In Boston, Official Opposition Is Low-Key," *Boston Globe*, October 31, 1980; Ian Menzies, "Prop 2 ½: The Way to Fiscal Responsibility," *Boston Globe*, August 21, 1978

125 proposals to limit taxes, and how many have passed the legislature? None. Absolutely none. Now we have a way to make the legislature get the message." Another CCLT ad aimed at convincing Massachusetts voters that 2 ½ was not partisan. "Do you think your taxes will be lower if you vote for this man [Carter photo on screem] or this man [Reagan photo on screen] or this man [John Anderson photo on screen]?" it began. "Maybe you're not sure, but the most effective vote you can cast if you want to bring taxes down is a vote for this [a big, yellow '2 ½' comes up on screen]."[108]

Besides populist campaigns that downplayed their upward redistributionism, the anti-tax right's two biggest successes – Prop 13 and Prop 2 ½ - shared another key similarity. In both California and Massachusetts, the higher one's income, the more likely he or she was to vote for Prop 13 or Prop 2 ½.[109] This was the polar opposite of the low- and middle-income coalitions that voted down local school levies during the unorganized late-1960s "tax revolt," supported progressive tax measures like "circuit breakers," and defeated past conservative initiatives like Reagan's Prop 1. And when it came to defeating Jarvis's regressive income tax cut proposal in 1980, the low- and middle-income coalition once again united to defeat it, while upper-income Californians voted for it.[110] The well-off had always been much more supportive of conservative tax-limitation measures than lower- and middle-income voters. Crucially, though, Prop 13 and Prop 2 ½ – unlike Prop 1 – attracted enough "yes" votes from previously skeptical groups to win. Both Prop 13 and Prop 2 ½ attracted large pluralities or slight majorities of poor and working-class voters, as well as at least 40 percent support among "non-white" voters. In both states,

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[108] Yes on 2 TV Commercial # 31396, JKPA; Yes on 2 TV Commercial # 31397, JKPA
[109] Helen F. Ladd and Julie Boatright Wilson, "Proposition 2 ½: Variations in Individual Preferences and Expectations Across Communities" (JFK School of Government, January 1982); Helen F. Ladd and Julie Boatright Wilson, "Who Supports Tax Limitations: Evidence from Massachusetts' Proposition 2 ½" (JFK School of Government, January 1982); David O. Sears and Jack Citrin. *Tax Revolt: Something for Nothing in California* (Harvard, 1982).
[110] Author's analysis of data from California Field Poll 80-03, May 9-15, 1980, UC Data

between one-third and one-half of public employees – the voters who seemingly had the most to lose from the passage of Prop 13 and Prop 2 ½ – voted for the measures, anyhow. [111]

For low- and middle-income voters, a vote for measures like Prop 13 and Prop 2 ½ was not an indication of rising conservatism. While upper-income voters and conservative activists may have supported these measures for ideological reasons, polls showed that others did not. In fact, voters' views on taxes and spending had changed little in the five years between the defeat of Prop 1 and the passage of Prop 13.[112] In California, even those who supported Prop 13 opposed cuts in all but a few services. Just as often, they wanted substantial increases in state spending on schools, mental health, and police and fire.[113] Likewise, one Massachusetts study found that the "squeezed" residents in high-tax areas voted for Prop 2 ½ because they thought it would cut their property taxes. Those voters were also the most likely to support generous public services and progressive reforms that would use state taxes, rather than property taxes, to fund local services.[114] Even when it came to relatively unpopular services, like welfare, voters expressed ambivalence. While they were willing to see it cut somewhat, two-thirds of Californians still opposed eliminating "almost all welfare" because they believed "people really need" it. Because of the strong support for services among Prop 13 voters, early studies surmised

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[111] Many polls of this era used the unfortunate "non-white" designation in a racial binary. Authors' analysis of data from "CBS News/*New York times* Monthly Poll," June 1978 (ICPSR 4495); David O. Sears and Jack Citrin. *Tax Revolt: Something for Nothing in California* (Harvard, 1982),See also David O. Sears and Jack Citrin. *Tax Revolt: Something for Nothing in California* (Harvard, 1982); Helen F. Ladd and Julie Boatright Wilson, "Proposition 2 ½: Variations in Individual Preferences and Expectations Across Communities" (JFK School of Government, January 1982); Helen F. Ladd and Julie Boatright Wilson, "Who Supports Tax Limitations: Evidence from Massachusetts' Proposition 2 ½" (JFK School of Government, January 1982).

[112] Author's analysis of ACIR data, which provides an excellent measure of change over time by asking the same questions year after year. See also Louis Harris, "Tax Revolt Not a New Phenomenon," *Harris Survey* (June 29, 1978); Thomas Ferguson and Joel Rogers, "The Myth of America's Turn to the Right," *Atlantic*, May 1986.

[113] David O. Sears and Jack Citrin. *Tax Revolt: Something for Nothing in California* (Harvard, 1982).

[114] Helen F. Ladd and Julie Boatright Wilson, "Proposition 2 ½: Variations in Individual Preferences and Expectations Across Communities" (JFK School of Government, January 1982); Helen F. Ladd and Julie Boatright Wilson, "Who Supports Tax Limitations: Evidence from Massachusetts' Proposition 2 ½" (JFK School of Government, January 1982).

that Californians wanted "something for nothing."[115] But that was not the case. The "pocketbook squeeze" explained many low- and middle-income voters simultaneous support for cutting regressive taxes and expanding social services. That Prop 13 and similar measures finally gained public traction during a period of intense inflation – especially in property values – should come as no surprise. In fact, during the same period in which California voters were supposedly turning to the right by passing Prop 13, they were also enacting a raft of progressive rent control measures opposed strenuously by businesses and conservatives.[116] What Prop 13 and rent control had in common was the creation of pocketbook relief and stability at a time of rising prices and rising taxes.

Conservatism did not create "yes" voters, the arithmetic of the household budget did. This financial distress did not turn voters to the right, but it did make them more willing to overlook their objections to the distribution of the cuts contained in measures like Prop 13. Throughout the 1970s, taxes continued to rise faster than paychecks. Year after year, the "squeeze" intensified until finally enough low- and middle-income taxpayers were willing to vote for the types of conservative tax measures they had opposed before. In California, as in most states across the country, the effect of rising property taxes on low- and middle-income residents was dramatic. Between 1960 and 1970, median home values in the U.S. increased from

[115] Authors' analysis of data from "CBS News/*New York times* Monthly Poll," June 1978 (ICPSR 4495). See also David O. Sears and Jack Citrin. *Tax Revolt: Something for Nothing in California* (Harvard, 1982).

[116] William Keating, *Rent Control in California*, UC-Berkeley Institute for Governmental Studies (1983); William Tucker, "How Rent Control Drives Out Affordable Housing," *CATO Policy Analysis* 274 (May 21, 1997); Chris Kavanagh, "Celebrating 25 Years of Rent Control," *BeyondChron*, January 18, 2006 (http://www.beyondchron.org/news/index.php?itemid=2846); David O. Sears and Jack Citrin. *Tax Revolt: Something for Nothing in California* (Harvard, 1982), 33-34 David O. Sears and Jack Citrin. *Tax Revolt: Something for Nothing in California* (Harvard, 1982), 33-34; Peter Dreier, "Rent Deregulation in California and Massachusetts: Politics, Policy, and Impacts - Part II," May 14, 1997 (http://tenant.net/alerts/guide/papers/dreier/dreier.pdf); Jeremy Rosenberg, "The Fight Against Rent Control,"KCET, March 4, 2013 (http://www.kcet.org/socal/departures/columns/laws-that-shaped-la/saying-no-to-rent-conrol.html); On similar movements for rent control in New Jersey, see Kenneth Baar, "Rent Control in the 1970s: The Case of the New Jersey Tenants' Movement," Hastings Law Journal 28 (January 1977). On rent control movements, more broadly, including a case study of Santa Monica, see Stella Capek and John Gilderbloom, Community Versus Commodity: Tenants and the American City (SUNY, 1992).

$11,900 to $17,000, before soaring to $47,200 in 1980. In California, rates increased 40 percent between 1958 and 1977, the year before Prop 13. In 1960, the median home price in California was $15,100. By 1980, it was $84,500, a 460 percent increase in value. Even if they usually hit first-time homebuyers, rising sale prices did not necessarily translate into proportional increases assessments for existing homeowners. However, the climb for existing homeowners was still steep. Los Angeles county assessor Alexander Pope revealed that his own home's assessment had risen from $22,800 in 1963 to $54,700 in 1977, at a time when the property tax rate was rising. Pope was not alone. In 1967, the average owner of an FHA-insured home paid $23 per month in property taxes. By 1977 property taxes had doubled to $56 per month. Accounting for rising incomes, this was a 25 percent increase in property taxes.[117]

Even left-leaning activists were not immune from the ideology-muting effects of the pocketbook squeeze. As one CAL activist said after reluctantly deciding to cast a vote for Prop 13, "I prefer the Tax Justice Act, but I want to keep my home."[118] This dynamic was not lost on all observers. "I think that the voters of this state were incredibly patient with their political leaders in waiting for them to relieve them of the unfair burden of the property tax. The problem has been known for decades," Boston's Mayor Kevin White's handpicked advisor for dealing with Prop 2 ½ explained shortly after its passage. "We have had an overreliance on the most regressive tax in America. The family of with the low income in Massachusetts has a higher percentage of its yearly pay taken away because of the property tax than any other form of

[117] On the increase in property tax rates on FHA homes, see Table 37, Advisory Commission on Intergovernmental Relations, *Federal-State-Local Finances: Significant Features of Fiscal Federalism, 1981-82 Edition* M-135 (U.S. GPO, April 1983). On median home values, see "Historical Census of Housing Tables, Housing Values" (https://www.census.gov/hhes/www/housing/census/historic/values.html). On Pope's taxes see Table 11, David Doerr, *California's Tax Machine* (California Taxpayers' Association, 2008), 186. For FHA data, see Table 26-S, *FHA Homes in 1967*, Department of Housing and Urban Development (1967) and Table 31-S, *FHA Homes 1977*, Department of Housing and Urban Development (1977)

[118] Author correspondence with Mike Miller, June 3, 2012

taxation. Richer people are not affected by the property tax as much as poor people. And I think that the cry for proper tax [relief] has gone on for so long that the people were very patient waiting for the political leadership to do something. So I think that that is what they did. Now any referendum is a crude way to govern. But [Prop 2 ½] was the only tool [voters] had."[119]Among conservative activists, the recipe for success after Prop 13 was clear. If the public became "squeezed" enough, voters would support measures that they knew were unfair, but that they also knew would benefit them, at least a little.

Most tax justice activists understood this dynamic, too. Diane Fuchs and Anne White, staffers for Nader's Tax Reform Research Group, argued that Prop 13 was a referendum on rising regressive taxes and a corrupt system of assessment, not conservatism. "[N]o wonder people voted for Proposition 13," they wrote. "It was a very simply way of voting against high taxes and against the system the people thinks produces them."[120] Other left activists agreed. "[I]t would be a historic mistake to define the success of 13 as a 'victory for conservatism,'" Tom Hayden argued. "For every sinister operative of the landlord associations…there were at least ten plain, honest frustrated citizens pushed to the edge by the incessant chorus of big business and big government, higher prices and higher taxes." James Weinstein argued that the public saw Prop 13 as "addressing itself to lowering taxes and raising income." It was "a popular issue on which the right has adroitly cashed in," but Prop 13 was filed with "endless ironies" for the left, "not the least of which involve seeing the right make political hay out of issues the left has long been raising[.]"[121] Instead, "tax justice" activist blamed Democrats' decade-long inaction on unfair taxes for leaving to door open to right-populists like Jarvis. Some Democrats agreed, too. After Prop 13, the now seemingly discredited George McGovern reflected on his 1972 campaign

[119] "Q&A: The Voters Were Very Patient," *Boston Globe*, February 9, 1981.
[120] Diane Fuchs and Anne White, "Where Now, States?" *People and Taxes* 6:9 (September 1978);
[121] Tom Hayden, "Death of the New Deal" and James Weinstein, "Smashing the State," *Moving On* (October 1978).

and the grassroots tax activism surrounding it and concluded, "We were six years ahead of Howard Jarvis – and we explained how to pay the bill fairly." [122]

By the late 1970s, the once-promising tax justice coalition consisting of left-leaning tax groups and sympathetic distributionist Democrats like McGovern that seemed ascendant in the late-1960s and early-1970s had evaporated. However, contrary to the oft-repeated narrative that the grassroots left pulled Democrats away from broad pocketbook concerns to allegedly narrow issues of "identity," the actual dynamic was nearly the opposite.[123] As several scholars recently have begun to argue, the post-1960s grassroots left embraced a wide variety of economic concerns. They did not view "pocketbook" and "identity" issues as a zero-sum game.[124]

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[122] See, for example, Anne G. Witte and Robert S. McIntyre, "The Property Tax: Probing Some of the More Difficult Issues," *People and Taxes* 7:6 (June 1979).

[123] The notion that the Democratic Party, at the behest of the grassroots left, began turning away from the "universalistic" economic politics of the New Deal to the "particularistic" "identity politics" of McGovern has very nearly been the conventional wisdom since the 1960s. Both of the widely discussed political works of that era – Kevin Phillips's *Emerging Republican Majority* and Ben Wattenberg and Richard Scammon's *Real Majority* – made variations of this argument. Since then, both liberal and conservative writers have repeated this argument to explain the victories of Nixon and Reagan and the "rise of the right," more broadly. As journalist Joe Klein put it more recently, the Democratic Party's post-1960s "drift toward identity politics, toward special pleading" had meant that "if I'm a plain old white insurance salesman, I look at the Democratic Party and say, What's in it for me?" Or, as Michael Lind has written, in a more historically detailed iteration of the argument, "The killers [of 'the New Deal coalition of Franklin Delano Roosevelt'] were George McGovern and his allies and supporters in the New Politics movement. By turning the Democratic Party into an alliance of affluent whites and minorities based on identity politics rather than bread-and-butter issues, the left-liberals, without intending to, turned the country over to the center right and the far right." (Given McGovern's emphasis on pocketbook issues like taxation, as outlined in this paper, it is particularly ironic that he is held out as the example of the Democratic Party's drift away from pocketbook politics.) Often, these arguments go even further and suggest that, by turning to "identity politics," grassroots activist and the Democratic liberals who followed them rejected the very foundations of the Enlightenment itself – an argument rejected forcefully and persuasively by Robin Kelley. For several recent examples that embrace variations on argument that post-1960s Democrats followed the grassroots left's emphasis on cultural issues and "identity politics" to the party's detriment, see Joe Klein, "One for All and All for One," *Time* September 10, 2012; Michael Lind, *Up From Conservatism* (Simon and Schuster, 2013); Eric Alterman, *The Cause: The Fight for American Liberalism from Franklin Roosevelt to Barack Obama* (Penguin, 2012); Jeffrey Bloodworth, *Losing the Center: The Decline of American Liberalism, 1968-1992* (University of Kansas, 2013); Thomas Edsall and Mary Edsall, *Chain Reaction: The Impact of Race, Rights, and Taxes on American Politics* (W.W. Norton, 1992). Robin Kelley's excellent critique of much of the "identity politics" literature, in particular the claim that "identity politics" were opposed to the Enlightenment's "universalism," see "Looking Extremely Backward," in Robin D.G. Kelley, *Yo' Mama's Disfunktional!* (Beacon, 1997).

[124] For several example of works that make this argument, in one form or another, see Gordon Mantler, *Power to the Poor: Black Brown Coalition and the Fight for Economic Justice* (University of North Carolina, 2013); Marisa Chappell, *The War on Welfare: Family, Poverty, and Politics in Modern America* (University of Pennsylvania, 2011); Michael S. Foley, *Front Porch Politics: The Forgotten Heyday of American Activism in the 1970s and 1980s* (Hill and Wang, 2013); Nancy MacLean, *Freedom Is Not Enough: The Opening of the American Workplace*

Likewise, most left grassroots groups that participated in the tax justice movement had concerns that spanned both, supposedly oppositional, spheres. Rather than viewing, for example, unfair property taxes assessments stemming from racism, classicism, or political corruption as separate, competing issues, most "tax justice" groups saw them as distinct-but-complementary examples of the myriad injustices contained within the tax system, as well as the American economic and political systems, more broadly. By the late-1970s, however, the balance of power within the Democratic Party shifted toward a fiscalist view on taxes. This shift made it increasingly difficult for Democrats to find common organizational ground with "tax justice" activists. Well after the 1970s, groups like ACORN, PIRG, Fair Share, and labor unions, among others, as well as newly formed groups like Citizens for Tax Justice, continued to push for "distributionist" tax reforms. However, despite the occasional deployment of "fairness"-based rhetoric during election campaigns, few Democrats at state or national levels privileged distributional concerns over fiscal ones like growth and balanced budgets. To paraphrase Ronald Reagan: The grassroots left did not push the Democrats to abandon tax justice. Rather, the Democratic Party abandoned the grassroots left – and its concern with tax justice. In fact, by embracing "pro-growth" capital-friendly policies and "job creating" business incentives like "tax abatements," Democrats at all levels of government have moved – both discursively and substantively – away from the concerns that animated the tax revolt beginning at the local level in the 1960s.

The one constant, both before and after Prop 13, was that the public's concern about taxes was not simply about their own rising tax rates, but also about the fairness of the tax

(Russell Sage, 2006); Thomas F. Jackson, *From Civil Rights to Human Rights: Martin Luther King, Jr. and the Struggle for Economic Justice* (University of Pennsylvania, 2011) code.[125] Prop 13 did not accurately address those concerns, nor did the state and federal tax cuts that passed in its wake, like Reagan's 1981 tax cuts.[126] In fact, by acting on the widespread belief that Prop 13 represented "a revolution against government," as Carter's pollster put it, policymakers enacted policies that actually exacerbated both the "pocketbook squeeze" and the tax "loopholes" that had angered low- and middle-income Americans in the first place.[127] Overwhelming majorities of voters told pollsters that they thought Reagan's tax proposals would benefit the wealthy and businesses disproportionately.[128] But Democrats joined with Republicans to pass them, anyhow. Democrats, in fact, eagerly competed with Republicans to be seen as the most "pro-business" during negotiations over the Reagan tax cuts. As the *Atlantic* noted, "Democrats in the House, the party's sole remaining stronghold, engaged Republicans in a contest to see which side could chop more business loopholes in the 1981 tax-cut legislation.

[125] Author's analysis of public opinion data from a variety of sources. For a summary of one post-Prop 13 poll that demonstrates exactly this phenomenon, see "Roper Poll: Demise of the 'Tax Revolt,'" *People and Taxes* 7:9 (September 1979)

[126] While the regressivity of Reagan's 1981 tax cuts is well-known, the small tax increases that followed the 1981 cuts were regressive, too. The Tax Reform Act of 1986, which Reagan crafted with Democrats Dick Gephardt and Bill Bradley was, at best, nearly distribution neutral. Moreover, higher payroll taxes enacted in the same period offset the reductions received by many low- and middle-income taxpayers. "Effects of the 1981 Tax Act on the Distribution of Income and Taxes Paid," CBO (August 1986); "Effects of Changes in Taxes and Benefit Payments Resulting from the Tax Equity and Fiscal Responsibility Act of 1982, For Households in Different Income Categories," CBO (July 1982); "The Changing Distribution of Federal Taxes: 1975-1990," CBO (October 1987); "The Changing Distribution of Federal Taxes: A Closer Look at 1980," CBO (July 1988); Daniel Weinberg, "The Distributional Implications of the Tax Reform Act" (http://www.irp.wisc.edu/publications/focus/pdfs/foc103c.pdf). See also IRS data in Emanuel Saez and Thomas Piketty, "How Progressive is the U.S. Federal tax system? A Historical and International Perspective," *Journal of Economic Perspectives* 21:1 (Winter 2007), online table A3 (http://elsa.berkeley.edu/~saez/jep-results-standalone.xls)

[127] Author's analysis of public opinion data from a variety of sources. For a summary of one post-Prop 13 poll that demonstrates exactly this phenomenon, see "Roper Poll: Demise of the 'Tax Revolt,'" *People and Taxes* 7:9 (September 1979)

[128] When asked after the passage of Reagan's tax cuts whether businesses or individuals would "benefit most," 63 percent of Americans said that businesses. When asked whether upper-, middle-, or lower-income people would benefit most, 71 percent of Americans said that "upper-income people" would "benefit most" from the cuts. At the same time, 59 percent said that Reagan's tax cuts would "not make a significant amount of difference in the amount of money" they had after taxes. By the end of Reagan's term, 31 percent said that "the lowering of federal income tax rates" had "hurt" their "personal financial situation," while 46 percent said it had "no impact." Only 16 percent said that Reagan's tax cuts had "helped" their financial situation. CBS News/New York Times, September 22-27, 1981, Roper iPoll Database [USCBSNYT.092881.R24]; Cambridge Reports/Research International during October, 1981, Roper iPoll Database [USCAMREP.81OCT.R034]; Cambridge Reports/Research International, July, 1988, Roper iPoll Database [USCAMREP.88JUL.R011]

Democrats hoped to win back the hearts – and open the pocketbooks – of businessmen, who in 1980 had overwhelmingly supported Republicans." In the end, Reagan's 1981 tax cuts were actually less favorable to lower- and middle-income taxpayers than the Kemp-Roth plan on which they were initially modeled – and which Democrats, at the time, had staunchly opposed.[129] Throughout the 1980s, New Democratic candidates came forward with proposals for business-friendly, pro-growth tax reform. In 1982, "Watergate Baby" Tim Wirth would join other self-styled "neoliberals" to forumate a tax plan that explicity moved away from the "politics of redistribution," as Wirth put it. Senator Paul Tsongas explained Democrats' newfound concern with business and the well-off thusly, "Democrats have been concerned for too long with the distribution of golden eggs. Now it's timem to worry about the health of the goose."[130] By 1991, Jerry Brown would turn to Arthur Laffer to help him craft the tax plank of his 1992 president campaign. The result was a plan to scrap all existing taxes – including payroll taxes – and replace them with a flat 13 percent income tax, a proposal that proved to be popular with pundits, but not with voters.[131]

The nearly unbroken string of upwardly-distributive tax cuts that have followed Prop 13 have made the federal tax code less progressive and more rife with loopholes. As recent studies have shown, the last thirty years of regressive tax cuts – particularly capital gains cuts – have been a driving factor in the United States' rising economic inequality.[132] Today, both the federal

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[129] Large majorities of Democrats – 37-10 in the Senate and 133-106 in the House – voted for Reagan's 1981 tax cuts. "CQ Senate Votes 239-242," *CQ Almanac* (1981), 41-S; "CQ House Votes 161-167," *CQ Almanac* (1981), 58-H; Gregg Easterbrook, "The Business of Politics," *Atlantic*, October 1986.

[130] Majorie Hunter and David E. Rosenbaum, "Defeats Split Bitter House Democrats," *New York Times*, July 2, 1975; Randall Rothberg, *The Neo-Liberals* (Simon and Schuster, 1984), 161-162

[131] Karl Meyer, "How Jerry Brown Fell Flat," *New York Times*, April 9, 1992; "Mr. Brown's Flat Tax," *New York Times*, March 27, 1992; Michael Weinstein, "The Beauty of the Flat Tax," *New York Times*, March 9, 1992; Jim Tankersly, "Arther Laffer Has a Never-Ending Supply of Supply-Side Plans for the GOP," *Washington Post*, April 9, 2015

[132] On the importance of the last 30-plus years of upwardly-skewed tax cuts for rising inequality, see Facundo Alvaredo, Anthony B. Atkinson, Thomas Pikkety, and Emmanuel Saez, "The Top 1 Percent in International and

tax code and the social safety net are less progressive than they were in the 1970s.[133] The tendency has been the same at the local level. In the decades following the early-1970s exposes of the systematic property tax underassessment of major corporations, both Republican and Democratic officials worked with business to replace the "informal" tax property breaks that Nader and CCC protested with formal abatements and development incentives.[134] By the end of the century, it was a rare development or factory that was not "incentivized" by the tax dollars of local homeowners and consumers. A 2012 *New York Times* study calculated that localities gave more than $80 billion in such incentives each year, roughly the same as the entire "food stamp"

Historical Perspective," *Journal of Economic Perspectives* 27:3 (Summer 2013); Andrew Fieldhouse, "Rising Income Inequality and the Role of Shifting Market-Income Distribution, Tax Burdens, and Tax Rates," Economic Policy Institute Issue Brief #365 (June 14, 3013); Thomas Hungerford, "Changes in the Distribution of Income Among Tax Filers Between 1996 and 2006: The Role of Labor Income, Capital Income, and Tax Policy," *CRS Report for Congress* R42131 (Congressional Research Service, December 29, 2011); Thomas Hungerford, "Taxes and the Economy: An Economic Analysis of the Top Tax Rates Since 1945," *CRS Report for Congress* R42729 (Congressional Research Service, September 14, 2012).

[133] "Trends in the Distribution of Household Income Between 1979 and 2007," CBO (October 2011)

[134] An often-overlooked effect of rising business activism in the 1970s was the proliferation of special tax abatements and other tax incentives offered by states and localities to attract corporations. In part, business's push for such special benefits likely was a response to the realization that activists like Nader were determined to expose their existing informal – and illegal – breaks. Businesses were also exploiting an opportunity presented to them by the economy of the 1970s. With recession and deindustrialization hitting many states in the mid-1970s and a reinvigorated business lobby, governors and state legislators in both parties began aggressively offering property tax breaks for corporations in a race-to-the-bottom struggle for growth that undermined some of the left's efforts at progressive reforms. Such measures stood in direct opposition to the types of reforms that the "tax justice" left had been pursuing from its inception. Whereas groups like CCC and CAP had successfully exposed and reversed informal tax breaks for big businesses, legislatures were now handing corporations the same breaks legally. Like past informal breaks, Mass Fair Share targeted these "golden handshakes" with protests. But both Democrats and Republican argued that such incentives were necessary to encourage growth, and Boston Mayor Kevin White's office argued that the city's tax agreements with developers were private. Eventually, a court ordered the city to give Fair Share access to the records. But it did little good. With Democrats backing tax unfairness as a justification of growth, the grassroots left was without its best ally. In this way, Democrats' "fiscalist" orientation overrode the grassroots left's "distributionist" pleas. Besides raising property taxes for homeowners and less-favored businesses, tax abatements also allowed corporations to become more selective in what tax limitation measures they would support. Jerry Jacobs, "Battling for Business," *People and Taxes* 6:9 (September 1978); Jerry Jacobs, "Corporate Giveaways and the Fifty States," *People and Taxes* 7:10 (October 1979); Jerry Jacobs, *Biding for Business: Corporate Auctions and the 50 Disunited States* (PIRG, 1979); Daphe A. Keyon, Adam H. Langley, and Bethany P. Paquin, "Rethinking Property Tax Incentives for Business" (Lincoln Land Institute, 2012); John Edwin Anderson and Robert W. Wassmer, *Bidding for Business: The Efficacy of Local Economic Development Incentives in a Metropolitan Area* (W.E. Upjohn, 2000); Robert Gordon, *The Last Entrepreneurs: America's Regional War for Jobs and Dollars* (Simon and Schuster, 1979); Peter Mancusi, "Fair Share Aims Fire at Property Tax Gaps," *Boston Globe*, August 25, 1976; Peter Cowen, "Fair Share Still Denied Access to Tax Agreements with Developers," *Boston Globe*, January 7, 1878; Anthony Yudis, "Fair Share Opposes Break for Building," *Boston Globe*, October 8, 1976; Peter Cowan, "Boston Shows Fair Share 78 Tax Deals," *Boston Globe*, January 25, 1978; "The Real Tax Problem," *Boston Globe*, September 23, 1977; "Boston's Tax Tangle," *Boston Globe*, April 18, 1976.

(Supplemental Nutrition Assistance Program) budget.[135] Just as stagflation opened the door for Prop 13 and the ascendance of right-distributionism in the 1970s, the fiscal crises facing states following the 2008 financial crisis allowed "Tea Party" Republican governors in states like Wisconsin, Kansas, Louisiana, and Michigan to undo many of the progressive reforms the grassroots left had pushed in the 1970s and shift the tax burden downward.[136] Consequently, rather than producing an improvement in the public's view of the tax system, measures like Prop 13, the 1978 capital gains reduction, the Reagan tax cuts, and all that has followed have done little to change's the public's cynical tax mood. In 1969, more than 71 percent of Americans said that "the tax system is set up to let the rich get the real breaks." In 2012, 68 percent said that the tax system "favors the wealthy."[137]

In other words, the problems that caused Americans to "revolt" against taxes remain relatively unchanged today. Addressing them will remain impossible, however, without first understanding the meaning of the tax revolt. Instead of marking Americans' shift to the right on economics and the beginning of the so-called "Reagan Revolution," the tax revolt actually represented an outpouring of frustration in response to a decades-long pocketbook squeeze.

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[135] "United States of Subsidies," *New York Times* (http://www.nytimes.com/interactive/2012/12/01/us/government-incentives.html)

[136] Elaine S. Povich, "States Debate Who's Helped, Hurt in Shifting Tax Burdens," *Stateline*, May 6, 2015 (http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2015/5/06/states-debate-whos-helped-hurt-in-shifting-tax-burdens); Richard Stevenson, "Governors Push Bigger Reliance on Sales Taxes," *New York Times*, January 24, 2013; Deborah Soloman, "How Republican Governors Are Pretendign to Cut Taxes," *Bloomberg View*, January 31, 2013 (http://www.bloombergview.com/articles/2013-01-31/how-republican-governors-are-pretending-to-cut-taxes); Shalia Dewan, "States Consider Increasing Taxes for the Poor and Cutting Them for the Affluent," *New York Times*, February 13, 2015

[137] ABC News/Washington Post poll, February 1-4, 2012, Roper iPoll Database [USABCWP.020612.R07]; Harris Poll, May 1969, Odum [#1939]

FIGURES

Figure 1

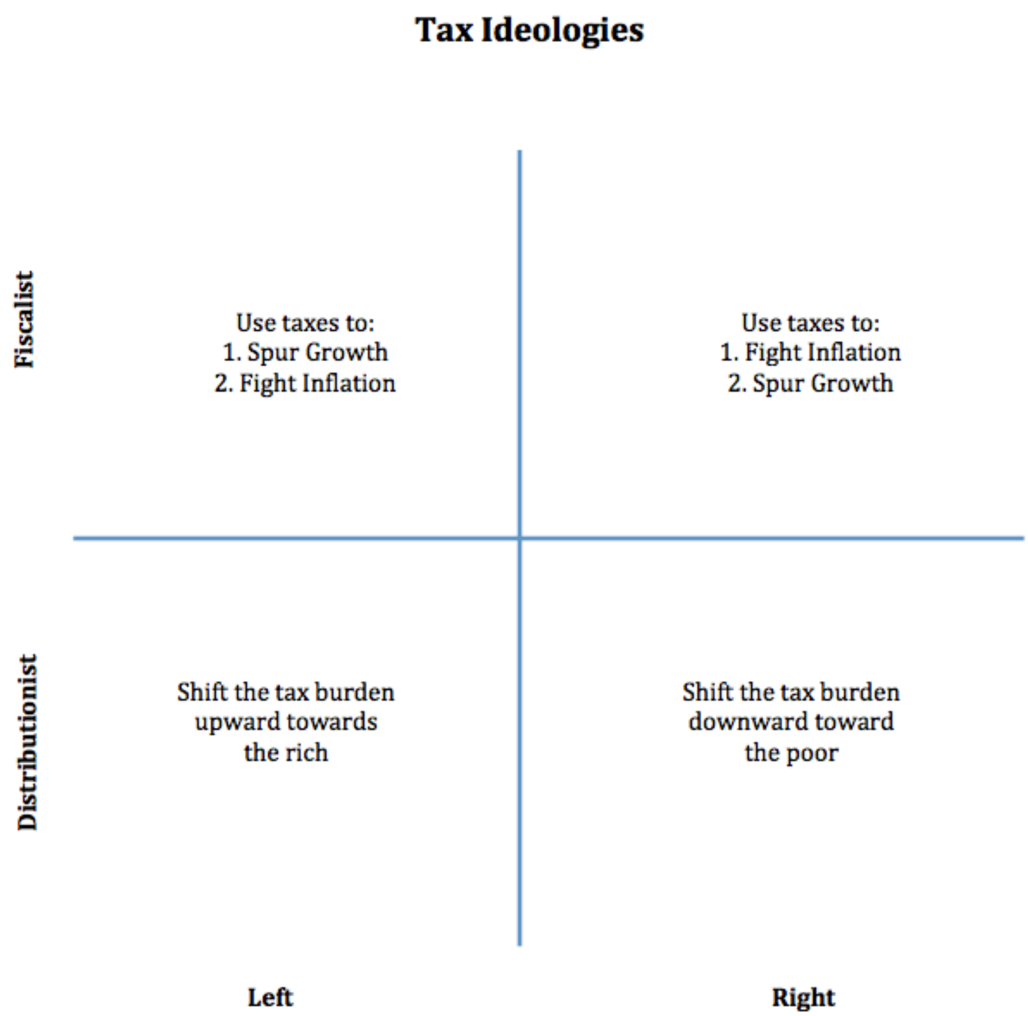
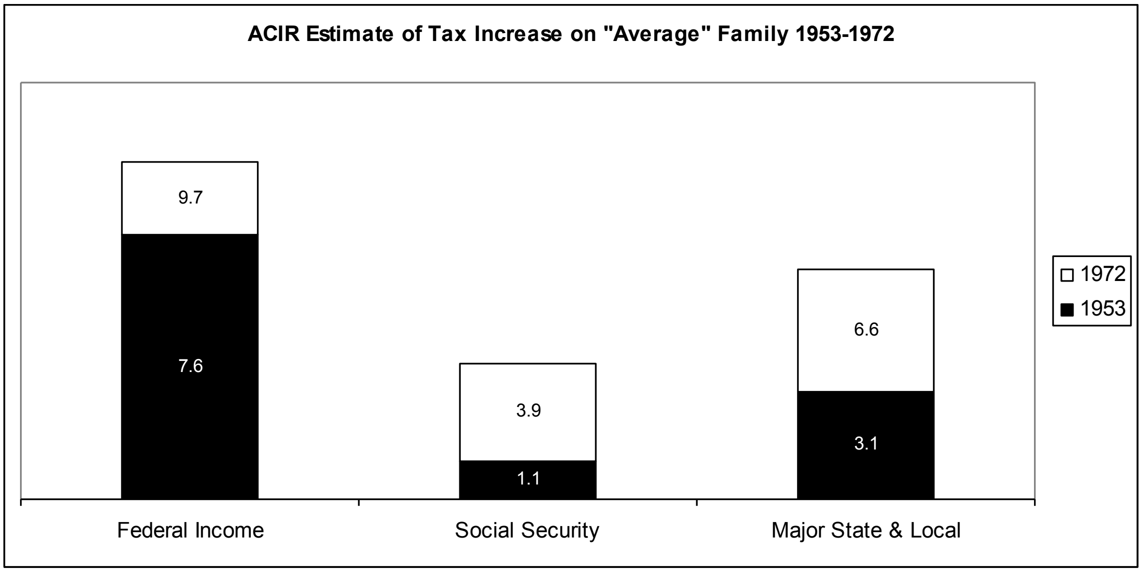


Figure 2



SOURCE: Advisory Commission on Intergovernmental Relations (1974)

Figure 3

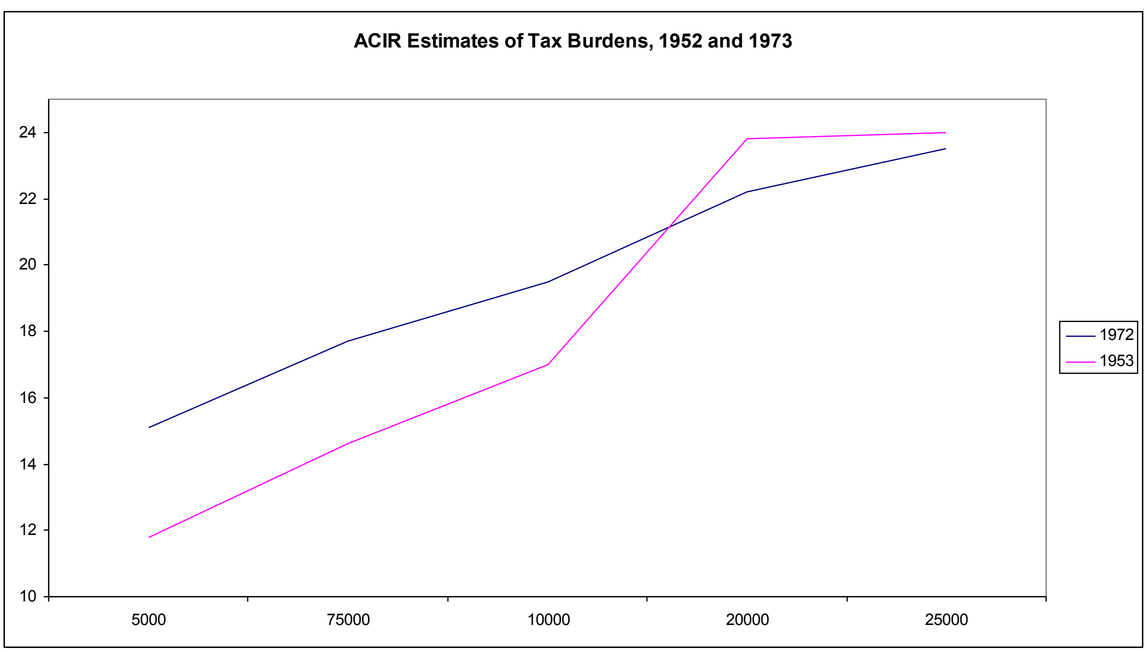


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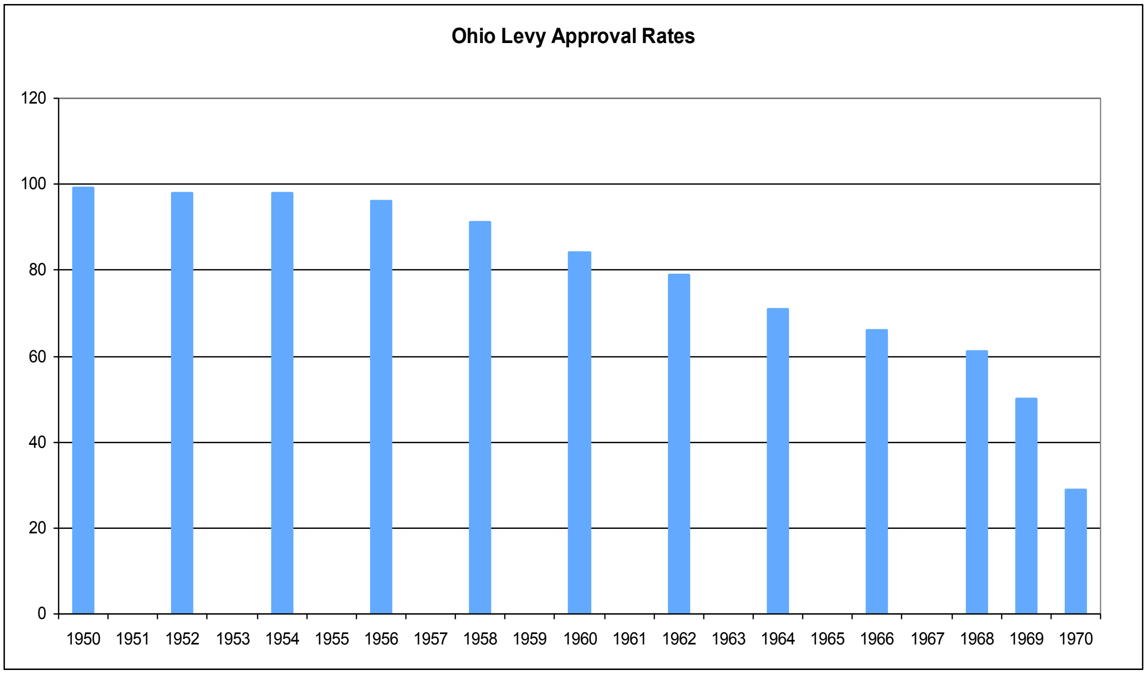
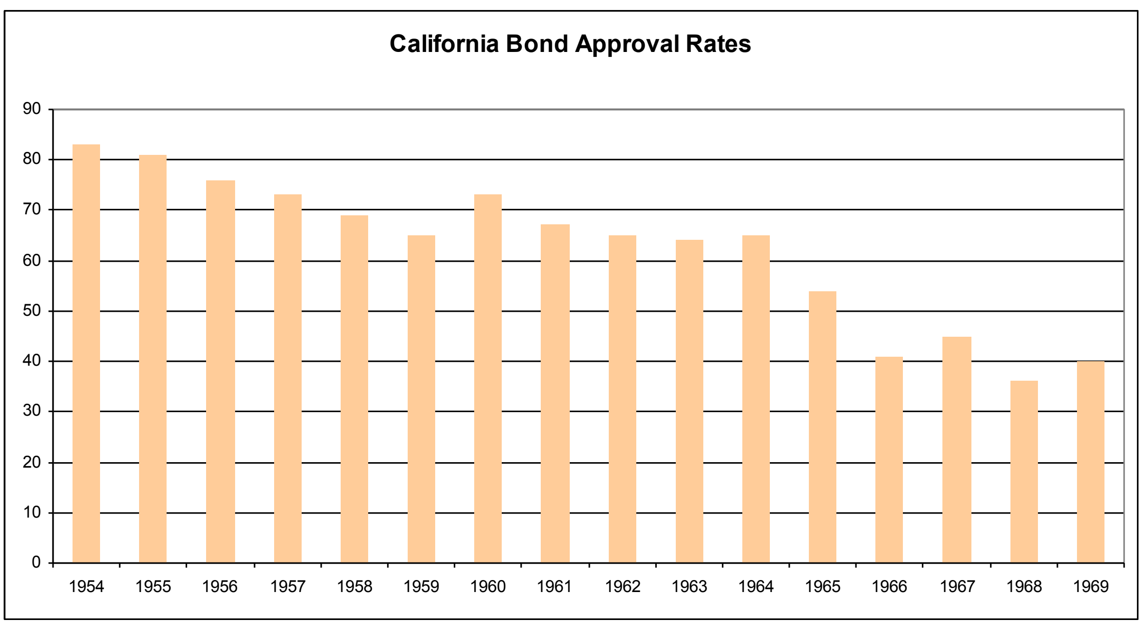
Figure 4



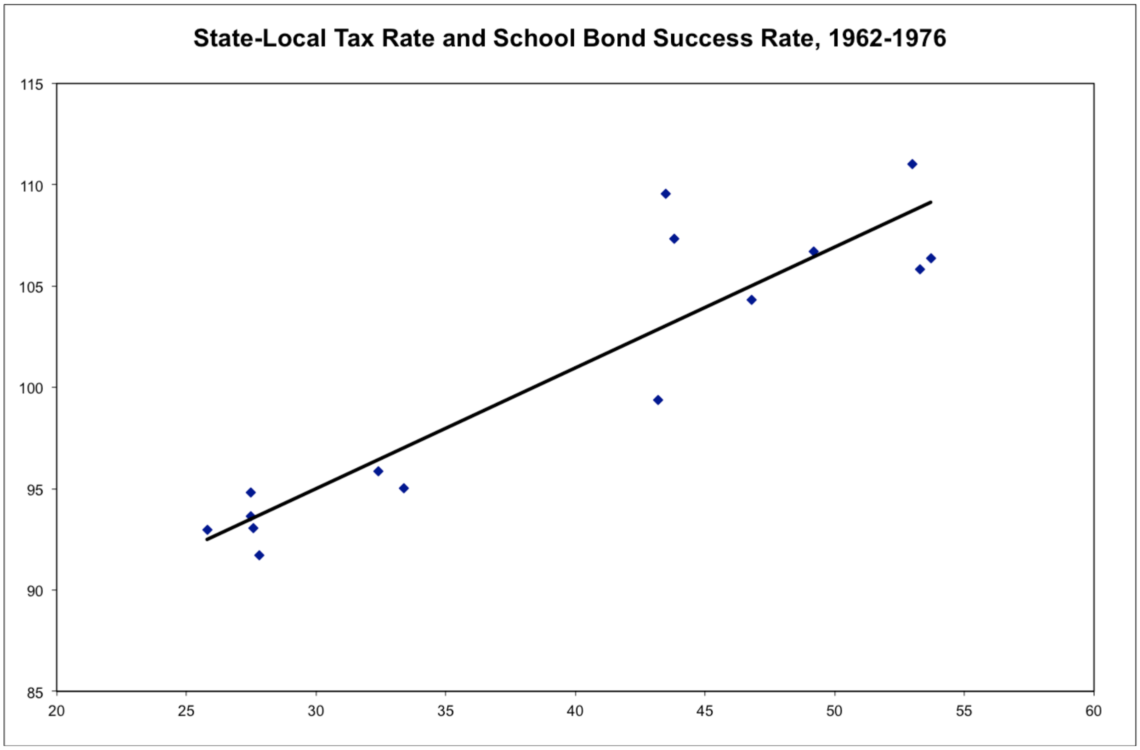
SOURCE: Meltsner et al. (1972)

Figure 5



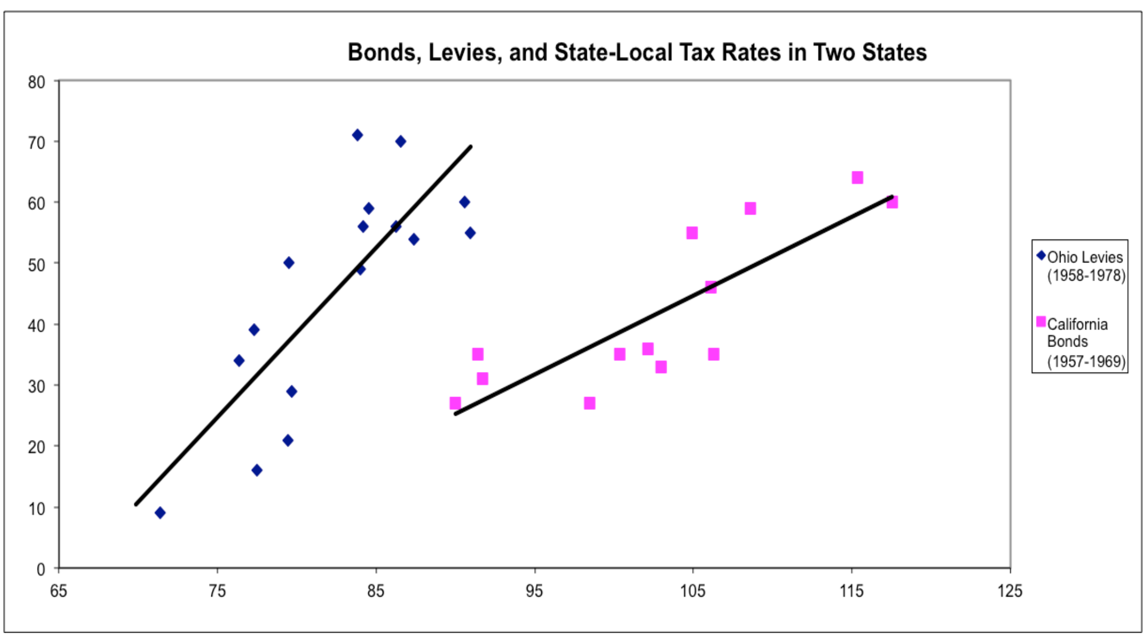
SOURCE: Kelley (1963); Marlowe (1970); *Ohio Schools* (1971)

Figure 6



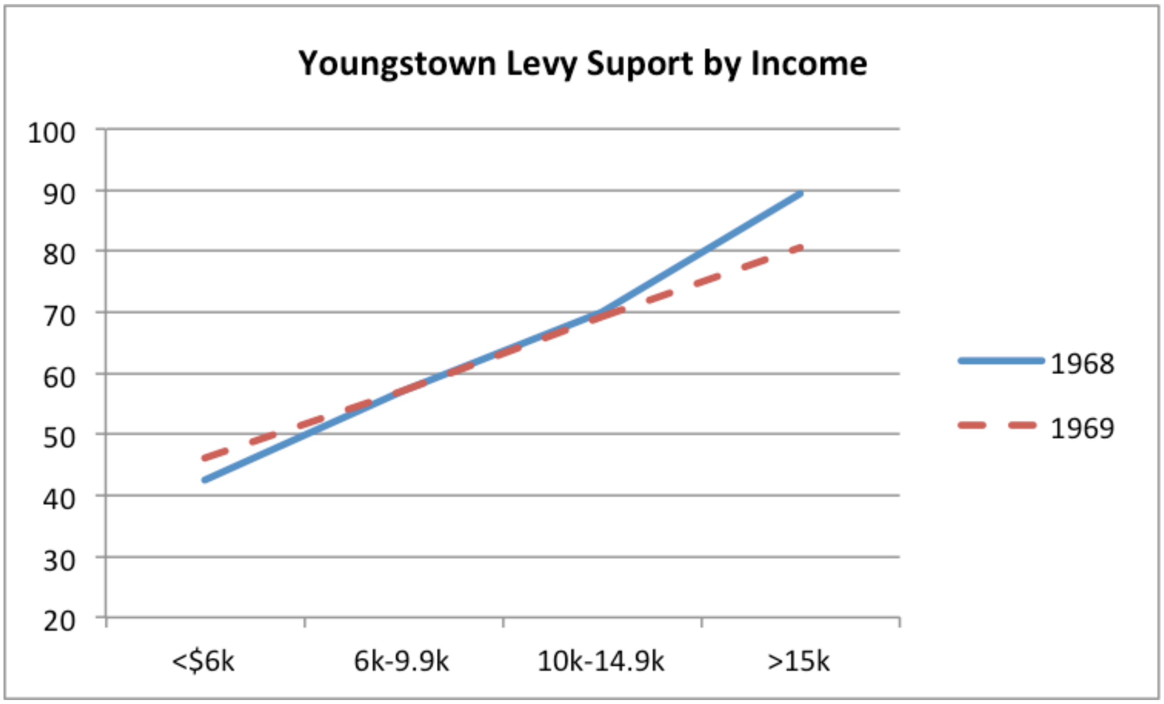
SOURCE: Census (State-Local Total Taxes Per $1KPI); National Center for Education Statistics

Figure 7



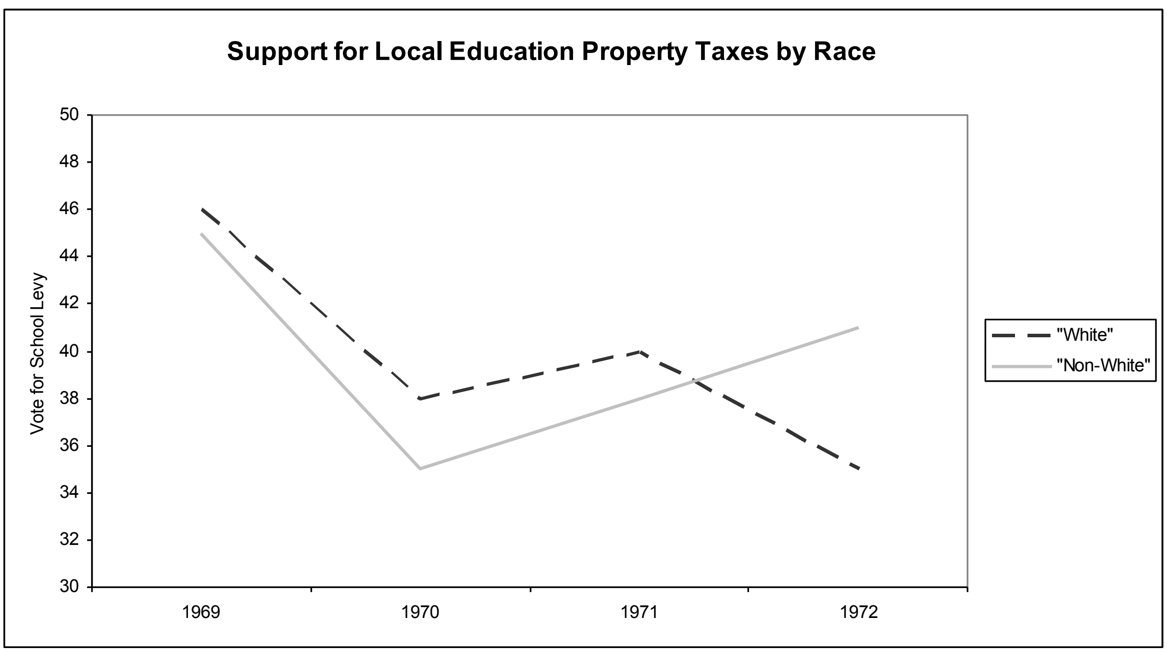
SOURCE: Census (State-Local Total Taxes Per $1KPI); Kelley (1963); Marlowe (1970); *Ohio Schools* (1971); Meltsner et al. (1972

Figure 8



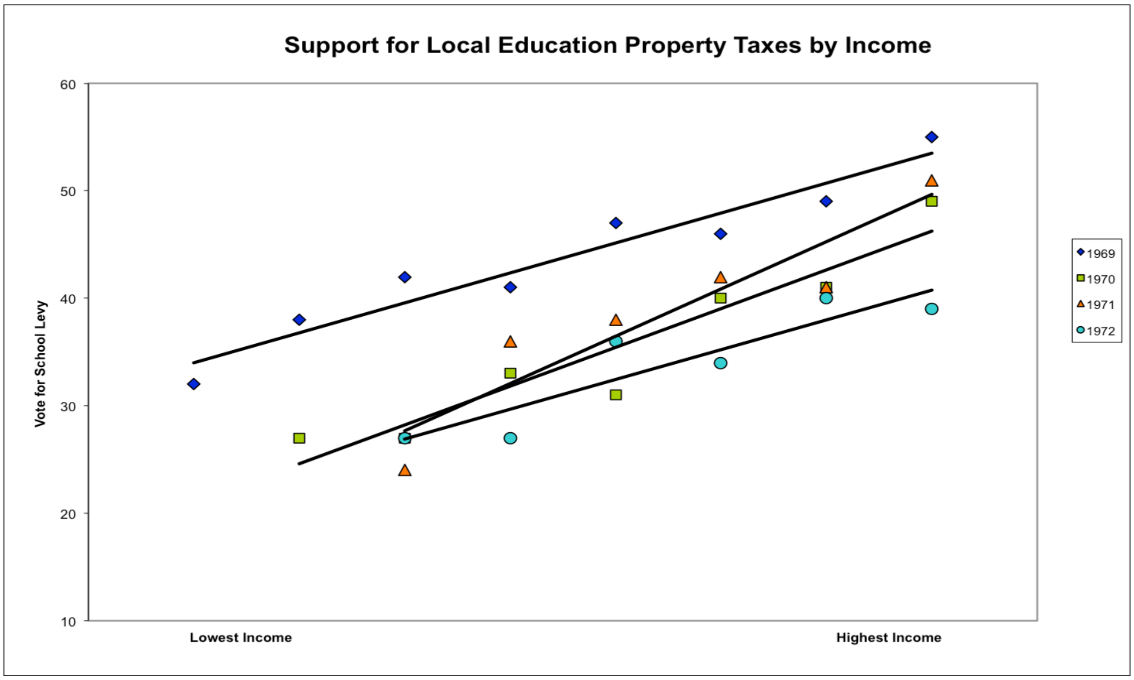
SOURCE: Kiriazis and Hotchkiss (1969)

Figure 9



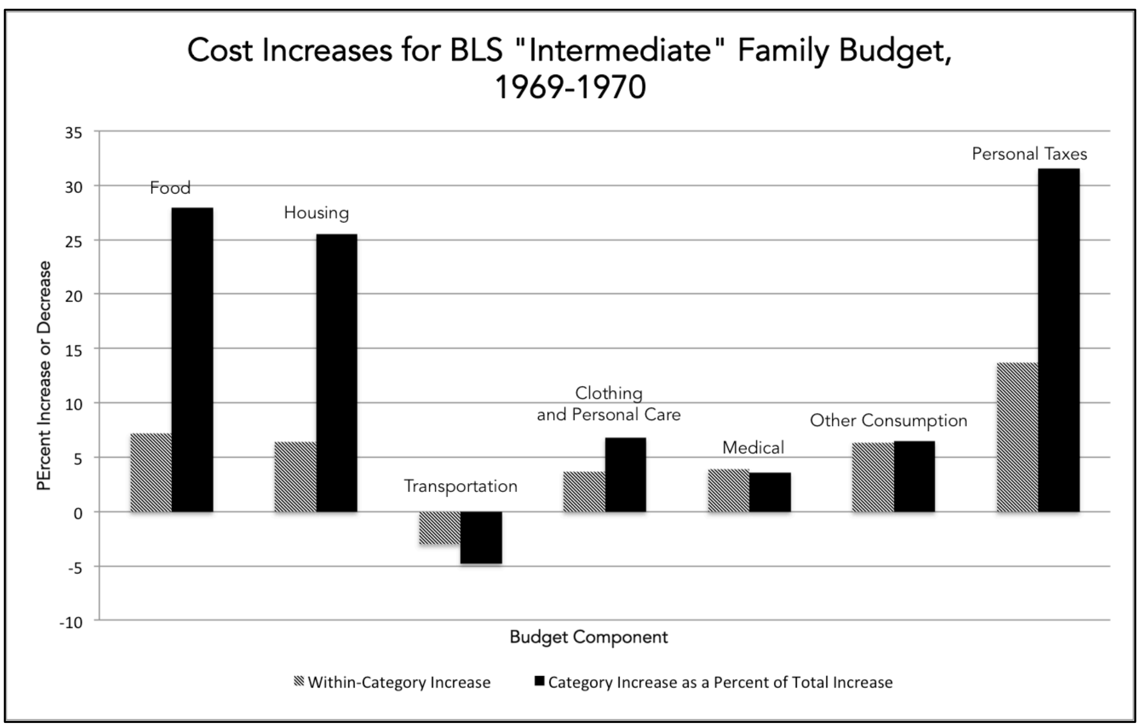
SOURCE: Gallup/*Phi Delta Kappan* (1969-1972)

Figure 10



SOURCE: Gallup/*Phi Delta Kappan* (1969-1972)

Figure 11



SOURCE: Bureau of Labor Statistics (April 1970); Bureau of Labor Statistics (January 1971)

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- Carl Albert Collection
- Jeffery Cohelan
- Mickey Edwards Collection
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- Presidential Handwriting File
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- Edwin Meese Papers
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Indiana University Northwest Calumet Regional Archives
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- Calumet Community Congress

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Jimmy Carter Library
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- Staff Office Files – Council of Economic Advisers, Charles Schultze
- White House Central Files – Business-Economics
- White House Central Files – Finance

Library of Congress
- William Safire Papers

Lyndon Johnson Library
- Aides – John Robson and Stanford Ross
- Sheldon S. Cohen Papers
- Democratic National Committee Records
- Henry H. Fowler Papers
- Legislative History – Tax Increase
- Special Files – Cabinet Papers
- White House Central Files – Confidential Files
- White House Central Files – Business-Economics
- White House Central Files – Finance

Ohio Historical Society
- John Gilligan Papers
- Ohio AFL-CIO Papers

Michigan State University Special Collections
- Social Action Vertical File – National Taxpayers Union

Richard Nixon Library
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- Contested Files
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- Lewis Engman Collection
- Robert Finch Collection
- H.R. Haldeman Collection
- Edwin Harper Collection
- Paul McCracken Collection
- Papers of the Nixon White House (Microfilm)
- Returned Materials
- White House Central Files – Business-Economics
- White House Central Files – Finance
- White House Central Files – Welfare

Ronald Reagan Library
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William Baroody Collection
Ralph Bledsoe Collection
Robert Bonitati Collection
Jack Burgess Collection
Cabinet Council on Economic Affairs
Anthony Dolan Collection
Elizabeth Dole Collectiob
David Gergen Collection
Edwin Meese Collection
M.B. Oglesby Collection
Presidential Handwriting
Mary Elizabeth Quint Collection
Ronald Reagan Gubernatorial Papers
Dan Smith Collection
White House Office of Public Affairs
White House Office of Speechwriting
White House Office of Records Management – Finance

State Historical Society of Missouri
ACORN – St. Louis

University of Illinois-Chicago Special Collections
Citizens Action Program
Industrial Areas Foundation

University of Kansas Special Collections
Wilcox Collection

Wisconsin Historical Society
ACORN (National and State Collections)
Nick Kotz Papers
Staughton Lynd
Movement for Economic Justice Papers
National Welfare Rights Organization Papers
William Proxmire Collection
Henry Reuss Collection
William Steiger Collection
George Wiley Papers

Audio-Visual Sources

Julian P. Kanter Political Commercial Archive, University of Oklahoma

Presidential Recordings Program, Miller Center, University of Virginia
Vanderbilt University Television News Archive

Data Repositories

Berkeley SDA Archive (University of California)
Gallup Archive
FRED
Interuniversity Consortium for Political and Social Research
Roper Center iPoll Databank
UC-Data (University of California)
University of North Carolina-Chapel Hill Odum Institute

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Fort Scott Tribune
Fortune
Freeman
Gary Post-Tribune
Glen Park Herald
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Milwaukee Journal
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National Review
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Ohio Schools
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Sarasota Journal
Saturday Review
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Seattle Post-Intelligencer
Southwest News-Herald
Spokane Daily Chronicle
Spokesman-Review
St. Petersburg Times
Stevens Point Daily Journal
Successful Farmer
Sumter Daily Item
Sun Sentinel
Tax Advisor
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