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The rise of inequality, partisan politics, and changes to federal tax progressivity

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Abstract

This paper theorizes and examines the relationship among mass public opinion, political party control of the federal government, and changes to tax progressivity. I hypothesize that a shift to a conservative public mood and increased Republican Party power results in lower levels of tax progressivity in both the short- and long-terms. This study has implications for understanding the political conditions that determine who pays for government activity and policy factors that influence inequality.

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How do political factors, related to the rise of inequality, influence changes to federal tax progressivity? The study of government redistribution is often represented as the study of who gets what, when, and how (Lasswell 1936). There is a long line of scholarship that examines how public opinion and political institutions influence the distribution of government benefits and services (e.g. Bartels 2008, Gilens 2013, Faricy 2015, Kiewiet and McCubbins 1991, McCarty, Poole, and Rosenthal 2006, Erikson, MacKuen, and Stimson 2000). For example, we know that a liberal public mood and Democratic control of the federal government results in more social spending and by extension lower levels of inequality (Kelly 2009). However, there are two parts to government's redistribution of national income: taxing and spending. And just as political science has shown that changes to public opinion and political party power determines who benefits from government-run programs, politics also determines who pays for these benefits. This is a study about the politics of who pays for the federal government.

The federal tax system is a complex amalgam of income taxes, payroll taxes, corporate taxes, excise taxes, estate taxes, and over 200 tax expenditure programs. The federal tax system not only generates revenues for public policies (representing the cost of government), but also has a progressive structure that claims a larger share of income from taxpayers with higher incomes. The burden of federal taxation and the level of progressivity are not static and have ebbed and flowed overtime. A change to the tax system alters which socioeconomic groups bear the burden (or responsibility) of financing federal governmental activities. The questions of who should pay for government programs and services and how much have over the last four decades moved to the center of the American political debate. For example, Campbell (2011) shows that

political party leaders have increasingly emphasized tax policy in their public speeches and platforms and that voters' attitudes towards their tax burden can be used to predict presidential vote choices. An examination of the political changes to tax progressivity offers a new and necessary lens through which to study how politics shapes the redistribution of national income and by extension the politics of income inequality.

In this paper, I begin to develop a theoretical argument on the politics of tax policy and income inequality. Specifically, I examine the role of mass public opinion and political party power in causing changes to the overall level of tax progressivity. First, I introduce the concept of tax progressivity and discuss its multiple components. Second, I sketch out theoretical arguments on how changes to mass public opinion (i.e. Mood) and political party power influence changes to federal tax progressivity. A public mood that trends in a conservative direction signals less redistribution that can account for both changes to taxing and spending. I argue that the two parties have divergent socioeconomic core constituencies and economic philosophies that should result in Democrats increasing overall tax progressivity and Republicans lowering the level of tax progressivity.

Next, using a unique measure of tax progressivity developed by the Tax Policy Center (TPC), I find that increased public mood conservatism and Republican presidents reduce the overall level of tax progressivity, shifting the costs of government away from the wealthiest Americans. A shift in public mood creates a political environment that not only results in lower levels of social spending for vulnerable populations but also reduces the wealthy' share of government costs. Additionally, a switch to Republican Party control of the federal government results in less social spending and tax progressivity. If

these results are paired with what we know about partisan changes to government spending then a shift to public conservatism and Republican power decreases the progressivity of the policy system twice over: once through changes to the tax burden, and second, through reductions in social spending that targets vulnerable populations. These results lend further evidence to the idea that there is an inequality trap in America; where higher inequality produces political conditions that generate more inequality.

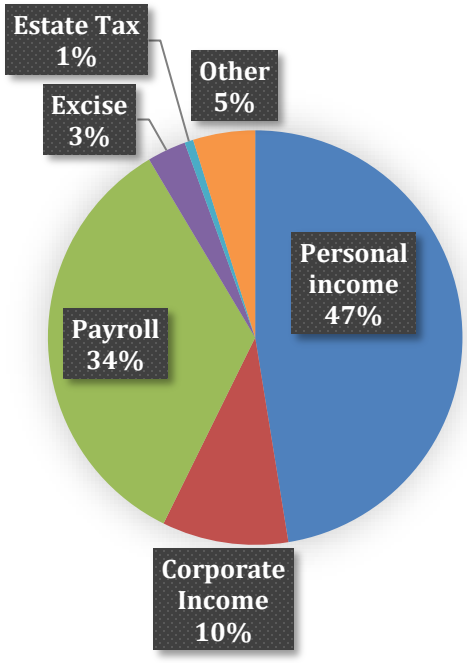
The Progressivity of the Federal Tax System

What comprises the federal tax system? And how is this system progressive? When most citizens are asked to think of the federal tax system, they think of the personal income tax. And while income tax is the largest component of the system, it comprises less than half (47 percent) of all federal tax revenues (See Figure 1.) Payroll taxes that finance Social Security and Medicare constituted thirty-four percent of revenues in 2013. In fact, the majority of citizens actually pay more in payroll taxes than income taxes (Tax Policy Center 2013). The other components in order of size are corporate income taxes (10 percent), excise taxes that made up 3 percent of the total and estate and gift taxes that contributed only 1 percent.

Voters tend to emphasize personal income taxes since most households must report their income from various sources and calculate taxes due every spring (Burman and Slemrod, 2012). Households are often confused and confounded by the number of exclusions, deductions, and credits that apply to different activities or group designations (students, parents, homeowners, etc.). While households struggle annually with the income tax - payroll or FICA taxes are relatively invisible for most wage earners.

Businesses withhold the tax from payroll and employees are only aware of their "contributions" if they read their pay stubs. Anyone who is self-employed must calculate and remit payroll taxes, technically called SECA taxes, so presumably that tax is more important for them. Corporate income taxes are even more hidden since corporations remit these based on a measure of annual profits. Corporate taxes are, of course, ultimately borne by people—shareholders, workers, or investors generally—but even economists are uncertain about the actual incidence of the tax.

Figure 1. Composition of Federal Tax Receipts, 2013



Source: Office of Management and Budget, Historical Tables, Table 2.1, Table 2.5, and authors' calculations.

Estate taxes are levied on a small number of estates (less than one percent). The first $5,250,000 of an estate is exempt from tax for individuals and twice that amount for couples. Wealthy people who make sizable gifts during life are subject to a complementary gift tax intended to prevent them from avoiding the tax by making *inter*

vivos transfers. Finally, excise taxes are selective sales taxes on items such as cigarettes, alcoholic beverages, motor fuels, and tires.

The Progressivity of the Federal Tax System

Overall, a progressive tax system is one where the percentage of income paid in taxes rises with income. A tax system that becomes more progressive overtime (combined with a traditional welfare state) is more likely to experience a redistribution of national income down towards the working class. Conversely, a federal tax system that becomes more regressive over time will more than likely reduce the government's impact in assuaging rising inequality. A full understanding of the federal government's role in addressing income inequality must account not only for the distribution of social benefits but also changes to the distribution of costs. Table I shows estimates of the distribution of government costs using effective tax rates that take into account not only various types of taxes (income, payroll, corporate, etc.) for each income cohort but also nets out tax expenditure programs. The table shows that the richest one-fifth of households paid 27 percent of their incomes in federal taxes compared with 15 percent for families in the middle-income quintile and less than 2 percent for the lowest-income households in 2013. The top one percent (incomes over one-half million dollars in 2013) paid almost 36 percent of their incomes in federal tax and the top 0.1 percent paid an average of 38 percent of their income. However, while the overall distribution is quite progressive, there is a lot of variation among the components of the federal tax system. The estate tax is the most progressive tax, raising almost all of its revenue from the highest income 1

percent. Yet, it's a tiny share of overall income as a result of tax law changes enacted since 2001, which cut tax rates and dramatically raised the exemption level.[1]

Table 1. Average Effective Federal Tax Rates

By Expanded Cash Income Percentile, 2013

Cash Income Percentile[1]	Average Effective Tax Rate					
	Individual Income Tax	Payroll Tax		Corporate Income Tax	Estate Tax	All Federal Tax
		Employee	Employer			
Lowest Quintile	-7.3	4.6	3.6	0.9	*	**1.8**
Second Quintile	-1.1	5.0	4.4	1.0	*	**9.3**
Middle Quintile	4.3	5.2	4.8	1.1	*	**15.4**
Fourth Quintile	7.1	5.4	5.0	1.4	*	**18.8**
Top Quintile	16.4	3.7	3.1	4.1	0.2	**27.5**
All	10.1	4.4	3.9	2.7	0.1	**21.3**
Addendum						
80-90	9.3	5.4	5.0	1.5	*	**21.3**
90-95	11.0	5.2	4.6	2.3	*	**23.1**
95-99	15.5	3.7	3.1	3.2	0.2	**25.8**
Top 1 Percent	25.2	1.5	0.9	7.5	0.6	**35.7**
Top 0.1 Percent	26.4	0.9	0.5	9.7	0.7	**38.2**

Source: Urban-Brookings Tax Policy Center, Table T03-0045.

* Less than 0.05.

[1] For a year, 2010, the estate tax briefly died, but was resurrected as part of a deal between President Obama and Congressional Republicans. Its current shape was set as part of another round of negotiations as the nation teetered on the brink of the "fiscal cliff" at the end of 2012.

(1) The cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2012 dollars): 20% $20,113; 40% $39,790; 60% $64,484; 80% $108,266; 90% $143,373; 95% $204,296; 99% $506,210; 99.9% $2,655,675. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. For a description of TPC's current law and current policy baselines, see http://www.taxpolicycenter.org/T11-0270.

The personal income tax, because of its size and design, is a much more significant contributor to overall progressivity. There is a progressive tax rate schedule for basic income, which rises from 10 percent for lower-income households to 39.6 percent for those with very high incomes. There are a number of features of the tax code, such as the phaseout of itemized deductions and surtaxes enacted to help pay for the Affordable Care Act, which took effect in 2013, that push effective tax rates for high-income households even higher. As a result, income taxes on the top one percent average one-quarter of their incomes. The corporate income tax, which is mostly borne by investors, is also quite progressive, amounting to almost 10 percent of income for the highest income 0.1 percent, but less than 1 percent for the lowest-income 20 percent.[2] In 2013, overall 43 percent of households owed no personal income tax or received a net refund (Tax Policy Center, 2013). This is a result of a number of tax credits that excuse the working poor's income tax incidence and if the credit is refundable offers a refund. The refundable credits phase out at higher incomes. Low-income households on average receive a net rebate due to refundable tax credits such as the earned income tax credit (EITC) and a portion of the child tax credit. These credits are significant, accruing to more than 7

[2] Most of the effect at the bottom relates to low-income retired households with modest 401(k) or pension plans, which are assumed to bear part of the burden of the corporate income tax because it reduces rates of return on capital.

percent of income for the bottom 20 percent and 1 percent for taxpayers in the second income quintile.

The level of tax progressivity is much different for payroll taxes, however. Employers and employees must remit payroll taxes equal to 7.65 percent of earnings up to $113,700 in 2013 (the taxable base is indexed to inflation) and 1.45 percent (the Medicare portion alone) beyond that level. (The employer portion is a smaller share of income because employers may deduct the tax, whereas the employee portion is not deductible.) The payroll tax is regressive for several reasons. First, it only applies to earnings, which comprise almost all income for low- and middle-income working families, but a declining share as incomes rise and richer households add capital income to their wealth portfolio. Wealthy households with incomes above $1 million receive about half of income from capital, not wages, and that income is exempt from the payroll tax. In addition, the capital gains tax is capped at 15 percent so the more wealth a family has in capital the lower their effective rate as compared to a similar family with all labor income. Second, for most workers, it is a flat-rate tax, not rising with income like personal income tax brackets. And, finally, the cap on earnings means that the tax declines as percentage of earnings at high-income levels. As an example the Tax Policy Center estimates that payroll taxes average 8.2 percent of income (including both employer and employee portions) for households in the bottom income quintile as compared with just 2.4 percent of income for the top one percent.

Excise taxes and customs duties also tend to be regressive, because spending tends to decline as a share of income. In particular, cigarettes, beer, and gasoline are a much

larger share of low-income families' budgets than those with higher incomes, which makes those taxes especially regressive.[3] And state and local taxes tend to be much more regressive than federal taxes. Therefore, if local and state taxes were included in calculating overall tax progressivity the level would be even lower than the estimates reported in Table 1.

Effective Tax Rates

In Table 1, there is a list of "effective tax rates," a measure of the average effect of taxes on incomes. It combines both the well-known features of the tax system—e.g., tax brackets, personal exemptions, and standard deductions—with tax expenditure programs (such as tax-free employer contributions to health insurance or retirement plans). The income measure is inclusive in that it includes items that appear on income tax returns, such as wages and salaries, self-employment income, interest, dividends, capital gains, rents and royalties, along with exempt forms of income, like tax-free fringe benefits, Social Security and other cash-like transfers, and interest on municipal bonds. The goal of the broader income measure is to produce a more comprehensive view of the economic status of households. Moreover, the population in the table includes people who do not file income taxes: about half of people over age 65, because most of Social Security is exempt from tax, and a smaller number of very low-income nonelderly households who do not owe tax and do not need to file to claim refundable tax credits or a refund of withholding taxes (Tax Policy Center, 2013). As noted, the tax burden includes not only taxes directly remitted on behalf of the taxpayer, but also the corporate

[3] To the extent that these taxes are "sin taxes," intended to discourage consumption of harmful substances, the disproportionately high tax burden could come with a benefit if it discourages affected families from engaging in activities that they'd ultimately regret (smoking, for example).

income tax, which is indirectly borne by households.[4] While the current, static federal tax system is slightly progressive, how has this level changed over time?

Changes in Tax Progressivity over Time

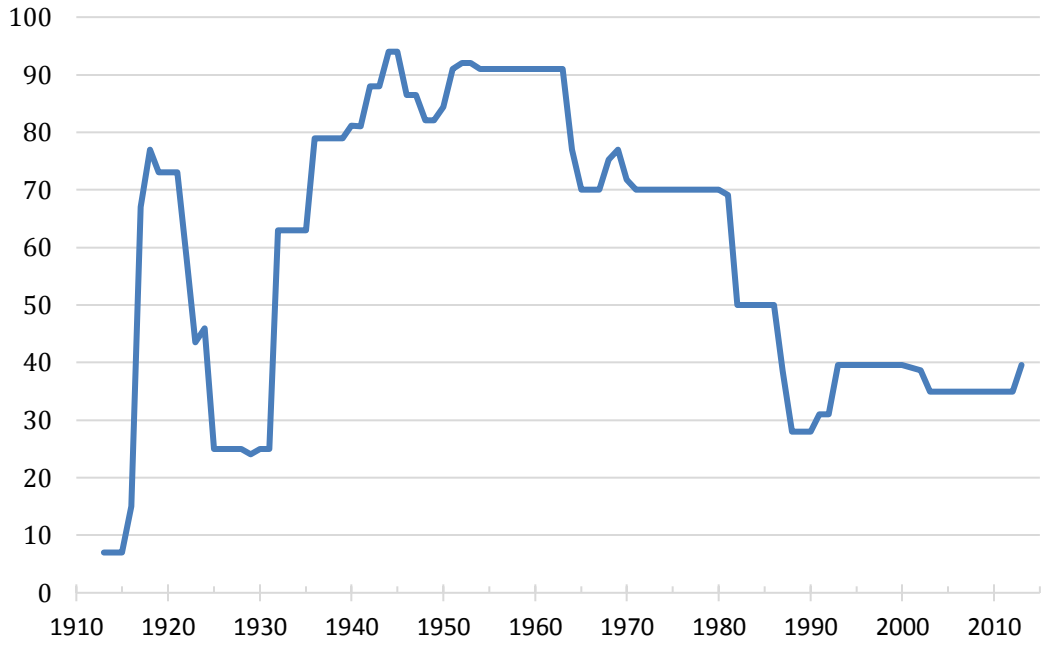
Policymakers make frequent changes to the US federal income tax and these often affect progressivity, either by changing the parameters of a visible aspect of the tax code (e.g., individual income, corporate income, estate tax, standard deductions), by changing the relative reliance on different taxes, and expanding, reducing or adding tax expenditure programs. For example, if a larger share of federal revenues comes from progressive taxes, then the overall progressivity of the tax system will tend to increase. In contrast, if the federal government becomes more reliant on regressive taxes increases then the overall tax system becomes less progressive.

A major aspect of progressivity is the individual income tax rate that applies to people with the highest incomes. Figure 2 shows that the individual income tax rate has varied substantially over time. When the modern income tax was created in 1913, the top rate was only 7 percent (although, the tax system was extremely progressive, only applying to a small fraction of households with very high incomes). The rate quickly climbed to more than 70 percent to finance World War I and even higher (over 90 percent) to support World War II. The Tax Reform Act of 1986 was designed to keep the overall distribution of tax burdens about the same as before reform, so the sharp cut in top tax rate from 50 percent to 28 percent did not correspond to a sharp drop in the progressivity of the tax system. However, holding everything else equal, raising top tax

[4] TPC follows a similar practice to government analysts (Cronin, et al, 2012) and allocates 80 percent of corporate taxes to capital.

rates increases progressivity and cutting rates reduces progressivity. The tax increases on households with incomes over $250,000, which President Obama and the Democratic Congress implemented, increased the overall progressivity of the tax system—both because of the rise in top tax rates and the addition of high-income surtaxes (which are not shown in the figure).

Figure 2. Highest Individual Income Tax Bracket, in percent, 1913-2013

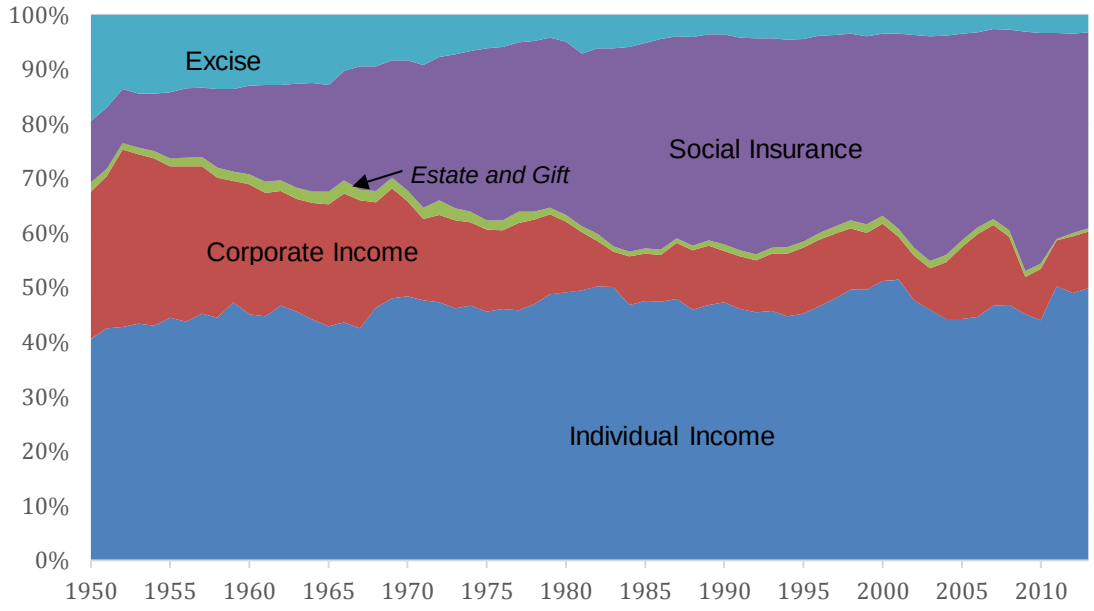


Source: Tax Policy Center,

The composition of taxes has also changed over time in ways that affect overall tax progressivity. Figure 3 shows the change in federal tax composition over time. In 1950, progressive income and estate taxes made up almost 70 percent of overall federal revenues. By 2013, they comprised less than 60 percent since payroll taxes have grown substantially, primarily because of legislated increases in Social Security tax rates and the addition of a payroll tax to help offset the cost of Medicare, which was enacted in 1965.

Additionally, corporate taxes became a much smaller proportion of federal revenues dues largely to the increase in the number and value of corporate and business tax expenditure programs.

Figure 3. Composition of Federal Receipts by Type of Tax, 1950 to 2013



Source: Office of Management and Budget. Federal Reserve deposits, customs duties and fees, and other miscellaneous receipts are not shown.

While regressive excise taxes have diminished in importance over time. In fact, the majority of Americans now pay more each year in payroll taxes than individual income taxes. However, it is worth noting that the regressive Social Security payroll tax finances progressive disability and retirement benefits. Over a lifetime, the average low-income worker receives twice as much in benefits as paid in taxes, while those with higher incomes receive far less than they pay into the system (Meyerson and Sabelhaus, 2006). Additionally, there is evidence that Medicare has a slightly progressive distribution of

benefits that are paid for by regressive payroll taxes (McClellan and Skinner 1999, 2006, Bhattacharya and Lakdawalla 2006, Lee et al. 1999). Therefore, looking at taxes alone provides only a partial picture of the distributional effects of federal government policies.

Theoretical Arguments of Mood, Partisanship, and Tax Progressivity

There are a number of political implications related to rise of American income inequality. Kelly and Enns (2010) find evidence that rising inequality feeds back into the political system in the form of a more conservative public mood. The authors speculate on reasons for why an income gap results in public demand for less redistribution including a media focus on individualism and the potential for greater economic growth. In addition, we know that a more conservative mood results in lower levels of redistribution in the form of less government spending (Erkison, MacKuen, and Stimson 2002). In this section, I argue that previous micro-level studies of public opinion and ideology indicate the potential for conservatism to signal a public demand for reduced tax progressivity. The rise of conservatism has helped the Republican Party gain and keep power at the federal level. Here, I argue that the Republican Party has both electoral and ideological incentives to reduce the overall level of federal tax progressivity.

Public Mood Conservatism and Changes to Federal Tax Progressivity

Public mood is a macro measure of public opinion, which deals broadly with public demands for ‘‘more’’ or ‘‘less’’ direct government activity and power (see Erikson, MacKuen, and Stimson 2002). So rather than measuring the public’s absolute preferences

(i.e., how liberal a government do you want?), Mood instead taps the public's relative sense over whether government should move in a ''liberal'' or ''conservative'' direction. In this sense, it captures the difference between the public's ideal level of public policy and current levels of public policy (see Soroka and Wlezien 2010, 25) and this relativistic perspective is important to the thermostatic logic. In the following sections, I examine how ideology relates to tax policy and discuss whether the mass public is knowledgeable enough to provide meaningful mass preferences for the level of tax progressivity. First, I argue that a conservative public mood signals to policymakers a desire for more regressive federal taxes. At the very least, a conservative mood indicates a public desire for lower taxation that is used by many policymakers as an opening to scale back the most progressive elements of the tax system. Second, the American public, at the mass level, shows sufficient enough understanding of tax policy to send reasonable signals about changes in redistribution, which include the progressivity of taxes. In total, a shift in the public mood towards the conservative end of the spectrum can be construed as a public desire for a reduction in the level of tax progressivity.

How does conservatism indicate a public desire for a decrease in the overall level of tax progressivity? Conservative voters favor both reduced overall tax levels and reductions to taxes on the rich and corporations. In public opinion surveys, conservatives are more likely than moderates and liberals to report that the rich pay too much in taxes, that corporations pay too much in taxes, and show strong support for tax breaks, even regressive tax breaks (Campbell 2011, Faricy and Ellis 2013). The conservative perception that the rich and corporations pay too much in taxes may be a function of the rise of conservative media and the consistently of Republican elites in communicating a

supply-side economic message to voters. One of the major elements of supply-side economics is to reduce the tax level on the wealthy – the producers of capital – so that they will reinvest their newfound income into hiring more workers. In particular, the modern Republican Party has created an association between reducing the overall level of taxation and reduced tax progressivity through the supply-side framework of economic issues (Smith 2007). Since the Reagan administration, a majority of Republican legislators have subscribed to supply-side theories of economics (Bartlett 2012). Republicans must develop rhetorical framing mechanisms for policies that upward distribution of government benefits to groups (the rich and businesses) that although important to their party are unpopular with the public (McCall 2014). The Republican Party uses their reputation as tax-cutters to hide the upward distribution of income or argue that cutting taxes just inevitably produces more benefits for the wealthy. Republican presidential candidate Jeb Bush recently argued, "the simple fact is 1 percent of people pay 40 percent of all the taxes," Bush said on "Fox News Sunday." "Of course, tax cuts for everybody is going to generate more for people that are paying a lot more. I mean that's just the way it is."

Another example of how the conflation of lower taxes and reduced progressivity has become institutionalized within the Republican Party is represented by Grover Norquist's tax pledge. In the 112th Congress (2011-2013), 76% of Republican Senators and 97% of Republican House members had signed the tax pledge. The tax pledge promoted by the Club for Growth 'pledges' policymakers to their constituents that they will never support increases in the income or corporate tax rates and oppose any reductions to the overall level of tax breaks. The pledge says nothing about the regressive

components of the federal tax system such as payroll and excise taxes. The Republican Party's consistent supply-side message over decades should translate to a conservative mood that not only signals lower taxes but also more importantly allows for more regressive taxation.

Another principle of economic conservatism is the superiority of the private sector over the government. My own analysis of Republican Party platforms since 1980 indicates that the party has unified in supporting tax subsidies for private-sector solutions across almost every single policy area (health care, education, energy, natural disasters, retirement security, research and development, etc.). Faricy (2015) shows that Republican Party control of the federal government results in a systematic shift of federal expenditures away from appropriations spending and towards the use of tax subsidies for private markets. Since most of these private-sector policy solutions are designed as exclusions and deductions – the overall effect is to lower the level of tax progressivity. Faricy and Ellis (2013) conducted a simple experiment that asked people whether they supported different social programs (mortgage interest, health care, retirement programs). They described these programs either as tax expenditures or as direct payments from the government. They also either described each program as beneficial to the wealthy or did not mention this. Faricy and Ellis found that conservatives showed higher support for these otherwise identical programs when it is framed as a tax expenditure. In addition, they found that liberals' and moderates' support of these tax breaks dropped once the distributive consequences were made clear, but conservatives' support was largely unchanged. Finally, I need to introduce a caveat to the above arguments. The questions used to construct Mood

do not explicitly ask about tax progressivity. I simply want to establish that Republican messaging and conservative attitudes lend some credence to the idea that Mood may tap into attitudes about tax progressivity (albeit an unmeasured aspect of Mood).

The American public's understanding of the federal tax system differs, in part, on the level of analysis. At the micro-level, there is not much evidence that the electorate, on average, knows enough about the federal tax system to understand how changes to specific taxes would affect tax progressivity (Bartels 2008, Hacker and Pierson 2005, Page et al. 2013, Slemrod 2006). There are a number of studies that show a majority of citizens lack even a basic understanding of which components of the tax system are progressive. For example, in one study a majority of survey respondents did not believe that income taxes are designed so that higher income people pay a greater percentage of their income than the middle-class or working class (Slemrod 2006). Although these same studies show that more educated and wealthier voters have a better understanding of the federal tax system than the general public (Blinder and Krueger 2004, Page et al. 2013, Slemrod 2006).

There are some studies that find an adequate understanding of tax policy from the mass public, however. Blinder and Krueger (2004) describe the public's understanding of tax and economic issues as "on average, reasonable." Most importantly for this study, at the macro-level the public's tax attitudes seem "sensible and understandable" across time in that public opinion responds to real changes in the tax code and in ways that align with the thermostatic model of public opinion (Page and Shapiro 1992; Erikson, MacKuen, and Stimson 2002). In addition, Campbell (2008) argues that citizens are often able to

match their economic self-interests to preferences for certain types of tax breaks such as the mortgage interest deduction and sin taxes. She cautions though that voters' ability to map self-interest onto tax policy in conditioned by tax knowledge and tax design. In addition, the regularity of paying federal taxes presents voters annual opportunities to learn anew about their personal stake in tax policies. For example, a taxpayer who claims the mortgage interest deduction must calculate or learn about their yearly mortgage interest in order to claim the deduction. Moreover, many taxpayers claim the same tax breaks year in and year out so that over time they become familiar with how their household's financial situation maps onto federal tax policy. In addition, citizens paying their income tax receive information from a tax preparer, an accountant, or a software program learn about changes to tax law such as which activities and types of income are deduced and excluded from their taxable income. In short, the payment of federal income taxes creates an annual process through which citizens must interact with tax forms and therefore become informed about marginal rates and tax breaks. This is not to argue that the majority of citizens understand the tax system – just that enough voters, when aggregated up, may be able to provide rational preferences on the simple direction of tax progressivity.

Political Party Power and Changes to Federal Tax Progressivity

What determines a political party's position on the overall level of tax progressivity? In general, a political party in power designs tax policy to meet the electoral and ideological goals of its members. Therefore, party leaders propose tax legislation that both shifts the cost of the federal government to the opposing party's socioeconomic constituencies and

reflects the party's dominant economic ideology. In particular, this means that Democrats increase federal tax progressivity as a reflection of Keynesian principles of economic growth and as a means to pass the cost of government to wealthier voters who support the Republican Party. Conversely, the Republican Party when in power reduces the overall level of tax progressivity so as to move the cost of government away from their wealthier supporters (both households and businesses) and institute supply-side ideas of privileging savings and capital income. In fact, recent studies show this partisan pattern of political party control determining changes to tax policy and by extension the level of tax progressivity at the subnational level (Bahl et al. 2002; Chernick 2005).

So how does a political party distribute the costs that are associated with new and expanded government benefits? There are a number of options for a political party in the majority for distributing the costs of government. One, a political party could ask their voters who are receiving new benefits to bear the burden of the costs. This is the most unlikely option. A political party, motivated to distribute concentrated benefits to their constituencies for electoral reasons, would not turn around and then concentrate the costs of the program to the same group of voters. While this might be fair and conform to the benefit principle of taxation - it's stupid politics. A second option would be for a party in power to provide concentrated benefits to their constituencies and then extensively distribute the costs among the whole electorate. The political gamble here would be that the electoral benefit received from increasing supporter benefits would be offset by the opposing party informing independent voters that the party in power was targeting loyalists at the expense of the majority. While this scenario is certainty plausible it is unlikely that a party in power would risk the backlash of independents and their own

voters by widely distributing the costs of a new program through a general tax increase (however, one could imagine other revenue enhancements such as letting tax expenditures sunset).

A third option is to create new government benefits and not pay for it at all thereby driving up federal deficits and the national debt. This is an option that is made possible by the peculiarities of American public opinion. A majority of the public has consistently supported increased social spending and lower levels of taxation (Ellis and Stimson 2012). And while survey respondents are against deficits in the abstract it is not an issue that drives citizens' voting behavior. Therefore, a policymaker has electoral incentives to provide benefits to voters now, not raise additional revenues to pay for it and allow future political parties and citizens to address the national debt. Another rationale for this type of tax policy is found in the conservative 'starve the beast' strategy. There were a number of important economic advisors to George W. Bush's administration who recommended crafting tax policy that would purposefully produce larger deficits. They argued that the only way to cut long-term government spending was by reducing revenues and running deficits that would, in theory, force future Democratic administrations to lower social spending (Brownlee 2006). This strategy resulted in lower taxes, lower tax progressivity, and higher levels of government spending under the Bush administration.

Finally, a political party in power has electoral incentive to distribute concentrated benefits to their supporters while moving the concentrated costs to voting groups that explicitly support the out-of-power party. I argue that this option is the most likely for the following reasons. One, a political party can maximize the electoral value of

distributional politics by providing benefits to their supporters without assigning them the costs. Second, a risk averse political party is better off transferring the cost of government to the groups of voters that are the least likely to vote for their members in the next election. Third, a political party in power meets the policy needs of its members, donors, and activists by shifting the ideological direction of national policy by not only giving benefits to loyalists but shifting the tax burden onto the other party's core backers. In essence, while some partisan voters are motivated by tangible benefits other partisans, who are often wealthier and more politically active, want to see policy changes that reflect their deeply held values (this is especially true during periods of heightened polarization). In fact in a hyper-polarized political age, party activists may have stronger preferences for policies that 'punish' the opposing party's supporters than for policy that rewards their fellow partisan constituencies. Recent legislation lends support to the idea that political parties target benefit to their socioeconomic constituencies and pass along the cost. The Affordable Care Act (ACA) is often summarized as legislation that slightly increased taxes on the very wealthy in order to extend health insurance to the working class (through increases to Medicaid and tax subsidies). More over, recent Republican House budgets have proposed reducing income and corporate taxes that would be paid, in part, by cuts to social programs that mainly benefit the working poor. These are just two of many examples of parties in power targeting benefits and transferring costs.

Parties' Socioeconomic Constituencies and Tax Progressivity

The socioeconomic sorting of partisan voters has implications for each party's stance on federal tax progressivity. I argue simply that a political party in power will craft tax

policy so as to concentrate the cost of new or expanded government benefits to the socioeconomic voters of the out of power party. Republicans and Democrats have distinct and divergent class constituencies (McCarty, Poole and Rosenthal 2006; Gelman 2008; Stonecash & Mariani 2000, Gimpel & Schuknecht 2001, Stonecash et al. 2003). Specifically, the working-class and minority voters have become more Democratic while wealthier whites have become more aligned with the Republican Party (Stonecash 2000, McCarty, Poole, and Rosenthal 2007). In 1956, the wealthiest families (top twenty percent) were only marginally more likely to identify with the Republican Party than working class voters. However, in the 2000 Presidential election those in the top income quartile were more than two and half times as likely to identify with the Republican Party as the lowest quartile (McCarty, Poole, and Rosenthal 2007). In addition to the partisan divergence of socioeconomic voters, economic interest groups have also selected into one of the two political parties coalitions. Grossman and Dominguez (2009) find that during primary elections unions make up the majority of groups in the Democratic coalition while corporations are the dominant constituency for Republicans. Since these groups are picking a side in the primary battles it is likely that they are benefitting from the current political party establishment. The union and business divide is not only found in electoral support but also through financial network analysis of the two political parties. *The major implication here is that patterns of interest group support reinforce the class divisions found in the partisan identification and presidential voting of individual citizens.* It is not just that working class citizens have become increasingly Democratic but that unions are uniformly Democratic which provides even more political incentive to the Democratic Party to implement policies that redistribute federal money down the income ladder.

Conversely, wealthier households and corporations have the same broad financial interests in distributing money to the rich.

Finally, Democratic constituencies support and benefit more from the large social programs that federal taxes finance (Faricy 2014). Social Security, Medicare, Medicaid, and Obamacare were all created under unified Democratic control and are more valued by Democratic voters. In fact, most Republican identifiers loathe some of these programs (e.g. Obamacare) and government spending in general. Therefore, the two political parties opposing views towards tax progressivity are in part a reflection of their predisposition towards redistributive federal social programs. So while a political party in power is often balancing the competing demands of many constituency groups; I expect that Democratic constituencies to call for more progressive levels of taxation and Republican groups to demand lower levels of progressivity.

Political Parties and Tax Progressivity

Next, the two political parties have opposing ideologies, which relate to their positions on the overall level of tax progressivity. Democrats' mainly liberal economic philosophy and Republicans' conservative economic ideas result in opposing elite preferences for the desired level of tax progressivity. Political parties have polarized, over the last four decades, shrinking the ideological distance between members of the same party while increasing the ideological gap between Democrats and Republicans (Mann and Ornstein 2012; McCarty, Poole, and Rosenthal 1997, 2000). Political parties have polarized at both the elite and citizen levels, with each group influencing the ideological separation of the other (Hetherington 2001, Jacobson 2001, Abramowitz and Saunders 1998, 2000, Putz

and Shepherd 2001, Riker 1982, Carmines and Stimson 1989, Carsey and Layman 2002).) Party polarization has made it easier for party leaders to generate agreement on tax policy among their ranks and allowed the national party to communicate a more unified partisan message to receptive voters (and reflected back to elites on surveys and at the voting booth). The increased ideological homogenization of party members, voters, and constituencies within districts has resulted in the need for fewer legislative trade offs within political parties. However, the rise of polarization has resulted in the increased importance of more extreme members in the legislative process, which has created a unique set of bargaining problems for party leaders (Mann and Ornstein 2012). The implications of polarization for political parties and tax policy is that while intraparty negotiations about the direction of tax progressivity may be easier there is more difficulty in reaching bipartisan consensus on changes to the direction and magnitude of tax progressivity.

The increased conservatism among Republican Party members results in legislative action that reduces the progressivity of the federal taxes. Republicans have for the last thirty years subscribed to a supply-side theory of taxation and economic growth. Proponents of the supply-side theory argue that cutting marginal tax rates can stimulate economic growth by encouraging productive economic activity like working, saving, and investing. The higher level of economic activity will produce more taxable income and thus revenues could rise as the tax base grows, despite lower tax rates. A component of the supply-side philosophy is to lower the tax burden on producers of capital and business owners who will, potentially, reinvest their surplus into hiring more workers. The Republican Party's adherence to a supply-side theory of economics has a number of

implications for the both mixture and rate structure of federal taxation. First, we would expect Republicans to not only lower individual income tax rates but particularly for the wealthy resulting in a less progressive tax system. Second, Republicans should be more likely to support a tax mixture that lowers the proportion of progressive elements such as the corporate and estate tax and increases the proportion of the federal revenue that accrue from regressive components such as payroll taxes. Finally, Republicans motivated by a supply-side economic framework are more likely to advance the addition and expansion of tax expenditure programs that subsidize investments, and savings that reduce the overall tax progressivity. All total, an increase to Republican Party power at the federal level should place downward pressure on the progressivity of the federal tax system.

Democrats subscribe more to a demand side theory of economic growth. During recessions, tax cuts or spending increases can make up for slack in aggregate demand. Tax cuts can boost private consumption, which creates more demand for goods and services, which in turn causes businesses to hire more workers, which increases the workers' income, further boosting demand. Increased government spending similarly increases aggregate demand with the same kind of multiplier effects. Since lower-income people are much more likely to spend a tax cut than people with high incomes (who are more prone to bank any tax windfall), this argues for progressive tax cuts during economic downturns. The Democrat Party's subscription to a demand-side Keynesian economic theory has the following implications for tax progressivity. One, Democrats should propose increasing the progressivity of the individual income tax as either a means to pay for popular social programs or spur economic growth. As Brownlee (2006)

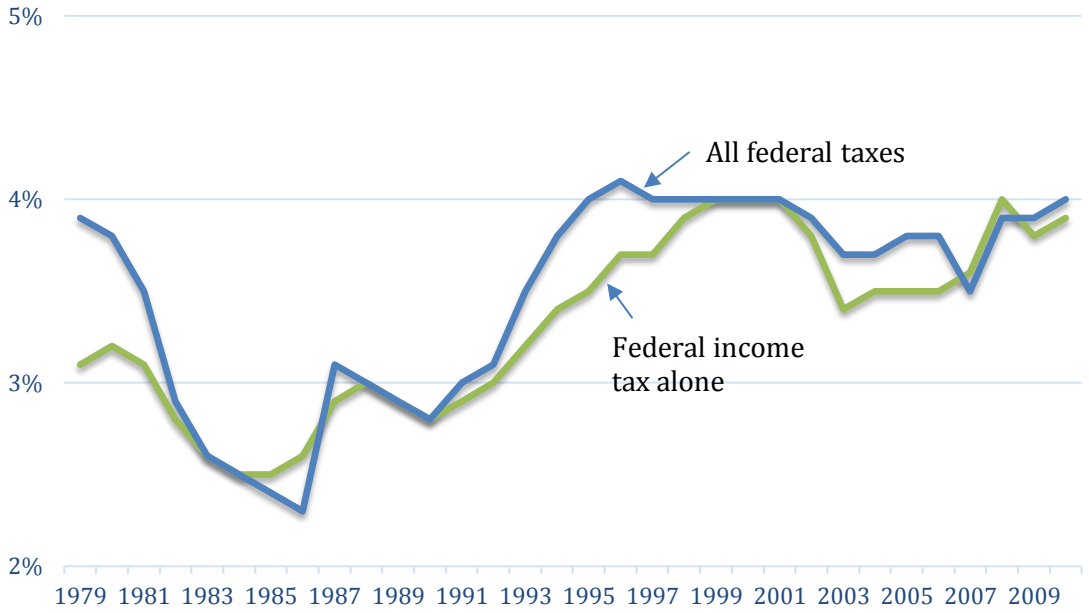
notes, "(Franklin) Roosevelt believed that a mass-based income tax (with a progressive structure) would be the best way to ensure a permanent flow of revenue to federal programs of social justice". Second, I expect Democrats to favor a tax mixture that emphasize more progressive elements such as the corporate and estate taxes and reduces the proportion of regressive taxes. Finally, Democrats, adhering to a demand side Keynesian theory, should advance the use of tax expenditure programs that accrue federal money to the middle- and working class while working to cut, cap, or eliminate more regressive types of tax expenditure programs. As an example, President Obama included temporary payroll taxes as part of his 2009 stimulus plan and has continually capped tax loopholes and shelters used primarily by millionaires and billionaires.

Modeling and testing the relationship between politics and changes to tax progressivity

How do political changes that stem from inequality influence changes to the level of federal tax progressivity? I hypothesize that increases to conservative public mood and greater Republican Party power will lower the overall level of federal tax progressivity. Since multiple factors affect the progressivity of the tax system, a single quantitative measure of overall progressivity that is comparable over time is needed. For this study, I am using a measure, called the Reynolds-Smolensky (RS) index for the dependent variable. It equals the difference between the pre- and post-tax distribution of income, as measured by the Gini coefficient. The Gini is an index that ranges between 0 and 1. A higher value means a less equal distribution of income. The Gini is based on the distance between the income concentration curve (the Lorenz curve) and a 45-degree line, which

represents a perfectly equal income distribution.[5] A smaller value of the RS index corresponds to less progressivity.

Figure 5. The Progressivity of Federal Taxes, 1979-2010



Source: Congressional Budget Office, 2013. http://www.cbo.gov/sites/default/files/cbofiles/attachments/44604-AverageTaxRates_Supplemental.xlsx

For example, in 2013 there was a pre-tax distribution that produced an estimated Gini of 0.562, while the after-tax Gini was 0.526, reflecting the fact that federal taxes reduced income inequality (move the Lorenz curve closer to the 45-degree line). The Reynolds-

[5] The Lorenz Curve is created by sorting households by income. The horizontal axis represents the cumulative fraction of households while the vertical axis is the fraction of income. If every household had the same income, then the fraction of households would equal the fraction of income at every point. Thus y = x, which is reflected by the 45-degree dashed line in Figure 4. In fact, incomes vary so the actual income distribution is always below the 45-degree line except at the end points (0 households have 0 income and 100% of households have 100% of the income). The Gini coefficient equals the ratio of the area between the 45-degree line and the Lorenz curve divided by the area under the 45 degree line. (Since that area equals 0.5, the Gini is simply two times the area between the 45-degree line and the Lorenz curve.) It equals 0 in the case of perfect income equality and 1 in the other extreme case of perfect inequality (one household with all of the income). Thus, a higher Gini corresponds to greater income inequality.

Smolensky index is 0.036 (0.562-0.526), reflecting a modest degree of overall federal tax progressivity (see the appendix for a graph). The Congressional Budget Office has calculated the RS index for the federal income tax and all federal taxes (except the estate and gift tax) back to 1979. Figure 5 charts the change in overall federal tax progressivity and income tax progressivity from 1979 – 2009. The trend lines in Figure 5 suggests there is potentially a relationship between public mood and changes to tax progressivity. In the early 1980s and 2000s there are reductions in progressivity that are corrected over time as the public trends back towards taking more liberal attitudes towards the size of government. In addition, a correlation between presidential party and progressivity seems to jump out. The tax code, and especially the income tax, tends to be more progressive with Democrats (Jimmy Carter through 1980; Bill Clinton, 1993-2000; and Barack Obama, starting in 2009) than with Republicans in the White House.[6]

The first relationship that I examine is between a conservative public mood and changes to federal tax progressivity. My measure of public opinion is Stimson's (1999, 2004) Public Policy Mood. Mood is one of the most commonly used empirical measures of aggregate public opinion, particularly in work dealing with relationships between public opinion and public policy. This measure of public opinion is particularly useful for my purposes for several reasons. First, Mood can be substantively interpreted as a measure of preferences toward the proper size of the federal government and its role in distributing *costs* and benefits, regulating the economy, and providing social services (see Stimson 1999, 71). This dimension is generally considered to be a 'scope of government'' dimension, capturing public sentiment on the long-standing ''liberal-

[6] Note that the Tax Policy Center plans to calculate RS indices back to 1952, but they are not ready for this conference draft.

conservative'' divide over the appropriate balance of governmental and market power (see also Kelly 2008). The variance in public opinion on economic issues tends to load on a single dimension, with aggregate preferences for a wide range of issues moving together over time. Mood is also a highly aggregated measure, encompassing preferences from a wide range of different issues and since public responsiveness to changes in tax policy should be primarily global, a measure which focuses on this kind of broad preference is especially helpful. Since higher values of Mood indicate greater levels of liberalism, I subtract each year's value from one to create an annual measure of conservative mood that lends to easer interpretations in the models. Therefore, I expect an inverse relationship between higher levels of conservative mood and overall federal tax progressivity.

In addition, I examine the role of political party control of the federal government and changes to tax progressivity. The logic here is that if inequality has produced a more conservative public then a more conservative public should help the Republican Party gain and keep national office. The Republican Party's wide spread adoption of supply-side economics along with their economically-privileged electoral coalition incentivize party leaders to produce legislation that reduces federal tax progressivity. I measure political party control of the White House using DW-NOMINATE measurements since we know that President Bush was a more conservative executive than President Ford even though both were Republican presidents. I measure Republican power in the legislature with a variable that reports the percentage of Republican legislators as a

means to save degrees of freedom.[7] I control for economic growth by including annual changes to the gross domestic product (GDP). In an era of growing income inequality when the economic gains accrue to the wealthiest families I expect that positive changes to GDP produce increased elite political power that may reduce future tax progressivity. As wealthier families gain the lion's share of income from economic growth, there is more incentive for these families to exploit tax loopholes and shelters or if need be use their political influence to create new tax breaks. Finally, if asymmetric party polarization moves to the interparty bargaining position to right of center then periods of divided government should reduce overall tax progressivity. A bargaining position that could occur is the median policymaker is conservative but less likely if that ideological position is moderate.

I use an error correction model (ECM) since the relationship between political party control and tax progressivity has both short- and long-run effects. ECMs are a form of time series analysis appropriate to utilize when a dependent variable responds to independent variables in the short term and maintains a long-term equilibrium level with these same variables. There are a number of theoretical and statistical reasons for my choice of an ECM. First, changes to marginal tax rates occur in the first fiscal year of a bill and often are set for a number of years until new tax legislation alters the level and distribution of rates. As an example when President Clinton raised the top marginal rate in 1993 this rate took effect in 1994 and stayed at 39.6 percent until President George W. Bush and Republicans reduced the top rate in 2001. Next, when tax expenditure programs are added or expanded these often programs include automatic increases for expected

[7] In the appendix, I also measure legislative influence using Nominate scores for the House Speaker and Senate Majority Leader.

inflation over many years. The result is that taxpayers can claim the new benefits in the first fiscal year and these benefits grow overtime as both new taxpayers learn of the benefits and due to the designed inflation adjustments.

Specifically, I estimate the short- and long-run effects of political party changes in government on tax progressivity using a single equation method. I utilize the single equation method over the next best alternative, the two-step estimator (Engle and Granger 1987), for a number of practical reasons. First, the single equation estimator model is the better method when dealing with smaller sample sizes and not one of the following models has a group of observations over 40 (De Boeuf and Granto 1999). Second, a single equation ECM can be applied to both integrated and stationary time-series data since in the ECM the dependent variable takes on its past values and those of the independent variable.

The single-equation ECM is as follows:

$$\Delta Y_t = \alpha + \alpha_1 Y_{t-1} + \beta_1 \Delta X_t + \beta_2 X_{t-1} + \varepsilon_t$$

In this equation, changes in the dependent variable Y are a function of short-run changes in the independent variable X as well as the separation from a long-run equilibrium between X and Y, which is determined by the error correction rate. For each independent variable X, there are two estimates of the population parameters: β_1 for the differenced variable and β_2 for the lagged level of the independent variable. The estimator β_1 produces an estimate of the immediate change in the dependent variable (the annual change to social spending) in the short term, from a

shock in the independent variable. For example, as we change from a Democratic to Republican president the tax legislation should produce a decrease to federal tax progressivity. It is crucial to note that this "short-run" effect is not ephemeral but simply the effect that occurs in the immediate period. The β_2 estimator is part of the "long-run" effect of X on Y or what is commonly referred to as the error correction section of the model. β_2's impact on the dependent variable does not happen in the near term but rather the effects are spread out in each period over a set range of time. An example of this is that as Republican power in Congress increases after a midterm election (a shock to the composition of the legislature) the long-run equilibrium level of tax progressivity and the composition of the U.S. Congress will change so that the level diverges from the previous equilibrium and this change will be corrected over time. β_2 alone does not provide the long-run impact by itself, and must be combined with α_1, the error correction rate, to determine the actual size of the long-term effect. The long-run multiplier is computed by dividing β_2 by α_1 to derive the complete long-term impact of a tremor or shock to X on Y through the error correction rate. In addition to determining the long-term impact on the dependent variable, α_1 produces information on how fast a disturbance from the long-run equilibrium is expunged. The error correction estimator, or α_1, can be translated as the proportion of the equilibrium disturbance that will be eliminated in each time period starting with the time period t+1.

An Analysis of Public Conservatism, Partisanship, and Changes to Federal Tax Progressivity

My results confirm the hypotheses that conservatism and Republican power reduce tax progressivity. First, an increase in public mood conservatism correlates with a decrease in the overall level of federal tax progressivity both in the short- and long-terms. The conservatism variable is signed correctly (negative indicating an inverse relationship with progressivity) across all three models and five out of the six coefficients are statically significant. There is a bivariate relationship between Mood and reduced tax progressivity, the relationship holds when controlling for political party power in government, and in the full model. Moreover, public mood conservatism is the largest contributor, in the full model, to decreases in the level of tax progressivity. A rise in public conservatism causes both short- and long-term reductions in tax progressivity. The short-term changes align with large tax cut packages passed by both Reagan and W. Bush soon after they were elected into office. Additionally, both presidents made subsequent reductions to tax rates and added new tax expenditure programs that heavily contribute to the long-run reductions in progressivity.

My interpretation of these results is that public mood conservatism has both a direct and indirect effect on the level of tax progressivity. A rise in conservatism is a public signal for a relative decrease in government redistribution that involves *both taxing and spending*. Therefore, if conservatism logically is translated into less government spending then it is does not go too far to interpret this change in Mood also as a call for lower levels of taxation.

Table 2: Public Mood, Partisanship, and Changes to Federal Tax Progressivity, 1979-2009

	Total Tax Progressivity	Total Tax Progressivity	Total Tax Progressivity	Total Tax Progressivity
Short-term Effects				
Δ Public Conservatism	-.015* (.010)		-.047 (.039)	-.072* (.038)
Δ Republican President		-.002** (.001)	-.001* (.000)	-.001* (.000)
Δ Rep. Congress		.018 (.016)	.026* (.014)	.022 (.013)
Δ Divided Govt				-.002* (.001)
Δ GDP				-.024 (.019)
Long-term Effects				
Public Conservatism$_{t-1}$	-.021* (.013)		-.061*** (.012)	-.051** (.197)
Republican President$_{t-1}$		-.001* (.000)	-.003** (.001)	-.004*** (.001)
Rep. Congress$_{t-1}$		.013 (.012)	.008 (.011)	.010 (.010)
Divided Govt $_{t-1}$				-.002** (.001)
GDP $_{t-1}$				-.044* (.024)
Error Correction Rate				
Tax Progressivity$_{t-1}$	-.085* (.050)	-.248** (.113)	-.285** (.113)	-.511*** (.134)
Constant	.012* (.006)	.002 (.004)	.033** (.009)	.041*** (.009)
Adjusted R^2	.052	.057	.342	.493

Note: N = 30. Entries are OLS estimates with standard errors in parentheses. Two-Tailed Significance Levels: ***p ≤ .01, **p ≤ .05, *p ≤ .10

Yet, we faced with the conceptual problem that a signal for lower taxes does not equate to lower levels of tax progressivity. However, I would argue that the American public equates the federal tax system to only individual and corporates tax rates (along with the estate tax the most progressive of the system components). Conservative lawmakers (Republicans and Democrats) aided by the media have created this misconception in the public mind as a strategy to distribute federal money up the income ladder. Therefore, it is hard to fault the public if they have come to believe that a reduction in federal taxes just naturally favors the rich. In short, the direct effect of public mood on changes to progressivity is probably due to the public's conflation of lower taxes with lowed tax progressivity.

It is important to note that federal taxes can be lowered and tax progressivity increased at the same time. The General Social Survey (GSS) has asked respondents since the 1970s about their perception of how much 'the rich' pay in taxes with the possible responses being more than they should, the right amount or less than they should. The vast majority of voters over the last decade, including Republicans, report that the rich pay less than they should in federal taxes. So while the public's preference for the overall tax level may wax and wane there has been consistent support for a more progressive tax system.

The political party in control of the White House is bounded by the public's mood – this is the indirect effect. For example, if there is an increase in public mood conservatism during periods of Democratic power it lowers the ceiling for how high Democrats can raise progressive taxes and by extension increase the level of progressivity. In contrast, a Republican president working under a rising conservative

mood has a lower floor with which to lower taxes and the level of tax progressivity. As conservatism reached its height in 1980, President Regan passed the Economic Recovery Tax Act of 1981 that resulted in both marginal rate cuts and expanded tax expenditures programs. In 2001, as conservatism rose again the Republican Party cut marginal rates again with the Economic Growth and Tax Relief Reconciliation Act. Even when the media or the Democratic Party points out the disproportionate distributional effects of large income tax cuts, these can be framed by Republicans as an economic supply-side philosophy, or part of an economic growth strategy, or as a government effort to support job creators.

In the second model, there is a bivariate relationship between Republican presidential power correlates with reductions in the level of tax progressivity. The use of Nominate scores for the measuring political party control of the White House shows that is not just Republican executives but more importantly conservative Republicans that reduce tax progressivity. For example, Reagan and W. Bush passed tax legislation that resulted in more regressive federal taxes and there was an intial increase in tax progressivity under President George H.W. Bush. President Regan produced a dramatic 1.6 percentage point drop in overall tax progressivity from 1981- 1986 (the total range for the series is just 2 percentage points). From 2001-2003, President George W. Bush and the Republican Congress generated a half of point reduction in income tax progressivity.

The relationship between the legislature and federal tax progressivity is less certain. An increase in the number of Republican legislators is positively signed with tax progressivity although the coefficients are not statically significant from zero. When I ran a model with nominate scores for the House Speaker and Senate Majority leader the

coefficients were signed in different directions with a more conservative Speaker producing increased progressivity and a more conservative Senate Majority Leader negatively signed indicating a reduction in progressivity. The largest reductions in tax progressivity occurred under Regan when Republicans controlled the Senate but not the House of Representatives.

The asymmetric polarization of the Republican Party to the far right does not just manifest in analysis of party leadership. A switch from unified to divided government also reduces tax progressivity. The effects of asymmetric polarization do not stop at the gates of the White House. When power is split between Democrats and Republican at the federal level there is a corresponding reduction in tax progressivity. The asymmetric move of the Republican Party to the far right pulls the compromise position between Democrats and Republicans to the ideological right. Therefore, any compromise over tax policy during this period of divided government seems to have favored the positions of the Republican Party. However, I don't want to overstate the combination of polarization and divided government since the periods of divided government that correlate with decrease in tax progressivity occurred during the Reagan and H.W. Bush administrations.

In addition, economic growth results in a lower level of federal tax progressivity in both the long-term. It is by now well established that recent income growth has accrued mainly to those households at the very top of the income scale. If increased economic productivity produces income and capital gains that can be protected by tax loopholes then there may be a correlating reduction in tax progressivity. The Republican Party not only lowers the absolute level of federal taxation but they change the level of tax

progressivity. The Republican Party's focus on reducing the most progressive elements of the federal tax system (income and corporate marginal rates) takes advantage of both the complexity of the federal tax system and correspondingly the ignorance of the public about tax progressivity.

My analysis shows that changes to partisan power influences government redistribution through changes to the level of tax progressivity. We know that Democratic control of the federal government lowers inequality through greater redistribution and Republican power produces increased inequality through cuts to government spending (Hibbs 1987, Bartels 2008, Kelly 2009). Yet, the government's role in redistribution and assuaging inequality is a function of both tax progressivity and progressive social benefits. A switch to a Republican White House reduces overall tax progressivity in both the short- and long-run. The 1970s began a period where Republicans stopped worrying about balanced budgets and embraced supply-side economics. The promotion of supply-side economics not only focused on cutting taxes but also argued for reducing taxes more at the top of the income scale for business owners or job creators. The Republican reduction of tax progressivity has been executed through various mechanisms. First, there have been multiple cuts to the top marginal income tax rate (see figure 2). Second, the composition of federal taxes has changed over time to rely less on the progressive components (income and corporate) and more on the regressive payroll tax. Not only have more corporate tax breaks been passed under Republican administrations but also increases in payroll taxes occurred during the Reagan and Bush administrations. Finally, recent work has shown that not only do Republicans in power increase the number and value of tax breaks but also the largest increases are for the most regressive tax

expenditure programs (Faricy 2015, 2016). The cumulative effect of Republican control of the government is to lower the total level of the public policy system's progressivity. Therefore, Republican Party power reduces redistribution twice over through lower the level of tax progressivity and cutting social benefits.

Appendix

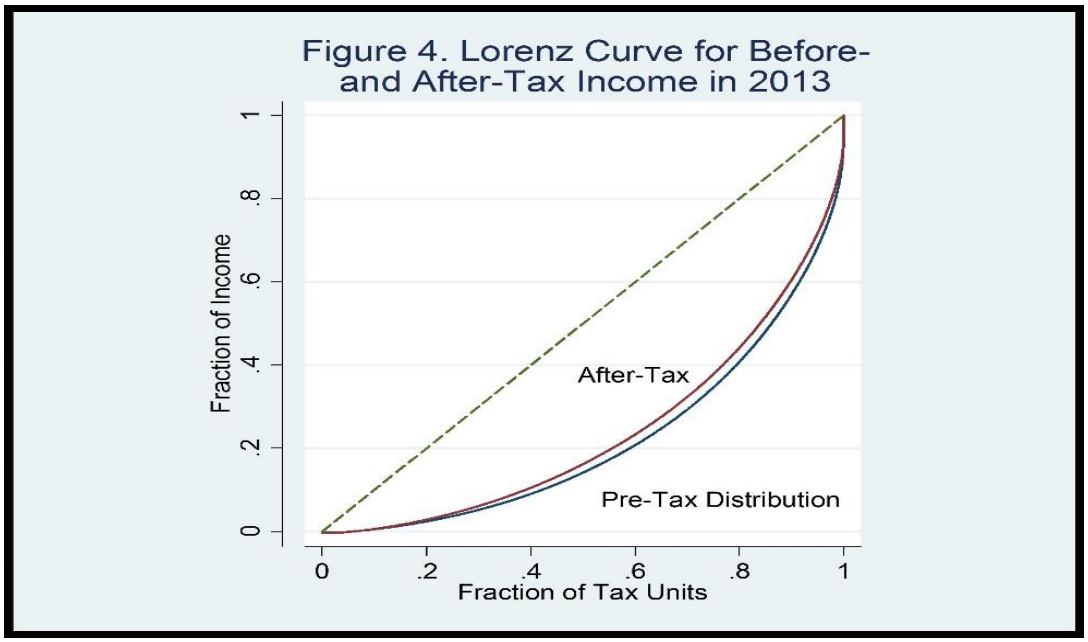


Table 3: Public Mood, Partisanship, and Changes to Federal Tax Progressivity, 1979-2009

	Total Tax Progressivity	Income Tax Progressivity
Short-term Effects		
Δ Public Conservatism	-.066*	-.015
	(.036)	(.027)
Δ Republican President	-.001**	-.005
	(.000)	(.006)
Δ Rep. Congress		.008
		(.009)
Δ House Speaker	.005**	
	(.001)	

Δ Senate Majority Leader	-.003**	
	(.001)	
Long-term Effects		
Public Conservatism$_{t-1}$	-.043**	-.043**
	(.018)	(.013)
Republican President$_{t-1}$	-.003**	-.002**
	(.001)	(.000)
RepCongress$_{t-1}$		.014
		(.008)
House Speaker $_{t-1}$	.002	
	(.001)	
Senate Majority Leader $_{t-1}$	-.002	
	(.001)	
Error Correction Rate		
Tax Progressivity$_{t-1}$	-.273**	-.295**
	(.113)	(.096)
Constant	.029**	.023**
	(.009)	(.007)
Adjusted R^2	.415	.315

Note: N = 30. Entries are OLS estimates with standard errors in parentheses. Two-Tailed Significance Levels: ***p ≤ .01, **p ≤ .05, *p ≤ .10

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