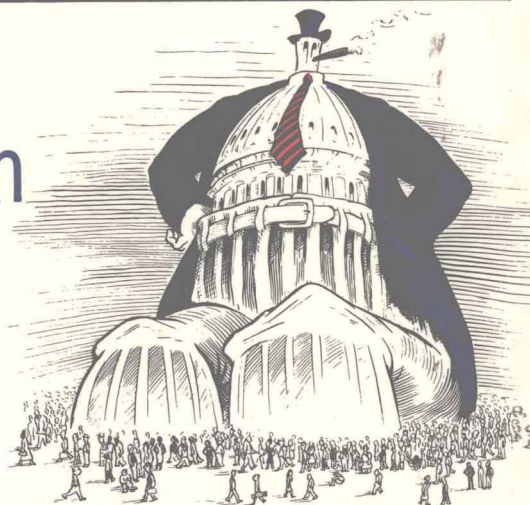


NEW YORK TIMES BESTSELLER

# THE POLITICS OF RICH AND POOR

Wealth and  
the American  
Electorate in  
the Reagan  
Aftermath



## KEVIN PHILLIPS

"Incisive....A devastating critique that has already fueled  
furious pros and cons in Washington."

—USA Today

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American Electorate  
in the Reagan Aftermath*

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ALSO BY KEVIN PHILLIPS

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for a National Industrial Strategy*

*Post-Conservative America*

*Mediocracy: American Parties and Politics  
in the Communications Age*

*The Emerging Republican Majority*

**TO ANDREW AND ALEC**

## Foreword to the Paperback Edition

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This book caused something of a storm in Washington in 1990, and because a foreword's purpose is to tell the reader something of the story behind the words and pages, here it is.

The basic messages of *The Politics of Rich and Poor* were essentially these: that the 1980s had been a decade of fabulous wealth accumulation by the richest Americans while many others stagnated or declined; that the 1980s were, in fact, the *third* such capitalist and conservative heyday over the last century or so; and that all of this should have a considerable effect on politics during the 1990s, probably populist in flavor and probably to the detriment of the Republicans.

I expected the book's wealth-shift documentation to surprise and impact people in general and Washington in particular, and it did. And I thought the political analysis would have some influence. The surprise was how much.

The book jacket "blurbs" or endorsements from former Republican President Richard Nixon and New York Governor Mario Cuomo, the early Democratic frontrunner for 1992, were part of the reason. Their concurrence had shock value, as well as suggesting that such a book—focused on inflammatory subject matter—must have a powerful message. By July, *The Politics of Rich and Poor* had surged to first place in the *Washington Post's* bestseller list, and by August it had reached second place in the *New York Times's* national rankings—unusual for a political book with serious subject matter (and even a few charts).

Interest was also provoked by media comments that the book was at

least as significant for the *messenger* as for the *message*. This was the man-bites-dog angle, by which commentators observed that the Republicans were being charged with favoring the rich—and jeopardizing the economy with too much debt, speculation and greed—by someone who was not only himself a Republican but a former GOP strategist closely identified with the “New Majority” presidential coalition hammered out in 1968–72. Reference was often made to the role played by my 1969 book *The Emerging Republican Majority*.

True enough. But I was pleased that a minority of commentators also identified an underlying logic and continuity between the books. The Republican coalition of the Nixon era, in pursuit of a commitment now badly faded, had courted a constituency variously described as the New Majority, the Silent Majority, the Forgotten American, Joe Sixpack and Middle America. We hoped to “play in Peoria.” Harvard and Palm Beach were not the targets. By the Reagan era, however, and then continuing with the election of George Bush, the Grand Old Party returned to a different yet also familiar role—representing policies historically associated with the economics of a small group of upper-bracket Americans, *not* the great bulk of “Middle America.” These biases had been inauspicious twice before (in the so-called Gilded Age and then in the Roaring Twenties) and I thought they would be again.

The fact that the messenger was a Republican closely identified with earlier GOP coalition-building *did* make for greater public interest, of course. But I think that the message also had some uniquely Republican ingredients. Liberal Democrats, while happy to touch on themes like the weaknesses of Reaganomics and the perils of wealth concentration, had little inkling of several other currents. As readers will see, the book discusses how the 1980s represented the third example of a Republican conservative-capitalist overdrive period, sharing ten common characteristics that ranged from tax cuts and deregulation to surges in debt and speculation. Indeed, several reviewers found this the book’s most intriguing thesis, and, to the best of my knowledge, no Democrat had ever developed those parallels. Washington Democrats certainly hadn’t.

Nor would a Democrat want to pursue the common context out of which conservative-capitalist overdrive periods arose. Before each could happen, big government and inflation had to become troublesome and create a backlash. Liberals haven’t been any more anxious to catalogue these failings than conservatives have been to dwell on free-market excesses. Thus, liberals who wrote books with some kinship to *The Politics of Rich and Poor* told only part of the tale. In truth, though,



periods like the 1980s are powerful because they have important and legitimate roots. And before conservative-capitalist overdrive attitudes produce their seemingly inevitable excesses, they play roles that are both corrective and constructive.

Having said that, let me also acknowledge that the book agitated economic conservatives and free-market activists enormously. They didn't like the material on wealth concentration—or the analysis of how Reaganomics favored the rich—or the contention that the 1980s were a greed decade. Charging that I said only the rich prospered during the Reagan Era, they studiously avoided mentioning the book's subchapter describing how much of the upper middle class had also gained. Nor was the broader middle-class squeeze purely a Reagan Era phenomenon: Median family incomes had started to sag in the 1970s, yet the gap between the top 1 percent and the people in the middle got steadily bigger under Reagan—and government tax policy, deregulation, budget shifts, tight money and high interest rates all played a role.

Few conservatives, however, seriously attempted to rebut the thesis that the rich had gotten disproportionately richer. After all, that was pretty hard to debate, what with conservative publications like *Forbes* on record computing that the combined net worth of the four hundred richest Americans had *trebled* from \$92 billion in 1982 to \$270 billion in 1989 (while the U.S. median family income barely stayed ahead of inflation). Nor was there much rebuttal of evidence that the top 1 percent of Americans had increased their share of national income from about 8 percent in the early 1980s to the 11 percent to 12 percent range by the end of the decade. Moreover, a Brookings Institution study showed that when capital gains income was included, the national income share of the top 1 percent had risen even more—from 8 percent in 1980 to 14.7 percent in 1986. This aroused a response that 1986 tax returns overstated capital gains, which was partly true and a sophisticated reply, compared to the most common insistence: that the rich weren't getting any new preference from Washington because the share of federal taxes paid by the top 1 percent increased by about 50 percent during the 1980s. The reply was that their share of national income was increasing by roughly the same proportion. If the top 1 percent had earned 95 percent of the U.S. national income, presumably they could have paid 99 percent of federal taxes!

By the end of 1990, a good bit more statistical proof of the rich-poor pudding was available than when I had been finishing the book a year earlier. In October, the *New York Times* cited government data said to

prove that the wealth share of the top 1 percent of Americans had increased from 27 percent in the 1970s to 36 percent at the end of the 1980s. Incomes researcher Frank Levy published a book arguing that real wealth per family expanded at a very low annual rate during the 1980s, with established home-owning and share-owning families the only significant beneficiaries. And the Census Bureau reported that in the 1984–88 period, the median net worth of U.S. households—assets minus debts—had *decreased* by 4 percent. When one remembers that the *Forbes* 400 had greatly *increased* their net worth during this period, pulling up the national total, and with the top 1 percent not far behind, it only underscores what was happening to the average family. A liberal would probably say: trickle-down wasn't trickling.

The income figures weren't encouraging, either. Just before Christmas, the *New York Times* indicated that the hopes of the mid-1980s, when real incomes had grown for several years, were giving way to a grimmer picture. In late 1989 and 1990, real (inflated-adjusted) incomes were heading down again.

Ironically, this book itself was one partial reason why more discussion was flowing and more data was being churned out. Washington in general and congressional Democrats in particular were harkening to its themes, and that became especially true during October's fierce budget struggle when tax-unfairness and party-of-the-rich debates took a big bite out of George Bush's job ratings. *Newsweek* described *The Politics of Rich and Poor* as setting the tone of the whole debate, and *The Economist* noted that Democrats shifted their economics "under the influence of Mr. Kevin Phillips, whose book, *The Politics of Rich and Poor*, has been in everyone's briefcase this autumn."

Public opinion polls, likewise seeded by the debate, also began to catch a new mood in the electorate. One taken for *Fortune* magazine in November reported 55 percent agreement that millionaires had gotten where they are by exploiting others, and nearly three-quarters of those sampled claimed to have chosen candidates in the November elections because of their emphasis in spreading the tax burden from the middle class to the rich. Another survey for "NBC News" and the *Wall Street Journal* found that Americans didn't like the President's idea of reducing capital gains taxes, which mostly benefited the well-off. In fact, a 51 percent to 43 percent majority now favored *increasing* the capital gains levy. And the same poll found that 84 percent of Americans—including 80 percent of Republicans—embraced the Democrats' proposal to impose an income surtax on millionaires.

During previous Republican “go-go” periods, large numbers of rank-and-file GOP voters had dissented, and clearly that was true again—even if few Republican *officeholders* were willing to stand up and agree.

Numbers like these suggested that populism was still alive and well in the U.S. electorate, just as the book surmised. But as readers will see, *The Politics of Rich and Poor* does not predict a specific result, just that the 1990s are likely to have populist overtones. The book also predicts that the 1990s will see some economic breakage in the speculative and debt bubbles blown up during the 1980s, and that, too, seems to be under way. To those who have criticized the imprecision of my predictions, I plead guilty. Time enough to fill in the blanks at some later point.

Besides, history is by no means a straight pathway, and the Democrats are reluctant explorers. Even in the depression-scarred early 1930s, when Franklin D. Roosevelt ultimately led his party to a new economics and a new national political majority, powerful intra-party forces were marshalled on the other side. John W. Davis, the party's 1924 presidential nominee, actually condemned the Republican administration of Herbert Hoover for “following the road to socialism at a rate never before equalled in peace,” while in 1932, New York Governor Al Smith, the Democrats' 1928 nominee dismissed as a “demagogic appeal” Roosevelt's talk about “the forgotten man at the bottom of the economic pyramid.” Especially given the new developments in the Persian Gulf, no one can be sure how America's politicians will wind up managing the 1990s, despite the similarities of some of the economic forces involved to those of previous eras.

Let me say that not only do books evolve; they also represent the contribution of many persons besides the author. That certainly is true of this one. Thanks are in order to my assistants Michelle Klein and Rebecca Palmer for long days at the word processor; to my agent, Bill Leigh, and his associate Tom Neilssen for their timely counsel; to my wife, Martha, and my sons, Andrew and Alec, for two years of forbearance in what turned out to be a very time-consuming project; and in particular to my editor at Random House, Jason Epstein, for his advice, effort and invaluable assistance.

Bethesda, Maryland  
February 1991

## *Introduction: The Triumph of Upper America*

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The 1980s were the triumph of upper America—an ostentatious celebration of wealth, the political ascendancy of the richest third of the population and a glorification of capitalism, free markets and finance. But while money, greed and luxury had become the stuff of popular culture, hardly anyone asked why such great wealth had concentrated at the top, and whether this was a result of public policy. Despite the armies of homeless sleeping on grates, political leaders—even those who professed to care about the homeless—had little to say about the Republican party's historical role, which has been not simply to revitalize U.S. capitalism but to tilt power, policy, wealth and income toward the richest portions of the population. The public understood this bias, if we can trust 1988 opinion polls; nevertheless, the Democrats shunned the issue in the election of 1988, a reluctance their predecessors had also displayed during previous Republican booms.

That discussion is now unfolding. From Congress to the executive branch, “money politics”—be it the avarice of financiers or outright corruption of politicians—is shaping up as a prime political theme for the 1990s. Class structures may be weak in the United States, but populist sensitivities run high. Wealth in this country has always been fluid, volatile and migratory. Un-

like Europe, we have needed no revolutions for its redistribution. In America the reallocation of income and assets has usually followed consumer fads, population shifts and technological innovations. But politics and political ideologies have also been important keys to the cashbox. Changing popular and governmental attitudes toward wealth have always influenced who gets what. Decade after decade illustrates the point; the Reagan era was not unique.

The 1980s were a second Gilded Age, in which many Americans made and spent money abundantly. Yet as the decade ended, too many stretch limousines, too many enormous incomes and too much high fashion foreshadowed a significant shift of mood. A new plutocracy—some critics were even using the word “oligarchy”—had created a new target for populist reaction. A small but significant minority of American liberals had begun to agitate the economy’s losers—minorities, young men, female heads of households, farmers, steelworkers and others. Television audiences were losing their early-eighties fascination with the rich. And many conservatives, including President George Bush himself, were becoming defensive about great wealth, wanton moneymaking and greed.

No fixed caste, class, ideology or geographic section has long governed America’s lively pursuit of money and success. Sectional competition has been pursued always and everywhere, and has yielded every kind of regional advantage. Relative affluence in the United States has moved West (almost from the first days of settlement), gone North (after the Civil War) or South (with the rise of the Sunbelt). The 1980s boom in the Boston-Washington megalopolis, coupled with hard times on the farm and in the Oil Patch, produced a familiar conservative economic geography—a comparative shift of wealth toward the two coasts. And toward income groups already well off.

This preference was nothing new. Twice before in the last hundred years, wealth also further accumulated in the hands of those *already rich*—during the late nineteenth century, then again during the 1920s. To some extent, these buildups have also served the larger purpose of stimulating capitalist growth, entrepreneurialism and technological innovation. Avarice was only one ingredient. At other times, and also for at least partly

valid public policy reasons, Washington has gone in the opposite direction and redeployed upper-income assets to fatten thinner wallets, expand low-income purchasing power and rebuild the social fabric of poorer Americans. So debtors have occasionally gained as have creditors. Farmers have outmaneuvered bankers, although rarely, but regardless of the direction it's hard to overstate the importance of American politics to American wealth—and vice versa.

Candor in these matters is rare. But in the words of an iconoclastic journalist of the Reagan era, William Greider, "Concentration of wealth was the fulcrum on which the most basic political questions pivoted, a dividing line deeper than region or religion, race or sex. In the nature of things, government might choose to enhance the economic prospects for the many or to safeguard the accumulated wealth held by the few, but frequently the two purposes were in irreconcilable conflict. The continuing political struggle across this line, though unseen and rarely mentioned, was the central narrative of American political history, especially in the politics of money." Greider's thesis is generally supported by history. Since the American Revolution the distribution of American wealth has depended significantly on *who controlled the federal government, for what policies, and in behalf of which constituencies.*

From this perspective, the Reagan era reversed what late-twentieth-century Americans had become used to. The liberal style that prevailed from 1932 to 1968 had left a legacy of angry conservatives indignant over two generations of downward income redistribution. A reorientation in the opposite direction was all but inevitable in the 1980s—and there were precedents aplenty.

In the years after 1790, when Alexander Hamilton persuaded Congress to assume debts incurred by the states during the Revolution, the result was a redistribution of wealth to bondholders, many of whom had bought the low-valued debt instruments as speculation. Then in the 1870s, restoration of the gold standard squeezed out the last vestiges of Civil War inflation, providing a similar preference to creditors over debtors. And the Harding-Coolidge tax cuts of the 1920s, in which the top individual federal income tax rate fell from 73 percent to

25 percent, furnish yet another example of realignment upward. This periodic upward bias is as much a fact of U.S. history as the liberal bias with which it alternates.

Even in this most optimistic of countries, economic individualism yields to community-minded reform on a cyclical basis as the public grows indignant over the political distribution of wealth. By the mid-1920s, and especially during the New Deal, muckraking interpretations of the economic motives of conservative governance were a dime a dozen. Historian Charles Beard became famous for his *Economic Interpretation of the U.S. Constitution* and other books arguing the premise that the Founding Fathers and their descendants had served their own class interests as well as American patriotism. Populist or progressive periods have often nurtured such materialistic views, and the 1990s are likely to regard the Reagan era as a seamless web of preoccupation with wealth and moneymaking. By 1989, after all, the statistics *were* in: once again, just as in the 1790s, the 1880s and the 1920s, conservative and upper-bracket groups had been the major gainers. As a percentage of overall national income, the shift wasn't big, of course. Yet increases of two, three and four points in the share of income held by the top 1 percent of Americans—accompanied, meanwhile, by some decline in the bottom two fifths of the population—have been the stuff of major economic and political movements.

This book is about the redistribution of power and wealth during the 1980s: who got it, who lost it and through what policies. It is also about the extent to which these changes, insofar as they reflected familiar conservative economic and demographic patterns of preferment, prepared the ground for a progressive or populist reaction. Politics is a process of movement and countermovement. Only for so long will strung-out \$35,000-a-year families enjoy magazine articles about the hundred most successful businessmen in Dallas or television programs about the life-styles of the rich and famous. And the discontents that arise go well beyond lower-class envy or the anticommercial bias of academe.

A century ago established lawyers, diplomats, doctors and bank presidents—and, in particular, patrician landowners and other old-money families—seethed over the erosion of their relative wealth and importance as muddy-booted nouveau riche

railroad barons and stockjobbers flourished, a frustration that foreshadowed similar public distaste in the late 1980s for corporate raiders, Wall Street inside traders and thirty-one-year-old investment bankers earning a million dollars a year. The historian Richard Hofstadter, looking at the Progressive movement as it culminated in Theodore Roosevelt's third-party bid for the presidency on the 1912 Bull Moose ticket, has argued that Progressivism drew heavily on the resentment of old money for new. How much the 1990s will follow this familiar pattern remains to be seen, but George Bush, a scion of the Eastern Establishment, for all his loyalty to Ronald Reagan, chose to echo "TR" in the 1988 campaign by deploring "this fast-buck stuff . . . I don't have great respect for just going out and stacking up money." Bush refreshed this theme in his inaugural address, for just as Ronald Reagan had replaced Richard Nixon's bias toward "Middle America" with nouveau riche ostentation, Bush represented a shift from the aggressiveness of the new rich to the defensiveness, even social conciliation, of established wealth.

Some amplifications are in order. Political terminology can be confusing, even contradictory, during these periods. The late Harvard economist Joseph Schumpeter has described how capitalism, at its zenith, is profoundly creative, profoundly destructive—and profoundly *unconservative* by any standard except its respect for market forces and moneymaking. Populists and progressives are not alone in opposing the "malefactors of great wealth." Upholders of traditional or aristocratic values, such as they are in the United States, have also been periodic critics—not just Theodore Roosevelt but also Henry Cabot Lodge and Charles Francis Adams, to say nothing of his cousins Henry and Brooks. A minor but vaguely similar dissent on the part of Southern traditionalists was also apparent during the last crescendos of the Roaring Twenties.

To be sure, historical parallels are dangerous, but history can teach certain general lessons well enough to suggest certain tentative precedents for not only what *happened* during the Reagan years but what *may occur in reaction* during the 1990s. While neither Democrats nor Republicans like to acknowledge their role in the concentration and dispersal of wealth, these roles have always been present, lurking beneath the rhetoric of individualism, market forces and free enterprise, on one side, or



fairness and social justice, on the other. Excesses in one direction have always bred a countermovement in the other direction, and the Reagan era certainly had its excesses.

The shift to the right in late-twentieth-century U.S. politics—the odd mix of conservatism and populism that I described two decades ago in my book *The Emerging Republican Majority*, and that provided elements of the strategy for the 1968 GOP presidential campaign—was fading by the 1988 election. One sign that the Republican presidential cycle had reached late middle age in the 1980s was an intensified ideological focus on free markets and capitalist values. *Money and business had become fashionable—again*. History suggests that GOP cycles tend to stage capitalist blow-offs as they mature, which is what happened in the 1920s. The Reagan administration, from the beginning, was openly committed to copying the economic style and incentives of the Calvin Coolidge years, though Reagan's revival of the Roaring Twenties was more precarious and debt-dependent than the original era.

By the time of the Democratic and Republican conventions in 1988, the boosterish style of the Reagan era—from entrepreneur worship to roller-coaster stock markets—was already yielding to a more restrained, centrist tone. That was clear in *both* parties. As summer turned to autumn each groped toward a different successor politics. George Bush presented himself as a low-key activist and reformer, casting an occasional well-bred aspersion toward those who did nothing but pursue money. Both candidates eschewed the values of the glitterati. Michael Dukakis, who originally styled himself as the architect of Massachusetts' economic “miracle,” assumed a more populist stance by October, but by that time it was too late for him to benefit from Democratic themes of economic discontent.

This book, then, is the portrait of what the 1988 debate largely ignored: the new political economics, intensifying inequality and pain for the poor, the unprecedented growth of upper-bracket wealth, the surprisingly related growth of federal debt, global economic realignment, foreigners gobbling up large chunks of America, the meaninglessness of being a millionaire in an era with nearly a hundred thousand “decamillionaires.” Part of the portrait is international—Britain and Japan displayed a similar concentration of wealth—but mostly it is about which *American*