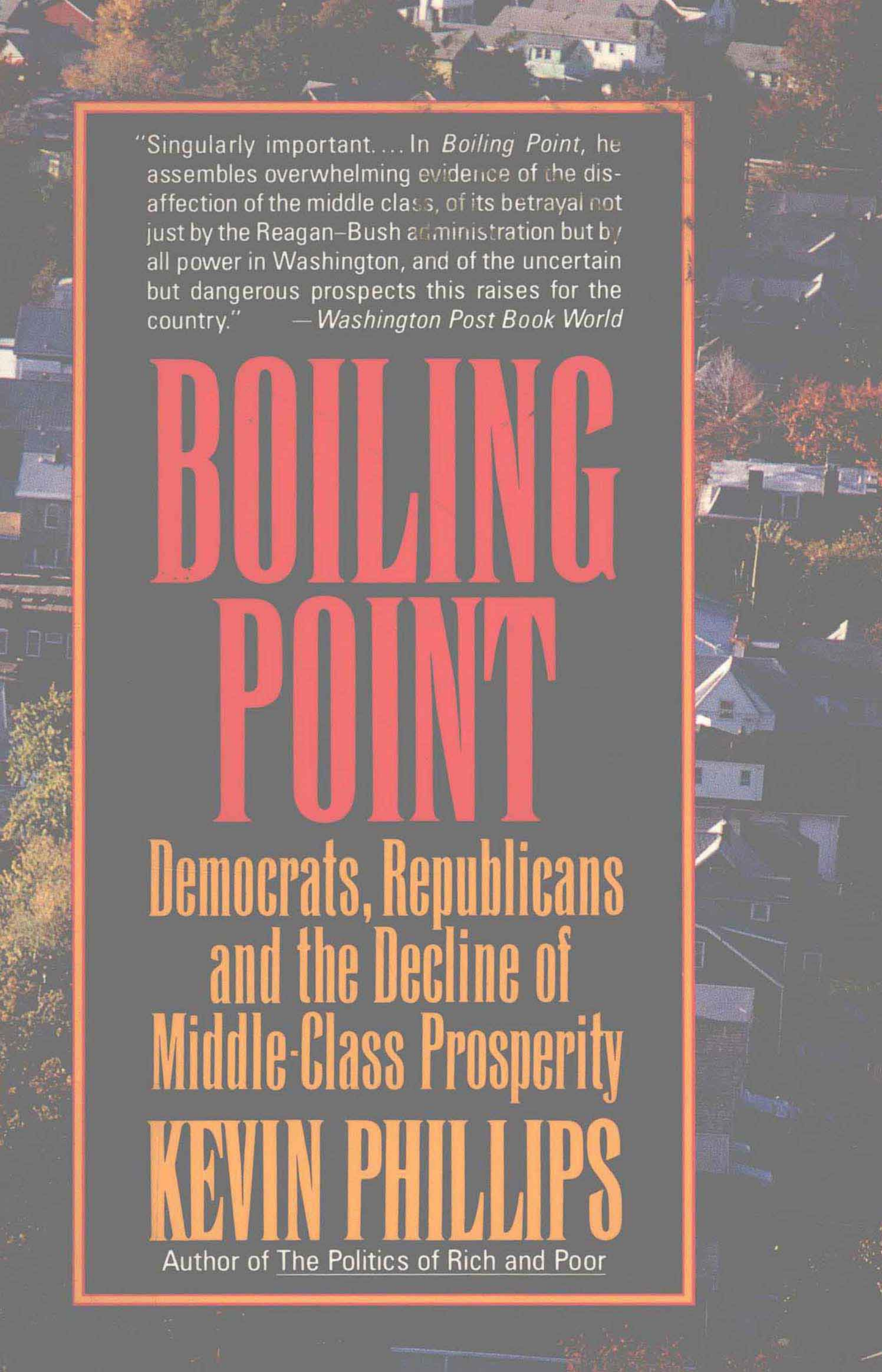

"Singularly important. . . . In *Boiling Point*, he assembles overwhelming evidence of the disaffection of the middle class, of its betrayal not just by the Reagan–Bush administration but by all power in Washington, and of the uncertain but dangerous prospects this raises for the country." —*Washington Post Book World*

# BOILING POINT

## Democrats, Republicans and the Decline of Middle-Class Prosperity

KEVIN PHILLIPS

Author of The Politics of Rich and Poor

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# BOILING POINT

*Democrats, Republicans, and the Decline of Middle-Class Prosperity*

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# BOILING POINT

ALSO BY KEVIN PHILLIPS

*The Politics of Rich and Poor*

*Staying on Top: The Business Case for a National Industrial Strategy*

*Post-Conservative America*

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

*Electoral Reform*

*The Emerging Republican Majority*

*To Brent, Emily*
*and Andrew*

# *Preface to the HarperPerennial Edition*

Now that we are in the mid-1990s, the problems of the middle class are no longer quite what they were in the 1992 presidential election year when I completed the first version of this book.

In important ways, unfortunately, they are *worse*. Middle-class Americans have even more reasons to be worried.

The economy got slightly better in late 1992 and 1993, but with little resemblance to past recoveries from economic downturns. Jobs are not coming back as usual; hopes are not brightening. The presidential candidate who claimed that the Republican incumbent was destroying the middle class and that he would rescue it is now himself in the White House. But the middle class knows it is still in trouble, and the new administration has even added some new problems. Now Republican politicians are charging the new man in the White House—correctly, I think—with breaking his own promises to Middle America. The political part of the equation is less hopeful. Republican-versus-Democratic politics may no longer offer a solution.

Bill Clinton has read this book. The press reported in early February that he had taken it to Camp David on his first weekend in office. Then he was spotted with *Boiling Point* tucked under his arm, and then, in late March, when Dan Rather went to interview him for the program "48 Hours," he had the book in the Oval Office. What is less clear is *why* he read it: to help middle-class Americans roll back the problems the book describes? or to get more sense of the frustration politics that was abroad in the land, and what it might mean if or when he failed to deliver? I am not sure, but I lean toward the cynical interpretation.

Let us jump back two years. For a contest that pivoted on middle-class anger and fear of the economic future—emotions that victor Clinton tapped better than any Democrat since Franklin D. Roosevelt and that Ross Perot rode to a stronger showing than any other third party candidate since Theodore Roosevelt—the presidential election of 1992 produced surprisingly little discussion of what had gone wrong with the economy and what changes the new president would make. As the voters firmed against George Bush and his administration, there was less need for Clinton to explain his purpose in detail, and as the campaign concluded, he was suitably vague in most of his discussions.

Yet the evidence of widespread fears was so pronounced, raising the prospect of a watershed change in national politics, economics, and culture, that it seems worthwhile to spell out, as I shall do in this book, some of what was happening to produce these concerns. Sixty-two percent of Americans voted to replace the president, with some of the most striking shifts coming in suburbia, confirming that the economic damage to middle-class America was real enough. One purpose of this book is simply to describe this damage—to tell middle-class householders and voters just what happened to them over the two decades, what happened to their disposable income, their taxes, their home values, their earnings, their job prospects, their services from government, their assets and net worth, their safety net of pensions, health care, and insurance, and their children's prospects of enjoying the same upward mobility and living standard as they themselves had enjoyed. I believe that it is also important to explain a critical change in national political fashion: how opinion molders and officials who, from the New Deal to the Nixon years, had spoken up for the common people and fought for the "little guy" transformed their outlooks, so that by the 1980s, the country's leaders were embracing or flirting with an elitist philosophy that celebrated investors, entrepreneurs, and the rich while neglecting the interests of a middle class that found itself increasingly threatened. The Democrats successfully raised these charges against George Bush in 1992, but now they are having to answer a new set of charges and criticisms raised against them—to which we shall turn momentarily.

The politics and political volatility of the middle class is an old fascination of mine. Back in late 1967, I finished a book whose analyses would be used in the 1968 Republican campaign. The book was then released in 1969 as *The Emerging Republican Majority*. Coming years would confirm its thesis—that the worn-out New Deal Democratic coalition was breaking up in favor of a new Republican presidential majority based on a new middle-class populism and a new Southern-Western alignment that I called the Sun Belt. One newsmagazine labeled the book "the political bible of the Nixon Era," and its arguments influenced Republican strategy not only in 1972 but right through 1980.

Two decades later, *The Politics of Rich and Poor*, which I began to write in 1987 but published in 1990, crystallized issues that Michael Dukakis touched only hesitantly in the 1988 campaign. However, its message fell on fertile ground in June 1990, and its portrait of the rich as the major beneficaries of the Reagan and Bush eras quickly became a pivot of the 1990 congressional elections and grew from there. In 1992, as the presidential campaign began, *Newsweek* described *The Politics of Rich and Poor* as a "founding document." The *New York Times* noted that Democratic strategists "revere" the book's thesis that the 1990s are marked by a populist reaction to the economic excesses of the 1980s.

Most of the Democratic presidential hopefuls and contenders of 1991–92—from Bill Clinton to Mario Cuomo, Lloyd Bentsen, Dick Gephardt, Tom Harkin, Douglas Wilder, and Jerry Brown—had read *The Politics of Rich and Poor* or drawn on its theses. So had Pat Buchanan on the Republican side; and in December 1991, well before Ross Perot went public, I received an unexpected telephone call from the *Dallas Morning News*. The Texas billionaire was supposedly blueprinting a 1992 presidential campaign based in part on *The Politics of Rich and Poor*. Was I involved, the reporter asked? I was not.

The most famous of cloth-coat Republicans, Richard Nixon, had given me a laudatory comment for the dust jacket of *The Politics of Rich and Poor*, but George Bush and his political advisers chose to ignore the analysis. There is no longer much need to dwell on the Bush administration; even some of its own former participants have been writing books dismissing its domestic policies. Clearly, many of its officials had no interest in the swing voters from the small-town South, blue-collar Peoria, Levittown, or the ends of Northern urban subway lines who had rallied first to Nixon and then later to Reagan—constituencies and shifts I had discussed in *The Emerging Republican Majority*. As Pat Buchanan and Ross Perot insisted in their own blunt language, Skull and Bones and the prep schools and country clubs were once again in charge. When Bush lost an Iowa straw poll in 1987, he suggested that his absent supporters were too busy on the golf course or at air shows or debutante parties to come out and vote. It was a revealing glimpse—and a revealing prophecy—of Bush economic loyalties to come. Nixon's cloth-coat coalition of earlier years was abandoned during the Bush years; in a sense, it was also betrayed.

For many Americans, including significant numbers of Republicans, the sense that ordinary Americans had been abandoned played a significant role in Bush's defeat. Favoritism to the rich and imploding speculative bubbles had been devastating to Republican national coalitions before, in the late nineteenth-century Gilded Age and in the early 1930s, and in 1992 it happened again. Large chunks of the GOP coalition, especially those recruited in the Nixon and Reagan years, abandoned Bush for Perot and even for Clinton. Network exit polls on November 3 showed more than one-quarter of self-identified Republicans voting against their incumbent president.

In 1990, I had written that Bush was vulnerable to losing the support of the Middle American swing constituencies that had backed Nixon and Reagan. I felt this even more strongly in 1991 and 1992 as I worked on this present book and saw the severe damage that the circumstances and policies since 1973 had inflicted on middle-class voters. Small wonder that U.S. politics turned sour in 1990–92 just as it had following previous periods of excessive debt and speculation and subsequent downturns. Herbert Hoover's share of the total presidential vote plummeted eighteen points from 1928 to 1932; Bush's percentage dropped a nearly comparable sixteen points between 1988 and 1992.

In examining this explosion, where it came from and where it's going, *Boiling Point* picks up where *The Politics of Rich and Poor* left off. It explains how and why much of the middle class stagnated economically (or worse) while those at the top did so well, why this was politically disastrous for the GOP, and why remedial policies have now become the key to the 1996 elections. Many of the gruesome details are drawn from the nation's major metropolitan areas: New York, Los Angeles, Chicago, Philadelphia, Boston, Dallas–Fort Worth, the San Francisco Bay area, and south Florida. To read of this quiet devastation is to understand what undercut Bush, fueled Perot's populist insurgency, and gave Bill Clinton his winning appeal to a middle class whose interests had, in fact, been forgotten much as Clinton said they were. Yet this same populist thrust that brought Clinton to the White House also set the new Democratic presidency on a razor's edge.

The introduction to the hardcover version of this book was written immediately after the 1992 election, at which point—presumably like most other Americans—I still judged Bill Clinton by his campaign promises and expressions of strong commitment to middle-class voters. For a Democrat, they were extraordinary. On July 16, he went before the Democratic National Convention and promised to write a new chapter in U.S. political and economic life:

> In the name of all the people who do the work, pay the taxes, raise the kids and play by the rules—the hardworking Americans who make up our forgotten middle class—I accept your nomination for the presidency of the United States of America. I am a product of the middle class. And when I am your president you will be forgotten no more.

He had campaigned on the idea of a middle-class tax cut, putting it in his New Hampshire primary television ads. Then in the autumn, he said that he planned to raise the top tax bracket from 31 percent to 36 percent for people making more than $200,000 annually and to put a 10 percent surtax on people making more than $1 million annually. The middle class would not be touched. But then some confusion arose, and on "Meet the Press" on October 25, moderator Tim Russert pressured Clinton campaign chairman Mickey Kantor: "Yesterday, the campaign spokesman for your candidate defined the middle class as $50,000. Bill Clinton had said previously that he wouldn't raise taxes on anyone making less than $200,000—any family. Can we expect that people making between $50,000 and $200,000 are eligible for taxation?" Kantor took the bait: "He is only going to raise taxes marginally on those folks making $200,000 a year or more.... There will be no taxes on the middle class."

Clinton should not have taken these commitments so lightly. George Bush had broken tax promises—and he paid the price in an election that undermined the old Republican presidential coalition in pivotal major metropolitan areas from New York to Los Angeles and drove Bush's share of the total vote to just 37.5 percent, two points below Herbert Hoover. So it was surprising that the new president, too, reneged, first on his campaign commitment to give the middle class a tax cut and then on his assurance that taxes would be raised only on the rich, and not on those making less than $200,000 a year. The taxes he proposed in February were much broader in sweep and reached far lower on the income ladder. By the time of Clinton's first hundred days in office in late April, he had the lowest job approval rating of any president since the pre–World War II invention of polling.

Fiscal policy was not the only offense. Voters were displeased by his choice of allowing gays into the military as his first order of post-inaugural business and by nominations like that of Zoë Baird, proposed for U.S. Attorney General even though she had hired an illegal immigrant as a housekeeper and had failed to pay Social Security taxes for her. Besides which, Washington insiders were everywhere, causing even the *New York Times* to editorialize that Clinton's pledge to break the grip of special interests had been "broken from day one."

Never before had middle-class voters turned on a newly elected president so quickly. They sensed a breach of faith, although some of the debate hinges on definitions. Without saying so publicly, Clinton seems to be defining the middle class as the $35,000-to-$50,000-a-year electrician, fast-food store manager, teacher, or junior government employee. This may be a good definition from the standpoint of Democratic politics—recovering these voters is an important key to the party's future—but it is much more debatable in real-world economics. Some experts are now saying that only about 45 to 50 percent of Americans still enjoy a middle-class standard of living. Probably so, and this would mean that the "middle class" is no longer really in the demographic middle. Instead, it may reach from annual incomes in the $40,000 to $45,000 range, depending on where one lives, up to $150,000 to $200,000 in annual earnings in the major metropolitan areas (say, a midlevel corporate manager in the New York suburbs and his high school teacher wife). And that would put the true *lifestyle* middle class (including the upper middle class) in the forty-fifth to ninety-eighth percentiles nationally.

During the 1992 presidential campaign, Bill Clinton seemed to accept the implications of this same definition: that the $100,000-to-$200,000-a-year American families were by no means rich and that an overwhelming majority were part of the middle class. But, in all likelihood, that definition became inconvenient for him once the campaign was over and prosperous suburbia had cast its votes. As president, he wanted their money—the taxes he would take—more than he wanted supportive impressions given to Gallup polltakers. Certainly the income tax increases he proposed and Congress narrowly passed were a clear breach of promise to the upper middle class. The top tax rate of 36 percent, instead of being confined to incomes over $200,000, was imposed on families with incomes over $140,000 and individuals with incomes over $115,000. The 10 percent surtax, supposed to be limited to millionaires, was imposed on those with incomes over $250,000. And the Medicare tax, previously not levied above $135,000 of income, was uncapped so that the self-employed paid an additional 2.9 percent (beyond income tax) on all earned income. And because of the quirks in the federal tax code, as various exemptions and deductions were phased out, accountants calculated that many families in the $250,000 to $400,000 range would be facing marginal federal rates on income of 44 to 46 percent, which could rise to well over 50 percent when state income taxes were added in. Some families in the $175,000 range would find themselves facing 40 to 42 percent marginal federal rates. So-called wealthy retirees with annual incomes over $44,000, for whom 85 percent of their Social Security receipts would now be taxed, also faced wicked marginal rates. It was, as economists acknowledged, the largest increase in marginal tax rates since the 1930s.

While middle-class families in the $50,000 to $85,000 range escaped, they also knew that that had not been the administration's intention. Clinton had proposed a broad-based energy tax, specifically targeted to consumers, but had to abandon it when Congress refused to agree. The tax on Social Security also hit the middle class. And the air in Washington hummed with the president's mention of other taxes in which he was interested: levies on payrolls, on tobacco, on hospitals, and even on broad national consumption through the sort of value-added tax found all over Europe. In short, the Clinton of the 1992 campaign, who claimed to simply seek revenue from the top 1 percent of Americans, principally millionaires, in the name of fairness and recapturing the loot of the 1980s, was not the real Clinton. The real one, the events of 1993 made clear, wanted a lot more revenue from ordinary Americans, not just the richest Americans, in order to pay for the agenda of a more activist government.

Moreover, although the lower-middle and middle-middle class had escaped most of the new taxes imposed in 1993, other aspects of the Clinton agenda gave them pause. America's large corporations, out to maximize their profits, were cutting their workforces left and right—3,000 workers here, 8,000 there. The Clinton administration was doing no more to try to stop them than had the Bush administration, despite Clinton's earlier criticism. Also to the point, Clinton picked up where Bush had left off in supporting the North American Free Trade Agreement, which organized labor feared would not only move U.S. blue-collar jobs to Mexico but increase the leverage by which business could keep workers' real wage levels in the United States on the same downcurve so evident during the 1980s. Not only union leaders were aroused. Ross Perot charged that NAFTA would "destroy the middle class in this country," and his criticism of the Clinton administration was mirrored by the Democratic chairman of the Senate Commerce Committee, Fritz Hollings of South Carolina. "The crowd that came to town on behalf of the middle class is going to destroy the middle class," said Hollings. From the steel mills of Pennsylvania to the farm machinery plants of the Midwest, workers who might cheer Clinton's raising income taxes on upper-middle-class suburbia simultaneously worried that Perot and Hollings might be right about the fate of the former blue-collar middle class.

For middle-class America, the message in Clinton's bold but deceptively financed 1993 health reform program was also mixed. The idea of universal health care coverage and security was widely applauded. But on the other hand, the 75 to 90 percent of middle-class Americans who already had health insurance also shared genuine concerns that for them, the costs of health care were almost certainly going to rise, through higher premiums or taxes, while the crush of more Americans enjoying full access to an inadequate number of family physicians almost certainly would mean a deterioration of quality care for a large number of those hitherto satisfied. Another part of the American Dream would be sagging along with wages, pension prices, home values, and the prospect of children getting a good job after graduation from high school or college.

As if that wasn't enough, still another threat was on the horizon: the possibility that Clinton would break an additional set of pledges and give into deficit-reduction advocates who urged him to cut middle-class entitlements.

No one should doubt that deficit pressures will be powerful over the remaining Clinton years. The major deficit-reduction groups, funded by Wall Street and the business community, share a common policy goal: to push the budget deficit to much lower levels principally by means-testing Social Security and slashing middle-class entitlements at the same time as they quietly pursue a backstage agenda of seeking tax changes favorable to the nation's top investors. However, the history of government debt and deficits in previous great powers suggests that the prospects of long-term debt reduction are slim and that calling on the middle class to sacrifice toward that end is the fiscal and historical equivalent of a con job.

The bad news of 1994, unknowable in 1992, comes in several different parts. The first is that the economy's failure to bounce back strongly from the downturn of 1990–92 probably means a watershed change in which America's economic decline from its postwar peak will involve ongoing middle-class job losses even amid alleged prosperity as well as in recession. Magazine stories and newspaper headlines for 1993, unfortunately, have continued to profile more of what chapters 5, 6, and 7 of this book already lay out: unraveling employee fringe benefits, mounting mortgage defaults in suburbia, corporate white-collar purges, growing ranks of unemployed couples, tripling water bills, and property tax rises for ordinary homeowners forced by the drop in commercial real estate values.

The second piece of bad news is political: the middle class has less and less reason to believe in the promises of presidents and presidential candidates. The Republicans may deliver, upon occasion and on some issues, for the $100,000-to-$200,000-a-year upper middle class. And the Democrats, in turn, may from time to time produce results for the lower middle class. But neither has anything resembling an across-the-board commitment to the $50,000-to-$100,000-a-year families who are at the heart of the middle class—and who now confront an unnerving, discouraging one-two punch from deceptive politicians and tightening economies.

So almost all of the trends and circumstances described two years ago are still present, although a few circumstances have eased. What is harder to see is the prospect for a reversal.

*Kevin P. Phillips*
*Bethesda, Maryland*
*October 1993*

# *Introduction: The Legitimacy of Middle-Class Frustration*

> The rich get the gold mine and the middle class gets the shaft. It's wrong and it's going to ruin the country.
>
> —Democratic presidential nominee Bill Clinton, 1992

> I want a revolution where the working class and the middle class take back control of the Republican Party.
>
> —Republican presidential candidate Patrick Buchanan, 1992

> The American people can't afford it themselves, so I'm buying the country back for them.
>
> —Independent presidential candidate Ross Perot, 1992

> The ruling class has lost touch with the American people. They have lost touch because they swim in a world of privilege, power and wealth.
>
> —Democratic presidential candidate Jerry Brown, 1992

Statements like these defined the 1992 presidential race as a watershed, spurred unexpected millions to go to the polls and made George Bush the first popularly chosen Republican president to be defeated for reelection since 1932. Voters told survey-takers there was "no chance" that things could get better in the United States if Bush was reelected—and he was not. For six weeks in late spring and early summer, Ross Perot, the independent presidential contender, moved ahead of the Democratic and Republican contenders in national polls though he had not yet announced his candidacy. Nobody had seen anything like it before.

Americans had reached their boiling point. In 1964 a mere 29 percent had told polltakers that government was run for the benefit of a few big interests. Following Watergate, that surged to 66 percent, and climbed to 70 percent in 1980 after disenchantment with the Carter presidency. By 1992 the proportion of Americans who felt that govern-