Studies in American Political Development, page 1 of 15, 2015.
doi:10.1017/S0898588X15000085 ISSN 0898-588X/15

Asymmetric Interest Group Mobilization and Party Coalitions in U.S. Tax Politics

Alexander Hertel-Fernandez, *Harvard University*
Theda Skocpol, *Harvard University*

Arguments about national tax policy have taken center stage in U.S. politics in recent times, creating acute dilemmas for Democrats. With Republicans locked into antitax agendas for some time, Democrats have recently begun to push back, arguing for maintaining or even increasing taxes on the very wealthy in the name of deficit reduction and the need to sustain funding for public programs. But the Democratic Party as a whole has not been able to find a consistent voice on tax issues. It experienced key defections when large, upward-tilting tax cuts were enacted under President George W. Bush, and the Democratic Party could not control the agenda on debates over continuing those tax cuts even when it enjoyed unified control in Washington, DC, in 2009 and 2010. To explain these cleavages among Democrats, we examine growing pressures from small business owners, a key antitax constituency. We show that organizations claiming to speak for small business have become more active in tax politics in recent decades, and we track the ways in which constituency pressures have been enhanced by feedbacks from federal tax rules that encourage individuals to pass high incomes through legal preferences for the self-employed. Comparing debates over the inception and renewal of the Bush tax cuts, we show how small business organizations and constituencies have divided Democrats on tax issues. Our findings pinpoint the mechanisms that have propelled tax resistance in contemporary U.S. politics, and our analysis contributes to theoretical understandings of the ways in which political parties are influenced by policy feedbacks and by coalitions of policy-driven organized economic interests.

Clashes over tax policy have been front and center in U.S. politics in recent years. In the 2008 presidential contest, the Democratic candidate, Barack Obama, promised to let Bush-era tax cuts lapse and raise rates on the wealthiest Americans, and the issue again figured in the 2012 election, with arguments over the taxes paid by wealthy GOP candidate Mitt Romney and the tax cuts proposed in a GOP Congressional budget proposal championed by Republican vice presidential candidate Paul Ryan. But even though partisan debates about taxes—especially taxes on the wealthy—have become more prominent in recent years, arguably the outcomes of legislative battles have not changed much. Even when they enjoyed unified control of Congress and the White House in 2009 and 2010, Democrats were not able to present a united front on tax issues. Although some upward adjustments for the very wealthy were eventually allowed to go into effect in 2013 after President Obama was reelected, most of the sweeping tax cuts Republicans pushed through in 2001 and 2003 remain in force. As Republicans reassert adamant opposition to any revenue increases, taxes remain a flashpoint of partisan warfare in ongoing Congressional standoffs over budgets, spending sequesters, and proposals for deficit reduction. In this warfare, however, the Republican side has been much more united than the Democratic side.

How did we get here? In particular, why have Democrats had such a hard time raising revenues, or even structuring the politics of tax decisions in a way that fits their preferences for adequately funded government? The origins of contemporary antitax efforts have popular roots back in the 1970s, but as we show in the research reported here, organized antitax groups and swelling antitax elite constituencies have played an increasingly important role in recent times, not only by working closely with the Republican Party, but also by dividing Democrats. We focus here especially on the ways in which small business organizations and constituencies have created

We are grateful for the helpful advice and feedback we received from previous presentations of this project at the History, Institutions, and Politics Workshop and the Tax Politics and Policy Workshop at Harvard, as well as the 2013 Midwest Political Science Association Conference. Hertel-Fernandez acknowledges financial support from the National Science Foundation's Graduate Research Fellowship and from the Malcolm Wiener Center for Social Policy. All errors are our own.

cross-pressures on the Democratic Party, sufficient to undermine its unity and resolve on tax issues. Not only have Democrats in Congress regularly defected on tax votes advanced by the GOP, but divisions and ambivalence among Democrats catering to "small business" have also made it impossible for party leaders to control the agenda of tax debates and votes even when they nominally control Congress.

Our analysis presents new empirical data about trends in small business mobilization and the views of small business owners, including owners of actual small enterprises, as well as higher-income persons and larger firms who are using "self-employed" entities to find the most favorable tax treatment for their incomes. Against the backdrop of tax politics since the 1970s, we focus particular attention on the divisions among Democrats during the enactment of the original Bush tax cuts in 2001 and 2003, as well as their renewal in 2010. The early 2000s legislation represented a high point for the contemporary antitax movement and spurred a dramatic redistribution of public fiscal burdens, favoring the wealthy.[1] In turn, the 2010 episode was the first juncture since the passage of the cuts when Democrats, given their control of both chambers of Congress as well as the White House, ostensibly had the ability to undo the upward-tilted Bush tax cuts and expand revenue collection. The failure of the Democrats to repeal the top-end cuts in 2010 thus provides an opportunity to probe the forces constraining the party's positioning and undercutting its unity on tax issues.

We proceed as follows. After introducing our theoretical framework for understanding the interplay between organized interests and political parties on tax policymaking, we then turn to detailed analysis of the role of small business organizations and constituencies in relation to the positioning of the two major parties, and especially Democrats, on tax issues. Although this analysis is but one part of an overall explanation of party capacities and divergences on tax policy questions in recent U.S. politics, we believe the research presented here demonstrates the importance of looking at sustained relationships between organized interests and political parties. In addition, for the first time in research on tax politics, we show that changes in the federal tax code can "feed back" to change the stances of key constituencies on tax questions. This has happened among high-end earners and larger firms using self-employment designations to lower their tax rates, strengthening pressures from small businesses in American politics, not just small employers but also legal entities that stretch the meaning of small business. And the results, we show, have ratcheted up cross-pressures on Democrats in ongoing partisan battles over top-end taxes.

PARTIES, ORGANIZED ECONOMIC INTERESTS, AND TAX POLICY

Our theoretical analysis starts from the presumption that major redistributive policy changes, especially in the fragmented U.S. polity, require a broad coalition of supporters, operating not just inside the legislature but also beyond it.[2] Effective coalitions active on redistributive issues must devise strategies and make sustained investments in order to apply pressure on candidates and elected officials, encourage passage of particular pieces of legislation, and foster support among the public, especially its most attentive members.[3]

Policy coalitions may require years of investment in a variety of strategies, some of which may fail, as Steven Teles has shown in his analysis of the rise of the conservative legal movement.[4] Nevertheless, when organized interest assemblages do manage to succeed, subsequent policy victories can strengthen their coalitions through feedback effects, as the actors change the political system in ways that lock-in their past victories and make subsequent successes easier.[5] For example, groups can raise the costs of changing the (favorable) status quo by broadening the coalition of actors who benefit from the status quo; by making access to the policymaking process more difficult for potential challengers; by making access to the policymaking process easier for themselves or their allies; or by drawing resources away from potential opponents. What is more, although public opinion need not be mobilized for many policy issues, the effectiveness of organized policy-driven actors can be strengthened when they are able to point to favorable public opinion, and

1. On the Bush tax cuts as a critical juncture for tax politics, see Larry Bartels, "Homer Gets a Tax Cut: Inequality and Public Policy in the American Mind," *Perspectives on Politics* 3 (2005): 15–31; Jacob S. Hacker and Paul Pierson, "Abandoning the Middle: The Bush Tax Cuts and the Limits of Democratic Control," *Perspectives on Politics* 3 (2005): 33–53.

2. See, e.g., Ellen M. Immergut, "Institutions, Veto Points, and Policy Results: A Comparative Analysis of Health Care," *Journal of Public Policy* 10 (1990): 391–416; George Tsebelis, "Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarianism, Multicamerialism and Multipartyism," *British Journal of Political Science* 25 (1995).

3. For a similar concept of "durable" policy coalitions in fiscal policy, see also Jacob S. Hacker and Paul Pierson, "Presidents and the Political Economy: The Coalitional Foundations of Presidential Power," *Presidential Studies Quarterly* 42 (2012): 101–31.

4. Steven Teles, *The Rise of the Conservative Legal Movement: The Battle for Control of the Law* (Princeton, NJ: Princeton University Press, 2008).

5. See, e.g., Terry M. Moe, "Political Institutions: The Neglected Side of the Story," *Journal of Law, Economics, & Organization* 6 (1990): 213–53; Kathleen Thelen, *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States, and Japan* (New York: Cambridge University Press, 2004); Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in United States* (Cambridge, MA: Belknap Press, 1992).

public views can be influenced by changes wrought in policies and institutions at the hands of governmental incumbents.[6]

Our perspective is congruent with a recent reconceptualization of political parties not as "teams" of politicians who seek to win and hold office (which has long been the dominant scholarly perspective), but rather as coalitions of interest groups and activists "seeking to capture and use government for their particular goals ranging from material self-interest to high-minded idealism."[7] These organized interests develop specific policy demands, work to nominate and elect politicians who support those demands, and then ensure that politicians stick to the group's favored agenda once in office. Voters are often unable to understand or evaluate the complete range of policies pursued by political parties, creating an "electoral blind spot" in which interest groups can pursue their own goals without creating backlash from the mass public. This electoral blind spot is likely to be especially large for federal tax policy, which is highly complex and poorly understood by most Americans.[8]

Here we closely probe the role of small business, a pivotal interest in U.S. tax politics and one that has had a disparate impact on the two major political parties. We examine organizations claiming to speak for small business that have had a clear impact on the parties over time, and we also examine the evolution of constituencies and public opinion relevant to small business interests in tax politics. In conducting this analysis, we build on four recent pieces of scholarship on American tax politics, all of which have made valuable contributions, but none of which, in our view, provides a complete picture of how interest groups have sustained antitax agendas not just for Republicans but also for many in the Democratic Party. Most previous scholarship has focused almost entirely on the Republican Party, but as we show, small business pressures have had a crucial—and distinct—impact on Democrats as well.

To situate ourselves in relation to the previous literature, we begin with Monica Prasad, who has carefully reconstructed the history surrounding the original Ronald Reagan tax cuts enacted in 1981.[9] Although organized business interests were supportive of Reagan's proposed tax cuts for their sector, Prasad argues that many firms were strongly opposed to the individual income tax cuts that constituted the largest portion of the Reagan package. In her account, politicians' perceptions of public preferences, rather than the preferences of organized interests, launched the original Reagan breaks that propelled tax cutting into the center of the modern Republican policy agenda. This is consistent with the narrative that the antitax agenda emerged from popular discontent with state taxes (especially property taxes) in the 1970s.[10] Additional work by David Karol characterizes the contemporary Republican embrace of tax cuts as an instance of "coalition expansion"—at least initially—where a party changes its position on an issue not because of pressure from policy demanding groups, but because party leaders want to attract new constituents to the party.[11]

Compelling as Prasad and Karol are about the launch of the Reagan tax cuts, our research confirms studies by other political scientists showing that subsequent GOP tax cuts have been strongly influenced by organized interests, especially in the business community.[12] Analysis not just of public opinion but especially of evolving organizational and corporate interests and efforts is thus crucial to understanding how tax-cut politics has become entrenched GOP orthodoxy over time. And we will show that groups representing small business interests have become especially important policy demanders. We also show that even though, as Prasad argues, businesses did not stand to gain much from the original Reagan tax cuts in the individual income tax rates, those cuts had feedback effects for later tax politics,

6. See, e.g., Andrea Louise Campbell, *How Policies Make Citizens: Senior Political Activism and the American Welfare State* (Princeton, NJ: Princeton University Press, 2003); Suzanne Mettler and Joe Soss, "The Consequences of Public Policy for Democratic Citizenship: Bridging Policy Studies and Mass Politics," *Perspectives on Politics* 2 (2004): 55–73.

7. For the conventional perspective, see, e.g., Anthony Downs, *An Economic Theory of Democracy* (New York: Harper, 1957). For the newer perspective, see, e.g., Kathleen Bawn, Martin Cohen, David Karol, Seth Masket, Hans Noel, and John Zaller, "A Theory of Political Parties: Groups, Policy Demands and Nominations in American Politics," *Perspectives on Politics* 103 (2012): 571–597; David Karol, *Party Position Change in American Politics: Coalition Management* (New York: Cambridge University Press, 2010); Jacob S. Hacker and Paul Pierson, "After the "Master Theory": Downs, Schattschneider, and the Rebirth of Policy-Focused Analysis," *Perspectives on Politics* 12 (2014): 643–62.

8. On the complexity of the American income tax, see, e.g., Michael Graetz, *The Decline (and Fall?) of the Income Tax* (New York: WW Norton, 1997). On Americans' confusion with tax policy, and its implications for policy preferences, see, e.g., Bartels, "Homer Gets a Tax Cut: Inequality and Public Policy in the American Mind."

9. Monica Prasad, "The Popular Origins of Neoliberalism in the Reagan Tax Cut of 1981," *Journal of Policy History* 24 (2012): 351–83.

10. On the tax revolt, see, e.g., Robert Kuttner, *Revolt of the Haves: Tax Rebellions and Hard Times* (New York: Simon & Schuster, 1980); David O. Sears and Jack Citrin, *Tax Revolt: Something for Nothing in California* (Cambridge, MA: Harvard University Press, 1985). On the interplay between the state-level tax revolts and federal tax politics, see Isaac Martin, *The Permanent Tax Revolt: How the Property Tax Transformed American Politics* (Palo Alto, CA: Stanford University Press, 2008).

11. Karol, *Party Position Change in American Politics.*

12. See, e.g., Jacob S. Hacker and Paul Pierson, *Off Center: The Republican Revolution and the Erosion of American Democracy* (New Haven, CT: Yale University Press, 2006); Jacob S. Hacker and Paul Pierson, *Winner-Take-All Politics: How Washington Made the Rich Richer—and Turned Its Back on the Middle Class* (New York: Simon & Schuster, 2010).

by making future individual income tax cuts much more appealing for a particular kind of "small" business.[13] The cuts in 1981 and further cuts in 1986 ended up making it more attractive for wealthy individuals and firms to route their earnings through the individual, rather than the corporate, provisions of the income tax code. As we will spell out, the enlarged small business constituency opposing higher taxes has influenced Democrats even more than Republicans.

Another relevant line of scholarship comes from Jacob Hacker and Paul Pierson, who provide comprehensive accounts of the mobilization of business since the 1970s and its role in changing the economic policies pursued by Democrats and Republicans, including taxes.[14] Their perspective emphasizes the role of organized interests in shaping policy outcomes and closely informs the theoretical framework we employ. We build on their analysis by disaggregating the business community and examining one sector—small businesses—in greater detail than their original treatment. We also track tax policy feedbacks, as already suggested, and shed unique light on the ways in which the mobilization of small business has fostered disunity and ambiguity on tax politics for Democrats.

The final piece of scholarship we draw from is by Isaac Martin, who has documented the ways that wealthy individuals have mobilized for tax cuts since the start of the federal income tax.[15] Antitax mobilization is not a new development in American politics, Martin shows. We complement his research by highlighting how antitax organizations and constituencies, above all those claiming to speak for small business, have shaped Democratic agendas and positions as well as those of Republicans.

THE RISING IMPORTANCE OF SMALL BUSINESS IN TAX POLITICS

A cursory glance at the debates on tax policy over the past few years reveals the centrality of small business, or at least those claiming to speak for small businesses. When President George W. Bush appeared alongside small business owners at a press event during his 2003 push for tax cut legislation, the *New York Times* described the crowd as "a presidential audience already receptive to the idea of lower taxes.[16]" And when Congress recently considered the repeal of part or all of the Bush tax cuts, Republicans and moderate Democrats cited support from small business as the justification for their opposition to allowing the cuts to expire for top earners.[17]

Is small business involvement in tax politics a twenty-first century development, or have small businesses and groups speaking on their behalf always played a central role in debates over taxes? To answer this question, we draw on data from a variety of sources, including the news media, the rhetoric of political candidates, interest group activities, Congressional actions, and the political opinions of small business owners. Although none of these sources on its own provides definitive evidence of changing patterns of small business mobilization, taken collectively, the data strongly suggest that small business has a growing presence in debates over tax politics—which is, in a way, ironic, given that employment in the small business sector has not grown in recent times.

We begin with data from the *New York Times* on the share, over time, of articles about taxes that also mention "small business" in the body of the article. Two main trends are evident in Figure 1. First, references to small business in the article's coverage of tax policy tend to spike during periods of major tax reform—such as in 1945, 1948, 1958, and especially during the reform debates of the 1980s. Clearly, small businesses have always been an important publicly referenced constituency in discussion of major tax reform. For example, an article as early as 1936 cited the concerns of small business representatives that "the proposed tax on ... corporate profits would prevent ... little companies from ever becoming large ones."[18] But our second finding is that the *intensity* with which the *New York Times* references small business and tax policy has changed since the late 1980s. From the 1990s onward, small businesses have been referenced more frequently in stories about taxes. In recent times, evidently, small businesses, their political representatives, and legislators are making the link between small firms and taxes even more frequently than they previously did.

From 2000 to 2009, the *New York Times* coverage of small businesses and taxes frequently included discussions of the repeal of the estate tax, which commentators argued would benefit "family owned small businesses." In addition, small business was cited in

13. On feedback effects, see Paul Pierson, "Review: When Effect Becomes Cause: Policy Feedback and Political Change," *World Politics* 45 (1993): 595–628; Skocpol, *Protecting Soldiers and Mothers*. We say "small" despite the fact that many of these entities would not fit the traditional conception of small business; we explore this discrepancy in more detail in the subsequent sections.

14. Hacker and Pierson, "Presidents and the Political Economy"; Hacker and Pierson, *Winner-Take-All Politics*; Hacker and Pierson, "Abandoning the Middle."

15. Isaac Martin, *Rich People's Movements: Grassroots Campaigns to Untax the One Percent* (New York: Oxford University Press, 2013).

16. See, e.g., Elisabeth Bumiller, "Bush Pushes Tax Cut as Small-Business Aid," *New York Times*, January 23, 2003: A20.

17. See, e.g., Ryan J. Donmoyer, "Would Ending Bush's Tax Cuts Hurt Small Business?" *Bloomberg Business Week*, September 23, 2010.; Jill Jackson, "Moderate House Democrats Push for Vote on Extending All Bush Tax Cuts," *CBS News* (2010).

18. Turner Catledges, "Small Companies Fight Profit Tax; King Has New Plan," *New York Times*, May 2, 1936: 1.

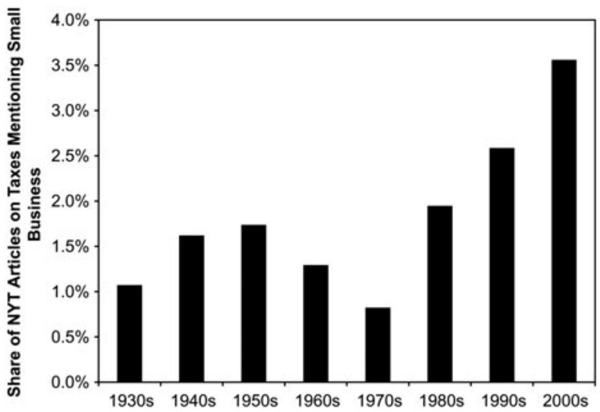

Fig. 1. Share of *New York Times* Articles on Taxes Referencing Small Business.
Note: Authors' analysis of ProQuest *New York Times* archives. This figure shows that, especially since the early 1990s, an increasing proportion of *New York Times* articles on taxes also explicitly mention small businesses.

discussions of tax credits for small business that were part of various stimulus measures under Presidents Bush and Obama, as well as in discussions of the Bush tax cuts, which the Bush administration and its allies argued would benefit small business owners. In all of these debates, small businesses were represented as sympathetic likely beneficiaries of efforts to cut federal taxes. We find a similar pattern when we use Google's Ngram data to expand the scope to all texts published in American English from 1935 to 2008. As Figure 2 shows, references to "small business tax" have increased steadily since the 1970s.

Political discussions parallel these shifts in the media. In the realm of electoral politics, references to small businesses have increasingly focused on the tax burden that small firms face. Examining the Annenberg-Pew Archive of Presidential Campaign Discourse, which includes the transcripts of speeches, ads, and debates for campaigns from 1952 to 1996, we found two suggestive trends.[19] First, mentions of small businesses were more frequent in the early 1990s than ever before. Between 1952 and 1988, candidates from the two parties mentioned small businesses in only about 1 percent of their public discourse, but the share of mentions jumped to 14 percent in 1992 and 6 percent in 1996. The share of presidential campaign speech mentioning small business in the context of taxes has also increased over time. Between 1952 and 1976, there were virtually no joint mentions of small business and taxes in the same messages, but this changed in 1980. Between 1980 and 1996, two-thirds of the references candidates made to small businesses also mentioned taxes.

For example, Republican Dwight Eisenhower appealed in general terms to small business owners during the 1952 campaign, declaring "I pledge to you my complete interest . . . to produce the advancement of small business with respect to its labor, the high wages for them, the full share of our productivity for those small businesses, particularly of a governmental character—all of that sort of thing to make certain it remains healthy."[20] But later, in 1996, Republican Robert Dole's outreach to small business owners in the 1996 presidential election explicitly and repeatedly made the link to tax policy, especially for chapter-S taxpayers (a point to which we will return below). Decrying President Bill Clinton's recent tax increase on top incomes, Dole argued that "if you're a sub-chapter-S corporation . . . [you] had about a 30 to 40 percent tax increase. . .. That's a big, big tax increase.. . . And 70 percent of the increase would be paid by small-businessmen and women."[21]

But it has not just been Republicans who increasingly make links between small business concerns and tax policies, and not just Republicans who proudly proclaim their determination to reduce small business tax burdens. When President Clinton boasted of his small business bona fides in the 1996 election, he celebrated small business tax credits: "It is not an accident that we made every small business in America eligible to get a tax cut if they invest more in their business to hire more people, to grow the business, to make America stronger, if they take out health insurance."[22]

Aside from presidents and presidential aspirants, the tightening linkage between small businesses and taxes can be seen in Congress, by tracking the share of Congressional hearings on the federal income tax that include references to small business. In Figure 3, we see a distinct upward trend over time, with Congressional hearings on the income tax now much more likely than ever to refer to small businesses. Remarkably, during the late 2000s small business was referenced in some 80 to 90 percent of each year's Congressional hearings on the income tax, compared to similar references in only about half of the hearings held in the 1950s and 1960s, and in only 30 to 40 percent of the hearings in the 1940s.

In short, today's more prominent media coverage of small business in tax policymaking reflects what is being said in political campaigns and legislative

19. Note that the archive does not have records for Barry Goldwater's campaign.

20. Dwight Eisenhower, October 21, 1952, Stump Speech in Nashua, New Hampshire [Annenberg-Pew Archive of Presidential Campaign Discourse, University of Pennsylvania, c2000].

21. Bob Dole, September 23, 1996, Stump Speech in Springfield, Virginia [Annenberg-Pew Archive of Presidential Campaign Discourse, University of Pennsylvania, c2000].

22. Bill Clinton, September 19, 1996, Stump Speech in Longview, Washington. [Annenberg-Pew Archive of Presidential Campaign Discourse, University of Pennsylvania, c2000].

Fig. 2. Google Ngram Trend for "Small Business Tax".
Note: Authors' analysis of Google Ngram Viewer. This figure shows that references to the phrase "small business tax" have greatly increased since the 1970s within the corpus of American English text indexed by Google.

processes. Recent Congressional hearings in the 113th Congress on taxes have, for example, included references to the Obama administration's efforts to spur small business investment through tax cuts, as well as discussions about how small businesses are taxed through the individual income tax code and testimony on how Internal Revenue Service agents are trained to be cognizant of the special needs of small businesses.[23] What is more, when Senator Max Baucus and Representative Dave Camp sought to build public support for their tax reform initiative in 2013, they publicized meetings with small business owners airing their tax concerns.[24]

Beyond what politicians and legislators say, moreover, we find that organizational representatives claiming to speak on behalf of small business are increasingly present at tax-policy-related hearings—and, at the same time, participation in tax-policy-related hearings currently represents a substantially greater share of the overall Congressional activity of small business associations than it did in the past. Looking at the National Federation of Independent Business (NFIB), for instance, we find that the group participated in only about 1 percent of tax hearings in the 1970s and 1980s, but its participation rose thereafter to 8 percent of all Congressional income tax hearings. Similarly, the NFIB's testimony on income tax policies increased from about 5 percent of all NFIB hearing participations in the 1970s and 1980s to 75 percent of such involvements in the 1990s and 2000s. The NFIB is clearly much more focused on taxation than it once was.

Finally, we explore the opinions of small business owners themselves toward federal taxes. The General Social Survey (GSS) offers an excellent opportunity to trace the changing opinions of small business owners, because the survey has asked consistent questions about perceptions of income tax burdens from 1977 to 2012. The GSS does not identify small business owners directly, but it does ask whether respondents are self-employed, so we use this classification as a rough proxy for small business owners. Figure 4 displays gaps in perceptions of income tax burdens over time, with the numbers graphed representing the share of self-employed workers who reported that their "federal income

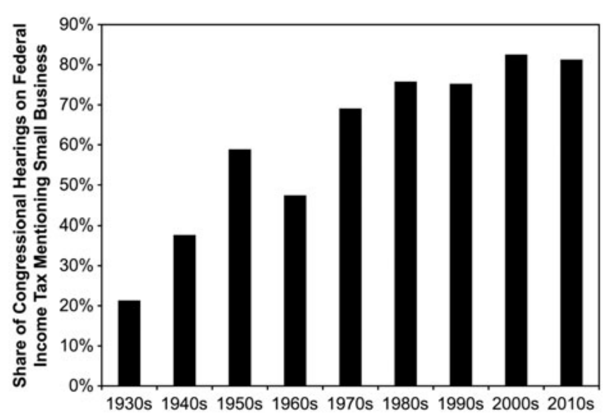

Fig. 3. Share of Congressional Hearings on Federal Income Tax Referencing Small Business.
Note: Authors' analysis of ProQuest Congressional Publications. This figure shows that an increasing proportion of Congressional hearings on federal taxes now also mention small businesses.

23. See, respectively, Senate Committee on the Budget, June 4, 2013, "Senator Patty Murray Holds A Hearing on Fiscal and Economic Effects of Austerity," Washington, DC; Subcommittee on Select Revenue Measures, House Ways and Means Committee, May 15, 2013, "Small Business and Pass-Through Entity Tax Reform," Washington, DC; Subcommittee on Oversight, House Ways and Means Committee, April 25, 2013, "Rep. Charles Boustany Jr. Holds a Hearing on IRS Operations and 2013 Tax Return Filing Season," Washington, DC.

24. Jonathan Weisman, "Lonely Bipartisan Push to Overhaul Tax Code Finally Gets Noticed," *New York Times*, July 30, 2013: A11.

taxes were too high" minus the share of non-self-employed workers who said the same thing. Values below zero indicate that a greater proportion of the non-self-employed believe that their federal income taxes are too high, while values above zero indicate that the self-employed are more likely to view their federal income taxes as being too high compared to the non-self-employed. Strikingly, the data plotted in Figure 4 show that since the late 1970s, the self-employed have become more likely to report that their income taxes are too high—and the self-employed were especially likely to believe their income taxes were too high during the early 1980s, the mid-1990s, and the mid-2000s.[25] All of those have been important junctures of tax policy change—a finding consistent with our argument that small business owners have become increasingly mobilized into political debates about the federal income tax.

Fig. 4. Perceptions of Federal Income Tax Burdens by Self-Employment Status.
Note: Authors' analysis of General Social Survey (GSS) data (weighted and smoothed with three-year moving average). This plot shows that self-employed individuals are more likely to report their federal income taxes—as compared with non-self-employed individuals—as being too high in recent years. Self-employed individuals were especially likely to report their income taxes as being too high during moments of tax reform in the 1980s, 1990s, and 2000s.

WHY HAS SMALL BUSINESS BECOME MORE MOBILIZED INTO TAX POLITICS?

Have U.S. small businesses—or at least organizations claiming to represent them—become increasingly engaged in tax debates and policymaking simply because small businesses are increasingly prevalent in the American economy? Interestingly, small business has been on the wane in this era of tax politics mobilization, at least small business as defined by employment. According to the U.S. Census Bureau's Statistics of Businesses, the share of employment in enterprises with fewer than twenty paid employees has fallen gradually from 21 percent in 1988 to 18 percent in 2008, and during that same period, the employment share declined from 40 to 35 percent for enterprises with fewer than 100 paid employees. Employment in large enterprises of 500 paid employees or more grew from 46 to 51 percent over the same period. Fewer Americans are thus working in small (and very small) firms now than they once were. So whatever has happened politically is not a mere function of the sheer proportion of the citizenry at work in businesses with few employees.

Our explanation focuses, instead, on strategic and organizational shifts among business organizations maneuvering in the U.S. political and governing system, and on feedback effects of the U.S. tax code on the legal choices and perceived interests of high-income earners. Three key processes have unfolded to boost the actual and symbolic presence of small business in U.S. tax politics.

First, as prior scholarly accounts of the history of corporate involvement in U.S. politics have made clear, the 1970s and 1980s added up to a crucial turning point for business mobilization. Before that time, business interest groups were certainly present in large numbers, but they did not have a highly centralized or concerted presence in Washington. Starting in this era, however, U.S. business interest associations developed larger and more centralized operations capable of mounting steady interventions in Congressional policymaking.[26] As David Vogel sums up, by the late 1970s "corporations became highly visible and sophisticated participants in the political process. Attempting to influence the political agenda and policy outcomes, they hired large numbers of lobbyists and lawyers, opened Washington offices, established and funded political action committees (PACs), expanded the size of their governmental relations staffs, developed sophisticated strategies for influencing public opinion, and learned how to mobilize the 'grass roots.'"[27]

25. We can also test the increasing likelihood of self-employed individuals to report that their federal income taxes are too high more formally by regressing a dummy variable indicating that a GSS respondent indicated their federal income taxes were too high on a dummy variable for self-employment, a linear time trend, and the interaction between the dummy for self-employment and the linear time trend. The interaction term is positive and highly statistically significant in both ordinary least squares (OLS) and logit specifications, indicating that self-employment has become a better predictor of whether a respondent views their federal income taxes as being too high ($p = 0.02$ for the OLS specification).

26. Cathie Jo Martin, "Business and the New Economic Activism," *Polity* 27 (1994): 49–76; David Vogel, *Fluctuating Fortunes: The Political Power of Business in American Politics* (Washington, DC: Beard Books, 1989); Jacob S. Hacker and Paul Pierson, "Winner-Take-All Politics: Public Policy, Political Organization, and the Precipitous Rise of Top Incomes in the United States," *Politics and Society* 38 (2010): 152–204.

27. David Vogel, *Kindred Strangers: The Uneasy Relationship between Politics and Business in America* (Princeton, NJ: Princeton University Press, 1996), 5–6.

Associations representing smaller firms were very much part of this buildup. The NFIB, for example, doubled its membership between 1970 and 1979.[28] At the same time, even groups more focused on representing large firms—like the U.S. Chamber of Commerce and the National Association of Manufacturers—discovered the political potency of deploying small businesses in their rhetoric and lobbying campaigns. Small businesses are not just a powerful symbolic device in American politics. Equally pertinent, national business organizations could mobilize small business owners in nearly every Congressional district and state to generate the sorts of combined local and national pressures that have historically been crucial for propelling policy shifts in U.S. politics.[29]

David Vogel points to the battle over labor relations reforms in 1977–1978 as a pivotal moment for the conservative mobilization of small business.[30] During this episode, small business owners coordinated with larger business associations to defeat a labor reform bill, carefully deploying both grassroots and national resources. As an observer of that Congressional battle explained to Vogel, business interests "succeeded in capturing the political center by portraying the issue as a union power grab.. . . In particular, the elevation of the small businessman to the exalted position of potential victim of big labor—even though the bill's impact on small business would have been minimal—was a skillful exploitation of a key American value. *Supporting small business plays well in every state and congressional district* (emphasis added)."[31]

Another key development was the unification of business tax lobbying. Before the 1970s, businesses and their groups (and especially small businesses) usually lobbied for separate sectoral or individual tax breaks or subsidies. But in the 1970s, they began to lobby together for across-the-board tax breaks. This transformation was aided by political leaders who, for ideological reasons, wanted to promote tax cuts and garner business for support for such changes.[32] According to business lobbyists as well as journalists covering tax policymaking in this era, efforts to concert previously disparate interests were originally championed by the Reagan White House and ultimately solidified years later under President George W. Bush.[33] Contemporary cross-sectoral lobbying for tax cuts on the part of small businesses presents a striking contrast to limitations on small business influence during and after the New Deal because of cleavages among small firm owners operating in different economic sectors.[34]

A final important propellant of small business mobilization into tax politics takes us beyond interest group organization and strategy to the impact of earlier tax code changes on later understandings of their interests by high-income earners. Over the past few decades, and especially since the 1980s, a greater proportion of U.S. businesses have organized themselves so that their revenue is taxed through the individual income taxes levied on top earners, rather than through the corporate income tax system. As Figure 5 shows, using data from the Congressional Budget Office, an increasing share of business revenue from the sale of goods and services (that is, business receipts) is taxed through the individual income tax code, not the corporate code.[35] Why has this happened? The Congressional Budget Office has suggested that changes in federal tax laws that lowered the individual income tax rates relative to the corporate tax rates prompted more and more businesses to pass their receipts through the individual income tax code. The 1986 tax reform, for example, dropped the top individual income tax rate 1.5 percentage points below the top rate of the corporate income tax in 1987 and 6 percentage points below the top rate of the corporate income tax in 1988. These shifts made it appealing for new and existing corporations to opt for pass-through incorporations.

Here is where expansions in the ranks of "small business" enter the picture. Because of legal restrictions on the number of shareholders they can have,

28. Hacker and Pierson, *Winner-Take-All Politics*, 119. See also the following quote from a Business Roundtable report: "One of the relatively recent phenomena of government-business relations has been the organization of the nation's small business interests as a major public policy participant.. . . Two major national groups have become the primary representatives of small business: the National Federation of Independent Business (NFIB) and the National Small Business Association (NSB). The NFIB has grown from fewer than 300 member companies in 1971 to some 600,000 in 1980. With a substantial lobbying organization in Washington, the NFIB plans to expand its state lobbying operations from twenty-four to all fifty states.. . . Perhaps the foremost reason for the rising political influence of small business is that the roughly 14 million operators of small enterprises are everywhere and that such operators are constituents of every officeholder.. . . A less obvious factor is that many members of Congress have owned or managed small businesses themselves." Francis W. Steckmest, *Corporate Performance: The Key to Public Trust* (New York: McGraw-Hill, 1982).

29. See, e.g., Theda Skocpol, *Diminished Democracy: From Membership to Management in American Civic Life* (Norman, OK: University of Oklahoma Press, 2004).

30. Vogel, *Fluctuating Fortunes*, 154–56.

31. Quoted in Vogel, *Fluctuating Fortunes*, 156.

32. Author interview with Bloomberg reporter, February 8, 2011. For a different but related perspective, see also Cathie Jo Martin, "Business Influence and State Power: The Case of U.S. Corporate Tax Policy," *Politics & Society* 17 (1989): 189–223.

33. Warren Rojas, "Norquist Sees Antitax Crusade as Cornerstone of GOP Domination," *Tax Notes* 307 (2004): 307–17; Jeffrey H. Birnbaum, "A Quiet Revolution in Business Lobbying: Chamber of Commerce Helps Bush Agenda," *Washington Post*, February 5, 2005: A1. Note that Cathie Jo Martin also attributes this new "class consciousness" among business to *Democratic* mobilization of business under the Kennedy and Johnson administrations; see Martin, "Business Influence and State Power."

34. McGee Young, "The Political Roots of Small Business Identity," *Polity* 40 (2008): 436–63.

35. CBO, *Taxing Businesses Through the Individual Income Tax* (Washington, DC: Congressional Budget Office, 2012).

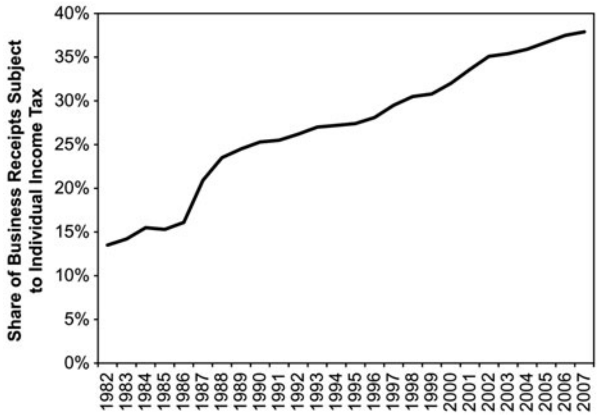

Fig. 5. Share of Business Receipts Taxed through the Individual Income Tax.
Note: Authors' analysis of Congressional Budget Office (CBO) data. This figure shows that since the 1980s, an increasing proportion of business receipts are taxed through the individual income tax code, rather than the corporate income tax, generating a growing constituency of businesses (especially "small" businesses) invested in lowering federal income tax rates.

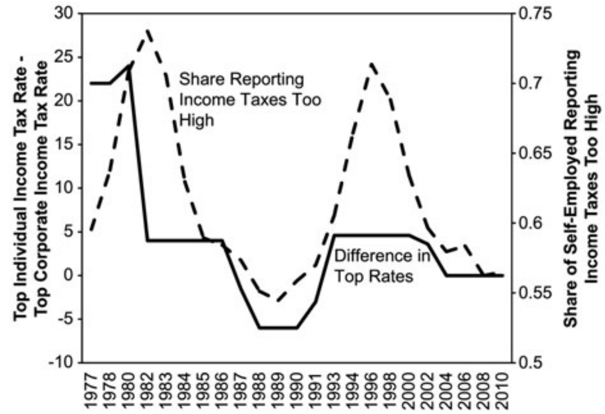

Fig. 6. Trends in Self-Employed Tax Opinions and the Tax Code.
Note: Authors' analysis of General Social Survey (GSS) data (weighted and smoothed with three-year moving average) and Tax Policy Center data on top tax rates. This figure shows that the share of the self-employed reporting that their income taxes are too high moves closely with the difference in rates between the individual and corporate income taxes.

the new pass-through legal entities created for tax advantages tend to be smaller than the typical C-type corporation that is taxed through the corporate income tax code. But the fact that these pass-through corporations tend to be smaller on paper, however, does not necessarily make them "small businesses" in the traditional sense of the concept. Many pass-through entities are not engaging in traditional business activities. They may simply be vehicles to invest in other businesses; or they may be a mechanism for individuals to sell their own services at preferable tax rates; or they may be passive investors. Or they may very well be large companies that are simply incorporated as pass-through entities—like the Tribune Corporation or PricewaterhouseCoopers.[36] Indeed, pass-through entities with more than $10 million in receipts (or the largest 1.6 percent of all pass-through entities) account for two-thirds of total pass-through receipts.[37] Putting it another way, only 28 percent of total income received from pass-through entities and sole proprietorships is actually generated by small businesses that employ other workers.[38]

36. Chye-Ching Huang and Chuck Marr, *Allowing High-Income Bush Tax Cuts to Expire Would Affect Few Small Businesses* (Washington, DC: Center on Budget and Policy Priorities, 2012).

37. Chye-Ching Huang and James Horney, *Big Misconceptions About Small Businesses and Taxes* (Washington, DC: Center on Budget and Policy Priorities, 2009); Huang and Marr, *Allowing High-Income Bush Tax Cuts to Expire*; Nicholas Johnson and Michael Mazerov, *Proposed Kansas Tax Break for "Pass-Through" Profits Is Poorly Targeted and Will Not Create Jobs* (Washington, DC: Center on Budget and Policy Priorities, 2012).

38. Huang and Horney, *Big Misconceptions About Small Businesses and Taxes*; Huang and Marr, *Allowing High-Income Bush Tax Cuts to Expire*.

Technical tax changes have given rise to ironic political consequences. Despite the fact that pass-through entities include not just traditional small business but also many other unrelated business activities and organizations, these entities now have a powerful stake in individual income tax rates in a way that they did not before. And the nontraditional pass-throughs can also claim common political cause with "small business" more generally. As already noted, this recent rapid growth of pass-through businesses has occurred against the backdrop of stagnant—and even gradually declining—small business employment in the American economy. The U.S. "small business" sector—energetically mobilized by business interest groups and incessantly celebrated by politicians—is increasingly a sector quite apart from the small establishments envisioned by most citizens. More and more so-called small businesses pushing for lower and lower taxes are, in short, tax vehicles for the well-off and large firms, much more than they are actual small companies employing actual American workers and selling goods and services to American consumers.

Can we see a direct connection between the rise of pass-through taxation and perceptions of federal income tax burdens among the self-employed? To answer this question, we return to the GSS data to probe how sensitive self-employed respondents are to changes in tax code provisions. On the right axis, Figure 6 plots the share of the self-employed reporting that their federal income taxes are too high (smoothed with a three-year moving average), in relation to trends on the left-axis of the difference between the top rates in the individual and corporate income tax codes. If in fact the growth of pass-through taxation has made the self-employed more attuned to the differences between individual and corporate income tax rates, we should see that the self-employed were more likely to report their income taxes as being too high when the difference between the individual and corporate income tax rates grew larger.

This is precisely what we observe in Figure 6. According to the GSS data, the self-employed were more likely to report that their federal income taxes were too high when the top individual income tax rate was higher than the top corporate income tax rate, as it was in the early 1980s and mid to late 1990s. Their discontent may have provided an important political resource to advocates of individual income tax rate cuts during subsequent reform efforts. On the other hand, we see that a smaller proportion of the self-employed felt their taxes were too high as the individual rates were subsequently cut relative to the corporate income rates, first by President Reagan and then by President Bush.

A second conclusion we can draw from these data is that differences between the top individual and corporate tax rates are a better predictor of tax opinions among the self-employed in recent decades compared to previous decades—a change that is consistent with the spread of pass-through taxation practices.[39] Available evidence therefore supports our hypothesis that the structure of the tax code may have changed the preferences of small businesses and the self-employed toward tax policy. Tax changes encouraged small business owners to become more attuned to top rates in the individual income tax code (and to the relationship of those rates to the corporate income tax code).

In addition to creating a new constituency of firms—both "small business" and not—that were invested in individual income tax cuts, we can speculate that the rising number of pass-through entities enhanced the *symbolic political resources* available to other advocates of income tax cuts. For instance, we quoted above from Senator Dole's 1996 campaign speech criticizing President Clinton's federal income tax increase precisely because "S-type" small businesses—that is, pass-through businesses—would bear the majority of the increase in the top marginal individual income tax rate. Similarly, years later, President George W. Bush would also repeatedly call during his tax cut campaigns for reductions in the top rate for small businesses filing through the income tax code. As Bush explained, "overlooked in the political hyperbole that tends to take place in our process is the fact that dropping the top rate from 39.6 to 33 percent serves as a stimulus to small business growth in America. The Treasury Department released a report earlier today on small business owners who pay personal income taxes, and small businesses which pay at the highest rate of 39.6. According to the Treasury Department, nationwide there are more than 17.4 million small business owners and entrepreneurs who stand to benefit from dropping the top rate from 39.6 to 33 percent.[40]" A lot of the small businesses Bush was referring to were pass-throughs.

The drumbeat on this issue never stops. When Republicans or moderate Democrats claimed that a repeal of the top-end Bush tax cuts would harm small businesses in 2010, they cited the effect on pass-through businesses. Media commentators and pundits also made similar moves when calling for an extension of the top-end Bush tax cuts. Charles Krauthammer, of the *Washington Post*, claimed that the higher rates called for by President Obama would hurt small business, arguing that "roughly half the income of small businesses (i.e., those filing individual returns) would be hit by this tax increase."[41] The NFIB, too, claimed during debates about the Bush tax cut extensions that over 77 percent of their members were structured as pass-through entities and that this was a key reason to keep the top federal income tax rates from returning to their pre-Bush-era rates.[42]

THE CONSEQUENCES FOR DEMOCRATS

So far, we have established that small business, so-called, has become more active in tax politics, especially since the 1980s and 1990s, fighting with and through groups seeking reductions in taxes. But what difference has such small business engagement made—above all, what impact has it had on the ability of the two parties to develop and pass tax legislation? To explore this crucial question, we turn to two important junctures in recent tax politics: the passage of the original Bush tax cuts in 2001 and the subsequent debate over what to do with those cuts when they were legally set to expire in 2010.

The Bush tax cuts introduced major changes to U.S. tax policy, channeling disproportionate benefits to high-income people and thus exacerbating income inequality.[43] Moreover, the cuts were costly, contributing to large deficits throughout the

39. Before 1993, the bivariate relationship between tax opinions among the self-employed and the difference in top rates had an R-squared of 0.27; in 1993 and after, the R-squared was 0.63.

40. "Remarks by the President During Meeting with Small Business Owners," Office of the Press Secretary, the White House, March 16, 2001.

41. Charles Krauthammer, "Return of the Real Obama," *Washington Post*, January 3, 2013.

42. NFIB, *Taxes and Spending: Small Business Owner Opinions* (Washington, DC: NFIB, 2013); NFIB, *Don't Raise Taxes on Small Businesses* (Washington, DC: NFIB, 2010).

43. Center on Budget and Policy Priorities, *Chart Book: The Bush Tax Cuts* (Washington, DC: Center on Budget and Policy Priorities, 2012).

2000s.[44] For these reasons, many—but not all—Congressional Democrats opposed the original enactment of the cuts.[45] At the time of the original enactment, Congress was very closely divided between Democrats and Republicans, with the latter holding a very slim (and shifting) majority. A key puzzle, then, is the willingness of some Democrats to break ranks with their party and support President Bush and his Republican colleagues in voting for the tax cut legislation. For instance, thirteen House Democrats voted to pass the House's version of the 2001 cuts, and twenty-eight House Democrats subsequently voted for final passage of the cuts in their chamber.

We suspect that pressure from legislators' small business constituents played an important role in explaining the behavior of these Democratic lawmakers. If our suspicion is correct, we ought to observe that representatives from districts with more self-employed individuals subject to pass-through taxation were more likely to support the Bush tax cuts, even after controlling for legislators' ideologies and the overall political orientations of their home districts. Another hypothesis we have sought to test looks at pressures from political organizations representing small business interests. Did such pressures play a role in leading some Democrats to support the tax cuts in 2001, independently of the actual prevalence of self-employed constituents in their districts?

To test these hypotheses, we analyzed the votes of House Democrats and Republicans on final passage of the 2001 tax cuts.[46] We coded votes for the final package as 1 and votes against the bill, as well as abstentions from voting as 0. We included four explanatory variables. First, we included the share of workers in each lawmaker's district who were self-employed and incorporated as small businesses (outside of the agricultural sector).[47] Consistent with the theory we have outlined above, we expected that lawmakers with more constituents incorporated as small businesses—especially Democrats in such districts—would have been more likely to support the tax cuts. In addition, to assess the importance of ties between legislators and political organizations representing small businesses, we also included a measure of total donations to each legislator from the NFIB in the previous electoral cycle.[48]

It is important to be clear how we interpreted the NFIB donations variable. We do not claim that donations directly caused legislators to support the Bush tax cuts. Political scientists debate the relationship, if any, between interest group donations and legislative votes. According to the currently dominant wisdom, such donations do not shape legislators' voting patterns; rather, they influence the topics legislators take up at earlier stages in the legislative process, especially in the committees where bills are written and reshaped.[49] Given these qualifications, we interpret the correlation between NFIB donations and stances on the Bush tax cuts as an overall indication of the nature and strength of the relationship between the NFIB and various legislators. A positive correlation between NFIB donations and votes for the Bush tax cuts would signal to us that the legislators involved had ties to NFIB that bolstered their antitax preferences.

For control variables, we measured legislators' own ideologies using the first dimension of standard DW-NOMINATE scores.[50] And we also accounted for district political ideologies by measuring Al Gore's presidential vote share in the 2000 election. An extensive past literature has used presidential vote shares as a measure of district-level ideology, and research by Jonathan Rodden and Christopher Warshaw has recently confirmed that it correlates quite well with actual district-level public opinion on a range of issues.[51]

Table 1 shows the results of our logistic regression, with robust standard errors clustered by state. We examine House Democrats and Republicans separately in Models 1 and 2, respectively.[52] Figure 7

44. Center on Budget and Policy Priorities, *Chart Book*.

45. "Tax-Cut Fever in the House," *New York Times*, March 8, 2001; Jonathan Weisman, "Bush's tax-cut hardball seems to have paid off," *USA Today*, May 28, 2001.

46. We focus on the House, rather than the Senate, because there is more variation across districts than across states in the prevalence of small business incorporation, one of our two key explanatory variables.

47. These data are from the decennial census (2000), extracted from the National Historical Geographic Information System. Our results are similar with agricultural small businesses. For House Democrats, the mean incorporated self-employment rate was 2.7 percent (SD: 1 percent). For House Republicans, the mean incorporated self-employment rate was 3.3 percent (SD: 1 percent).

48. We use data from the Center for Responsive Politics. For House Democrats, the mean NFIB donation was $157 (SD: $1,167). For House Republicans, the mean NFIB donation was $2,076 (SD: $2,682).

49. See, canonically, Stephen Ansolabehere, John M. de Figueiredo, and James M. Snyder, "Why Is There so Little Money in U.S. Politics?" *Journal of Economic Perspectives* 17 (2003): 105–30. On the stages when lobbying occurs, see Richard L. Hall and Frank W. Wayman, "Moneyed Interests and the Mobilization of Bias in Congressional Committees," *American Political Science Review* 84 (1990): 797–820.

50. Royce Carroll, Jeff Lewis, James Lo, Nolan McCarty, Keith Poole, and Howard Rosenthal, "DW-NOMINATE Scores With Bootstrapped Standard Errors" (2013), http://voteview.com/.

51. See, e.g., Stephen Ansolabehere, James M. Snyder, and Charles Stewart III, "Candidate Positioning in U.S. House Elections," *American Journal of Political Science* 45 (2001): 17–34. See also Jonathan Rodden and Christopher Warshaw, "How Should We Measure District-Level Public Opinion on Individual Issues?" *Journal of Politics* 74 (2011): 203–19.

52. Our findings for NFIB donations and incorporated self-employment remain identical if we exclude the other control variables. Another concern is that these two variables are correlated with one another. We find no evidence that this is the case. The statistical significance of the bivariate correlation for Democrats is $p = 0.90$ and $p = 0.59$ for Republicans.

Table 1. Determinants of Support for the 2001 Bush Tax Cuts, Final Passage (Logit Regression Results)

	Model 1—House Democrats	Model 2—House Republicans
NFIB Donations ($)	0.0007	0.00009
	(0.0005)	(0.0002)
Incorporated Self-Employment Rate	45.06*	−7.14
	(18.64)	(24.66)
Gore Vote Share	−0.02	0.002
	(0.03)	(0.06)
DW-NOMINATE (1st Dimension)	12.46*	5.21*
	(3.64)	(2.90)
N	210	221

*$p < 0.10$
Heteroskedasticity robust standard errors clustered on states.

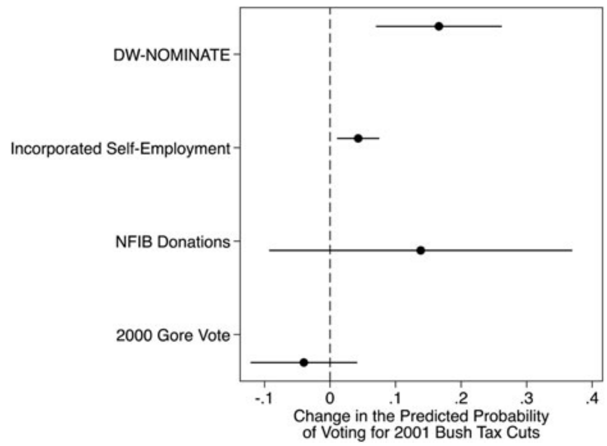

Fig. 7. Determinants of Support for 2001 Bush Tax Cuts Among House Democrats.
Note: This figure shows the change in the predicted probability of a House Democrat voting for final passage of the Bush tax cuts in 2001 with various changes in member characteristics (holding all other variables constant). Plot shows changes from 20th to 80th percentile in variables, except for NFIB donations, which are from $0 to $2,000 (the median donation to Democrats). Black lines indicate 95 percent confidence intervals. The data for this figure come from the logit regression results described in the text (full results in Table 1, Model 1).

shows the predicted probabilities that are associated with changes in the logistic regression coefficients for the House Democrats (other variables held constant). Two factors emerge as statistically and substantially important predictors of votes from House Democrats on the Bush tax cuts. As anticipated, legislator ideology is a powerful predictor of support for the Bush tax cuts; more conservative legislators were much more likely to support the cuts than more liberal legislators. A move from the 20th to the 80th most conservative member of the Democratic caucus increases the probability that a Democrat would vote for the cuts by 17 percentage points ($p < 0.01$). (That shift is equivalent to the ideological range between Dick Gephardt and Victor Snyder.)

Ideology aside, we found that pressure from small businesses exercises an independent effect on the probability that House Democrats would support the passage of the 2001 cuts. Moving from a district at the 20th to the 80th percentile of workers incorporated as small businesses increases the probability of a Democrat supporting the cuts by 4 percentage points ($p < 0.01$; we did not find a statistically significant effect for a similar move in NFIB donations for Democrats). In contrast to the Democrats, small business mobilization appears to have little effect on the voting behavior of House Republicans (see Model 2 in Table 1). Neither variation in the prevalence of incorporated small businesses nor ties to the NFIB can explain which Republicans did—and did not—vote in favor of the 2001 Bush tax cuts (ten House Republicans abstained from voting on final passage). Pressure from self-employed constituents who are highly attuned to top-end income tax rates thus appears to produce cross-pressures for the Democrats—but not the Republicans. Such pressures may well have pushed an important contingent of Democratic legislators toward more antitax stances than suggested by their ideological orientations and the overall partisan orientations of their districts. Though we do not present the results here, we found similar results examining the second round of Bush tax cuts in 2003.[53] We also examined whether our small business variables explained House Democrats' votes on other, non-tax-related legislation as a placebo test and reassuringly found no clear correlations.[54]

Moving on to the 2010 tax debates gives us an even more compelling look into cross-pressures on Democrats in Congress. During the passage of the original Bush tax cuts in 2001, Democrats were on the defensive, responding to agendas that were being developed by the Bush White House and the Republican caucus that controlled Congressional votes and agendas. But what happened once Democrats regained control of the presidency and Congress in 2009, and thus had putative capacity to enact their

53. In an identical analysis of the final votes on the passage of the 2003 Bush tax cuts in the House of Representatives, NFIB donations were a predictor of Democratic stances, but not Republican stances, and the prevalence of incorporated self-employment had a larger effect on Democrats than Republicans.

54. For instance, neither NFIB donations nor the self-employed incorporation rate could predict House Democrats' stances on the 2001 passage of the No Child Left Behind Act, which substantially reformed elementary and secondary education (six House Democrats voted against the bill, and seven abstained).

own reforms to the tax system? After all, President Barack Obama had campaigned throughout the 2008 election in part on a promise to repeal the Bush tax cuts for very high earners (families with incomes over $250,000), and when the original Bush cuts expired by law in 2010, Democrats appeared to have many factors working in their favor to realize Obama's promise. Their party controlled Congress with even larger margins than President Bush enjoyed in 2001, and the slated legal expiration of the Bush cuts gave Democrats a clear reason to revise them and generated leverage to use in negotiations with Republicans (since taking no action would lead all of the Bush tax cuts to disappear). Public opinion in 2010 was generally was in favor of President Obama's proposal to repeal the Bush-era income tax cuts for incomes over $250,000.[55] And finally, most mainstream economists considered this to be a prudent step, given that the upward-tilted Bush cuts added to the federal deficit and created a weaker stimulus for economic recovery than would other measures, such as extended unemployment benefits and a more generous food stamp program.[56] Even with all of these advantages, however, Democrats ultimately did not act on the Bush tax cuts in 2010, instead opting for a full—and costly—extension of all of the cuts for another two years. Thus the puzzle that emerges from this episode is why Democrats failed to take action on the cuts.

As debates unfolded in 2010, early and vocal opposition from two groups of moderate House Democrats became especially critical to the Democratic impasse. By coming out very publicly against the position of Democratic House Speaker Nancy Pelosi and the Obama White House in the fall of 2010, the moderate Democrats in question ensured that there would not be a vote on repeal before the blowout 2010 midterm elections (which led to Democrats losing sixty-three House seats and six Senate seats); debates after the elections put lame duck Democrats in a much weaker position. Who were the dissident Democrats that publicly opposed changes in the Bush tax rates at this critical juncture—and what can we figure out about why the relevant House Democrats defied Congressional Democratic leadership, the White House, and the national public opinion that seemed to support (or at least allow) changes in Bush's original top-end cuts? To answer this question, we examine the characteristics of the members who signed one or both of two publicly issued letters calling for a full extension of the Bush-era tax cuts for top incomes, and we developed a regression analysis to predict whether or not each of the 255 members of the Democratic House caucus in the 111th Congress signed the letters.[57] Twenty-two representatives who signed one letter were coded 1; twenty-eight representatives who signed both were coded 2; and Democratic legislators who signed neither letter were coded 0 on our dependent variable.

Our principal causal variables are the same as those used in the previous analysis of votes on the 2001 Bush tax cuts. We recorded donations House members received from the NFIB in the most recent electoral cycle, plus the share of workers in each member's district who were self-employed and incorporated as small businesses (outside of the agricultural sector).[58] We also measured whether a representative was in a competitive race in the upcoming election (as measured by the Cook political report), since this was a common reason given by pundits for why some House Democrats opposed the repeal of the top-end tax cuts.[59] We considered the share of taxpayers in a member's district that would have been affected by a repeal of the top-end Bush tax cuts (that is, households with adjusted gross incomes of $250,000 or more), to see whether legislators might simply have been responding to constituents' economic interests, not just to the needs of small business in particular.[60] To check out another reason often cited by pundits, we controlled for President Obama's 2008 vote share in a member's district as a measure of presidential popularity and general political ideology among a representative's constituents.[61] Last, to be sure that votes were not just a

55. Out of ten similarly phrased national polls (extracted from the Roper Center for Public Opinion archive) that asked respondents to choose between three options for the Bush tax cuts—extend all cuts, extend cuts for income below $250,000, and let all cuts expire—the original Obama White House position (letting the cuts expire for high-income households) garnered a plurality of support in six polls. These polls include Gallup/USA Today (12/10/10–12/12/10), Pew Research Center (12/1/10–12/5/10, 7/22/10–7/25/10), CBS News (11/29/10–12/1/10), AP/CNBC/Gfk (11/18/10–11/22/10), CNN/ORC (11/10/10–11/14/10), AP/Gfk (11/3/10–11/8/10, 9/8/10–9/13/10, 8/11/10–8/16/10), and Allstate/National Journal (8/27/10–8/30/10).

56. See, e.g., Congressional Budget Office, *Policies for Increasing Economic Growth and Employment in 2010 and 2011* (Washington, DC: Congressional Budget Office, 2010); Chuck Marr and Gillian Brunet, *Extension of High Income Tax Cuts Would Benefit Few Small Businesses: Jobs Tax Cut Credit Would Be Better* (Washington, DC: Center on Budget and Policy Priorities, 2010).

57. These letters were released by Representative Glenn Nye (on September 15, 2010) and Representative John Adler (on September 24, 2010).

58. Donation data are from the Center for Responsive Politics; self-employment data are from the American Community Survey for 2009. For House Democrats, the mean incorporated self-employment rate was 3.2 percent (SD: 1.3 percent), and the mean NFIB donation was $178 (SD: $1,136).

59. Specifically, we measured whether the Cook political report rated their race as "competitive" or a "toss-up" in October 2010. For assessments at the time, see, e.g., Kim Dixon, "Analysis: Obama has tenuous grip on Democrats over taxes," *Reuters*, September 9, 2010.

60. We used 2010 data from Citizens for Tax Justice.

61. Ray Gustini, "Democrats Break With Obama on Bush Tax Cuts" *The Atlantic Wire*, September 10, 2010. See also Greg Sargent, "Plum Line: Dear Dems: You Can Win the Argument Over Bush Tax Cuts," *Washington Post*, September 10, 2010.

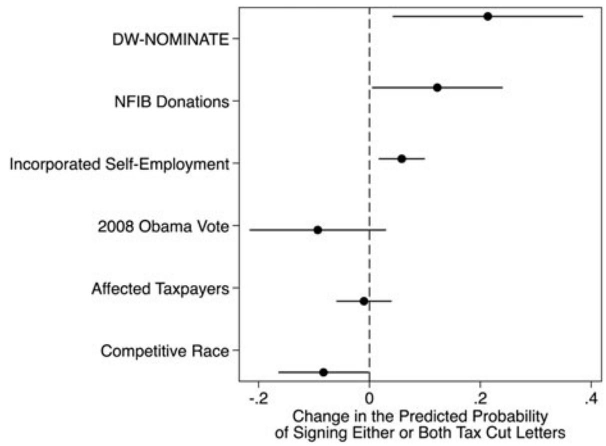

Fig. 8. Determinants of Support for Full Bush Tax Cut Extension in Fall 2010 Among House Democrats.
Note: This figure shows the change in the predicted probability of a House Democrat signing either or both pro-Bush tax cut letters in the fall of 2010 with various changes in member characteristics (holding all other variables constant). Plot shows changes from 20th to 80th percentile in variables, except for NFIB donations, which move from \$0 to \$3,000 (the median donation to Democrats) and electoral competitiveness, which moves from 0 to 1. Black lines indicate 95 percent confidence intervals. The data for this figure come from the ordered logit regression results described in the text (full results in Table 2).

Table 2. Determinants of Support for Full Bush Tax Cut Extension in Fall 2010 Among House Democrats (Ordered Logit Regression Results)

	Model 1 – House Democrats
NFIB Donations (\$)	0.0003*
	(0.0001)
Incorporated Self-Employment Rate	36.39*
	(13.76)
Competitive Race	−0.99*
	(0.56)
Share of Affected Taxpayers	−0.04
	(0.11)
Obama Vote Share	−0.04
	(0.03)
DW-NOMINATE (1st Dimension)	8.48*
	(4.07)
N	252

* $p < 0.10$
Heteroskedasticity robust standard errors clustered on states.

simple function of ideology, we controlled for legislator ideology using the first dimension of DW-NOMINATE.

We present the results of our ordered logit regression in graphical form in Figure 8, plotting the change in the predicted probability of a House Democrat signing either or both pro-Bush tax cut letters that is associated with a change in each of the independent variables (and full results, including coefficients and standard errors for the regression, appear in Table 2).[62] The results of this analysis line up well with the arguments we have developed in this article. Legislators' ideologies, unsurprisingly, emerge as the best predictor of public stances toward the Bush tax cuts in 2010: moving from the 20th to the 80th most conservative Democrat increased the probability of his or her having signed one or both of the Bush tax cut letters by 21 percentage points ($p < 0.05$). (That shift is equivalent to the ideological range between Mel Watt and Earl Pomeroy.) But also relevant are NFIB donations, even independently of ideology and district preferences. Moving from zero NFIB donations to a \$3,000 donation (the median donation given to Democrats) increased the probability of a legislator signing one or both letters by 12 percentage points ($p < 0.05$). Finally, apart from NFIB donations, we also find an effect from the prevalence of incorporated small businesses in members' districts. Democrats whose districts had a greater share of incorporated small businesses were much more likely to have signed one or both letters, with a move from the 20th to the 80th percentile increasing the probability of letter signing by 6 percentage points ($p < 0.01$).

Taken together with the findings about determinants of votes on the enactment of the original Bush tax cuts, these results from 2010 provide strong evidence that small business organizational and constituent factors have introduced an important cleavage on tax politics issues within the Democratic—but generally not the Republican—Congressional caucus. In order to maintain their credibility with small business groups, many House Democrats seem to have found it important to support the Bush tax cuts, both at the time of their original enactment and again when the cuts were up for renewal in 2010. Our data analyses confirm patterns that are consistent with what we heard in interviews we conducted with staffers to House Democrats, who reported that the NFIB was particularly active in lobbying for the tax cut extension in 2010 and underlined how important many representatives felt it was to be perceived as fully supportive of small businesses.[63] The key

62. Our results for NFIB donations and for incorporated self-employment remain identical excluding the control variables. There is no correlation between NFIB donations and incorporated self-employment in this year (the bivariate correlation is significant at $p = 0.44$).

63. Interview with staffer from the office of Representative Glenn Nye, October 17, 2010.

sentiment was expressed by a senior Democratic House aide, who observed that "like it or not, most independent voters—and even conservative Democrats—think the President is anti-business, and fighting with Republicans about their small business canard is counterproductive at this stage for most members in red states."[64]

CONCLUSION

In U.S. politics since the New Deal of the mid-twentieth century, Democrats have tended to stand for using government to raise the economic security of lower- and middle-income Americans. In the post–World War II period through the 1960s, they could depend on steadily rising federal tax revenues to fund a plethora of social and economic programs that, however imperfectly, brought about such improvements for many groups in U.S. society. Republicans of the Eisenhower and Nixon era, moreover, tended to argue about the level of taxes, not seek to radically slash or eliminate tax collections, including from business and the most privileged income earners.[65] But starting in the 1970s, the contemporary Republican Party took shape, and one of its key tenets became opposition to taxes, indeed efforts to steadily reduce tax collections at the high end of the income ladder.[66] For years, Democrats offered little resistance, concentrating instead on maintaining many core government programs from the past, even if paying for them meant increasing federal budget deficits.[67] Only in the past decade have Democrats as a national party come to realize that revenues have to be sustained, with Democratic presidential aspirants and many Congressional Democrats beginning to resist new or continued reductions in taxes. But it has not been easy for the Democratic Party to gain a unified voice on tax issues, especially not in the face of increasing mantras that "taxes hurt small business."

In this article, we have gone further toward unpacking what is going on with small business mobilization into tax politics than any previous analysts have been able to do. We have probed the changing role of business organizations as they have become more concerted champions of tax cuts as a benefit to businesses, especially small businesses, and we have shown how changes in the tax code have created new allies for a small business sector that is actually slightly declining as a source of employment in the larger productive economy. The changes we have posited and empirically demonstrated have reinforced Republican unity in pushing for lower taxes—and, crucially, they have at the same time made it harder for Democratic politicians and legislators to unite in support of adequate revenue collection by the federal government. Small business mobilization—organizational and symbolic—has been at the fulcrum of the cross-pressures on Democrats that render their party often hesitant, divided, and ineffective in the ongoing great tax debates of our time.

Aside from providing an empirical account of patterns in U.S. tax politics, our analysis has important implications for the study of American political economy. In particular, it underscores the relevance of examining how the mobilization of organized interests affects the policies pursued—and not pursued—by political parties, as well as the need to take seriously the notion of parties as coalitions of such groups, rather than simply teams of legislators. In addition, we point to the need to examine how changes in the structure of seemingly obscure tax rules and corporate governance practices—such as the treatment of corporate income flows—can have deep consequences for the behavior of legislators and for the course of public policy by mobilizing powerful economic interests through political feedbacks. Last, our work contributes to a growing literature examining the how the reorganization and mobilization of business interests have reshaped the nature of economic policymaking in contemporary U.S. politics.[68] Further scholarly attention ought to be directed to the ways in which different firms of all sizes and from all sectors participate in business associations, how membership has changed over time, and how such participation both reflects and shapes firm political preferences and strategies.

64. Jonathan Cohen, "Citizen Cohen: Why Some Democrats are Fraidy Cats on Taxes," *The New Republic*, September 15, 2010.

65. For a careful historical account of the changes in the Republican Party, see Geoffrey Kabaservice, *Rule and Ruin: The Downfall of Moderation and the Destruction of the Republican Party, From Eisenhower to the Tea Party* (New York: Oxford University Press, 2012).

66. Martin, *The Permanent Tax Revolt*; Martin, *Rich People's Movements*.

67. Gene Steuerle, *Contemporary US Tax Policy* (Washington, DC: The Urban Institute Press, 2008); Paul Pierson, "The Deficit and the Politics of Domestic Reform," in *The Social Divide*, ed. Margaret Weir (Washington, DC: The Brookings Institution Press, 1998), 126–80.

68. Benjamin C. Waterhouse, *Lobbying America: The Politics of Business from Nixon to NAFTA* (Princeton, NJ: Princeton University Press, 2013); Mark S. Mizruchi, *The Fracturing of the American Corporate Elite* (Cambridge, MA: Harvard University Press, 2013); Kim Phillips-Fein, *Invisible Hands: The Making of the Conservative Movement from the New Deal to Reagan* (New York: WW Norton, 2009); Cathie Jo Martin, *Stuck in Neutral: Business and the Politics of Human Capital Investment Policy* (Princeton, NJ: Princeton University Press, 2000).