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978-0-521-62166-3 - Taxing America: Wilbur D. Mills, Congress, and the State, 1945–1975

Julian E. Zelizer

Excerpt

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Introduction

Building a State in America

“A critical turning point” were the words one official used to describe President Lyndon Johnson’s showdown with Wilbur Mills over the Great Society in the summer of 1968.¹ For almost two years, the administration had unsuccessfully lobbied Congress to enact a tax increase. At first, Johnson claimed the increase was needed to finance the war in Vietnam without depleting funds from the Great Society. By the winter of 1968, administration economists also warned that the increase was absolutely essential if Congress wanted to end skyrocketing inflation. The tax increase could provide a shield protecting Johnson’s domestic accomplishments while preventing further price increases.

But Wilbur Mills, the powerful chairman of the House Ways and Means Committee – the committee in charge of income taxation and Social Security – refused to support the measure until the administration agreed to a significant reduction in domestic spending. Mills said the deflationary effects of a tax increase would be negated should the government pour money back into the economy through public spending. He also contended that Congress needed to tighten its own spending belt before asking citizens to do the same. Mills insisted that Johnson had to choose between guns or butter.

In exchange for the tax increase, President Johnson accepted more than \$6 billion in spending cuts (from a federal budget of about \$184 billion), significantly weakening the Great Society. Johnson had little choice in his decision since Mills had accumulated enough political capital to block the tax increase should the administration refuse his demands. As the Speaker of the House complained, the chairman had “blackmailed” the administration and the Democratic leadership.² Even worse, Mills walked away from the battle without any notable scars, while the president emerged as

¹ Joseph Califano to Lyndon Johnson, 2 May 1968, LBJL, White House Central File, Box 54, File: LE/FI 11-4, 5/1/68–5/15/68.

² John McCormack (D-MA) cited in Barefoot Sanders to Lyndon Johnson, 9 May 1968, LBJL, White House Central File, Box 54, File: LE/FI 11-4, 5/1/68–5/15/68.

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the man who sold out the poor to finance a bloody war in the jungles of Southeast Asia.³

For those who remember Mills's drunken escapades in the Tidal Basin, this historic confrontation with Lyndon Johnson seems inconceivable. For those who worked with the chairman during the prime of his career, however, the confrontation was unforgettable.⁴ Either way, the struggle hints at the critical role Mills played in the development of the American state during a crucial period in its history, a period that began with a significant expansion during the New Deal and ended with political reform in the 1970s.

During this transformation of the American state, the Cold War pushed the nation into a new role in international affairs, while it helped legitimize the permanent need for a strong government at home. The Cold War also led federal officials from both parties to expand the budget to an unprecedented size to pay for military operations and domestic activities related to the war. Economic growth brought rising wages and improved living conditions to many segments of the nation: home ownership grew by almost half, while average incomes rose by more than 50 percent. Amidst prosperity, organized labor and capital reached an accord that centered on collective bargaining. Citizens excluded from the comforts of this era participated in national movements that demanded an end to racial, ethnic, and gender discrimination.⁵

Economic growth generated a constant stream of revenue into the federal government. Each increase in an individual's income resulted in a corresponding increase in the individual's tax contribution; rising income also brought more revenue into Social Security. As a result, Congress found itself with an excess of revenue without raising taxes or cutting spending. Between the 1940s and 1970s, other factors produced automatic revenue, including periodic reductions in the massive defense budget. Given the size of the military expenditures (over 14 percent of GDP by 1953), small reductions produced considerable revenue. Together, this income thrust policymakers into a discussion over reducing taxes or increasing spending. This stands in sharp contrast to the early 1990s, when a combination of diminished revenues, large national deficits and debt, and entrenched bud-

³ Irving Bernstein, *Guns Or Butter: Lyndon Johnson's Presidency* (New York: Oxford University Press, 1995).

⁴ This battle was most recently recalled during the debates over the balanced budget in 1996. See Joseph A. Califano, Jr., "Balancing the Budget, L.B.J. Style," *The New York Times*, Sunday, 31 December 1995, section E; Sander Vanocur, "When Mills Balked," *The New York Times*, 4 January 1996.

⁵ James T. Patterson, *Grand Expectations: The United States, 1945–1974* (New York: Oxford University Press, 1996).

getary commitments produced a debate that centered on the trade-off between spending reductions and increased taxation.⁶ In the postwar period, however, it seemed to many officials that an ever-expanding economic pie could prevent such difficult debates. Congress could distribute a benefit to one group of citizens without imposing a direct cost on another group.

During this period, the state increased in size and scope on an unprecedented scale in American life. Broad segments of society – including the poor, the physically disabled, elderly retirees, middle-class consumers, private investors, and corporations – came to depend on social and economic assistance from the federal government, including public welfare, contributory old-age insurance, disability insurance, macroeconomic income-tax adjustments, and tax breaks.

CHALLENGES AND OBSTACLES

These policies were not achieved without considerable challenge. Throughout the twentieth century, state-builders encountered formidable obstacles. First, the nation's anti-statist culture caused politicians and citizens to resist any sizable expansion of centralized government. Born in a revolution against central government, American political culture was rooted in the concepts of popular sovereignty, local democracy, and individual autonomy.⁷ Although this cultural bias was not immutable, and contradictory pro-government sentiment did emerge, anti-statism and a devotion to minimal taxation imposed limits on state-building.⁸ Among most business leaders,

⁶ C. Eugene Steuerle, "Financing the American state at the turn of the century," in *Funding the Modern American State, 1941–1995: The Rise and Fall of the Era of Easy Finance*, ed. W. Elliot Brownlee (Cambridge: Cambridge University Press and Washington, D.C.: Woodrow Wilson Center Press, 1996), 409–444; Paul Pierson, *Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment* (Cambridge: Cambridge University Press, 1994), 149–155.

⁷ James T. Kloppenberg, "The Virtues of Liberalism: Christianity, Republicanism, and Ethics in Early American Political Discourse," *Journal of American History* 74, No. 1 (June 1987): 9–33.

⁸ Gareth Davies, *From Opportunity to Entitlement: The Transformation and Decline of Great Society Liberalism* (Lawrence: University Press of Kansas, 1996), 10–53; Morton Keller, *Regulating a New Economy: Public Policy and Economic Change in America, 1900–1933* (Cambridge, MA: Harvard University Press, 1990); David T. Beito, *Taxpayers in Revolt: Tax Resistance During the Great Depression* (Chapel Hill: University of North Carolina Press, 1989); Charles Lockhart, *Gaining Ground: Tailoring Social Programs to American Values* (Berkeley: University of California Press, 1989), 23–25; Ellis Hawley, "Social Policy and the Liberal State in Twentieth Century America," in *Federal Social Policy: The Historical Dimension*, eds. Donald T. Critchlow and Ellis W. Hawley (University Park: Pennsylvania State University Press, 1988), 117–141; Terrence J. McDonald,

moreover, “a sense of suspicion toward the state has managed to survive the most impressive and decisive political triumphs.”⁹ Even when domestic programs were enacted, they were often locally administered, limited in coverage, stigmatized, under-financed, and vulnerable to retrenchment.

The second challenge involved the fragmented institutional structure of government. The constitutional separation of powers, the doctrine of federalism, and a paucity of civil servants created numerous opportunities for particular interest groups to undermine public policies. Without a centralized system of governance, state-builders were forced to push their proposals through various levels of government. This required exhaustive efforts by those who hoped to maintain public policies over long periods of time.

Despite these obstacles, the state achieved a significant presence in the United States during the second half of the twentieth century. Amidst the crisis of the Great Depression and World War II, the Roosevelt administration had presided over the creation and expansion of an unparalleled number of federal programs including welfare, labor protection, old-age pensions, unemployment compensation, rural development, income taxation, and price controls. In the process, these programs continued to strengthen the executive branch, a process that had begun during the progressive era.¹⁰ In the national crisis, Roosevelt and his allies found an opportunity to expand government, while their opponents, inside and outside of Congress, were generally muted. Historian Doris Kearns Goodwin concludes that by 1945, “Big government – modern government – was here to stay. The new responsibilities of government amounted to nothing less than a new relationship between the people and those whom they chose for service, a new understanding, a revised social contract, one framed within the democratic limits of the original understanding, but drastically changed in content.”¹¹

The Parameters of Urban Fiscal Policy: Socioeconomic Change and Political Culture in San Francisco, 1860–1906 (Berkeley: University of California Press, 1986); Alan Brinkley, *Huey Long, Father Coughlin, & The Great Depression* (New York: Vintage Books, 1983); Barry D. Karl, *The Uneasy State: The United States from 1915 to 1945* (Chicago: The University of Chicago Press, 1983); Morton Keller, *Affairs of State: Public Life in Late Nineteenth Century America* (Cambridge, MA: Harvard University Press, 1977); James Holt, “The New Deal and the American Anti-Statist Tradition,” in *The New Deal: The National Level*, eds. John Braeman, Robert H. Bremner, and David Brody (Columbus: Ohio State University Press, 1975), 27–49.

⁹ David Vogel, *Kindred Strangers: The Uneasy Relationship Between Politics and Business in America* (Princeton: Princeton University Press, 1996), 30.

¹⁰ Sidney M. Milkis, *The President and the Parties: The Transformation of the American Party System Since the New Deal* (New York: Oxford University Press, 1993).

¹¹ Doris Kearns Goodwin, *No Ordinary Time: Franklin & Eleanor Roosevelt: The Home Front in World War II* (New York: Touchstone Books, 1994), 625–626.

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But the survival of the expansionist state after 1945 was not guaranteed. Although crises had enabled Roosevelt to develop the infrastructure of the state, its institutionalization remained uncertain, and its future depended on support within Congress, especially among committee chairmen such as Wilbur Mills who had the legislative muscle to protect and expand programs. Even in the Great Depression, many new programs had been administered at the state and local level, and several major policies were dismantled once the economy recovered. The state's capacity to raise revenue had remained limited until the war.¹² During the immediate postwar period, opponents intensified their attacks on the legacies of the New Deal and World War II.¹³ At the local level, some citizen's groups attempted to stifle the implementation of programs such as neighborhood integration and public housing.¹⁴

In the workplace, management attempted to curtail the scope of labor regulations. At the same time, the National Association of Manufacturers mounted a public relations campaign against domestic programs, while the business press expressed strong reservations about all government intervention.¹⁵ While NAM mounted an anti-statist and anti-labor campaign, millions of blue collar workers – a key constituency in the New Deal coalition – procured benefits and job security from the corporation. Beginning in World War II, the union movement and welfare capitalists constructed elaborate systems of private benefits within their institutions, ranging from health insurance to workers' pensions, that offered an attractive supplement, or alternative, to the welfare state. Subsidized by government benefits

¹² Alan Brinkley, *The End Of Reform: New Deal Liberalism In Recession And War* (New York: Alfred A. Knopf, Inc., 1995); Brian Balogh, *Chain Reaction: Expert Debate & Public Participation In American Nuclear Power, 1945–1975* (Cambridge: Cambridge University Press, 1991), 11–13; Anthony J. Badger, *The New Deal: The Depression Years, 1933–40* (London: Macmillan Education Ltd, 1989), 299–312; Mark H. Leff, *The Limits of Symbolic Reform* (Cambridge: Cambridge University Press, 1984); Karl, *The Uneasy State*, 80–182; Herbert Stein, *The Fiscal Revolution in America*, revised edition (Washington, D.C.: AEI Press, 1990), 39–130; Ellis W. Hawley, *The New Deal and the Problem of Monopoly* (Princeton: Princeton University Press, 1966).

¹³ David Plotke, *Building a Democratic Political Order: Reshaping American Liberalism in the 1930s and 1940s* (Cambridge: Cambridge University Press, 1996), 190–262.

¹⁴ Thomas J. Sugrue, *The Origins of the Urban Crisis: Race and Inequality in Postwar Detroit* (Princeton: Princeton University Press, 1996), 209–258.

¹⁵ Elizabeth Fones-Wolf, *Selling Free Enterprise: The Business Assault on Labor and Liberalism, 1945–1960* (Urbana: University of Illinois Press, 1994); Robert Griffith, "Forging America's postwar order: Domestic politics and political economy in the age of Truman," in *The Truman Presidency*, ed. Michael J. Lacey (Cambridge: Cambridge University Press and Washington, D.C.: Woodrow Wilson International Center for Scholars, 1989), 57–88; Nora K. Moran, "Visions of Management: The American Business Press in the Postwar Era, 1945–1985" (Ph.D. diss., Johns Hopkins University, 1997).

such as tax breaks, this private welfare state weaned blue collar support away from the American state.¹⁶ After 1938, an alliance of congressional conservative southern Democrats and Republicans possessed enough votes to become an ongoing source of opposition to social policy, particularly concerning labor and civil rights.¹⁷ To preserve and expand the state, supporters needed to overcome resistance at multiple levels of politics.

Yet scholars know relatively little about the accomplishments in American state-building during the postwar period. Most historians and historical social scientists have focused on the failures of American state-building, explicitly or implicitly portraying the West European and Canadian states as normative, and have provided sophisticated analyses showing how the nation's fragmented government and its anti-statist culture hampered policymaking.¹⁸ In short, most scholars have begun with the question, "Why did the American state achieve so little in the twentieth century?" In answering this question, they have provided a comprehensive history of the policies and policymakers who failed to achieve their goals in the twentieth century. We thus know much about the roads not taken in postwar American politics.¹⁹ This book takes a different approach.

Taxing America begins with the question, "How did the American state achieve what it did between 1945 and 1975, despite the nation's anti-statist culture and despite its fragmented political institutions?"

¹⁶ Michael K. Brown, "Bargaining for Social Rights: Unions and the Reemergence of Welfare Capitalism, 1945–1952," *Political Science Quarterly*, 12, No. 4 (Winter 1998): 645–674; Sanford M. Jacoby, *Modern Manors: Welfare Capitalism Since the New Deal* (Princeton: Princeton University Press, 1997); Nelson Lichtenstein, "Labor in the Truman Era: Origins of the 'Private Welfare State,'" in *The Truman Presidency*, 128–155.

¹⁷ Clyde P. Weed, *The Nemesis of Reform: The Republican Party During the New Deal* (New York: Columbia University Press, 1994), 168–203; Ira Katznelson, Kim Geiger, and Daniel Kryder, "Limiting Liberalism: The Southern Veto in Congress, 1933–1950," *Political Science Quarterly* 108, No. 2 (1993): 283–302; David L. Porter, *Congress and the Waning of the New Deal* (Port Washington: National University Publications, 1980); James T. Patterson, *Congressional Conservatism and the New Deal: The Growth of the Conservative Coalition in Congress, 1933–1939* (Lexington: University of Kentucky Press, 1967).

¹⁸ For an excellent critique of this tendency and a cogent review of the literature on state-building, see Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States* (Cambridge, MA: The Belknap Press of Harvard University Press, 1992), 1–66.

¹⁹ Michael B. Katz, *The Undeserving Poor: From the War on Poverty to the War on Welfare* (New York: Pantheon Books, 1989); Margaret Weir, *Politics and Jobs: The Boundaries of Employment Policy in the United States* (Princeton: Princeton University Press, 1992); Jill Quadagno, *The Color of Welfare: How Racism Undermined the War on Poverty* (New York: Oxford University Press, 1994); Brinkley, *The End of Reform*.

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Wilbur Mills's experiences provide four important historical answers to this question.

Congress and the state

Congress played a crucial role in the institutionalization of the state. Nowhere was this clearer than with taxation. After all, taxation was central to state-building: Politicians extracted money from citizens to pay for government. Unlike the way it handled issues such as foreign policy, Congress never ceded its constitutional jurisdiction over taxation to the executive branch, not even during World War II.²⁰ As a result, Congress continued to exert tremendous influence over taxation throughout the century.

Without understanding the history of Congress it is impossible to understand the evolution of national tax policy during this period.²¹ Between 1945 and 1975, Congress influenced tax politics through the decentralized committee system, which created an insulated arena for representatives from both parties and from competing regions to achieve difficult compromises without public scrutiny.²² The specialized committee system dispersed power throughout Congress while simultaneously enhancing the power of the representatives who became committee chairmen (many of whom were senior southern Democrats). Within the House of Representatives, for example, committee chairmen maintained authority over committee staffs, they created and dismantled subcommittees, they controlled the committee agenda and parliamentary procedure, they scheduled committee proceedings, and they served as the floor managers for committee bills.²³

Although committees had been an important part of Congress since the eighteenth century, the power of committee chairmen increased dramatically during the twentieth century. Traditional sources of congressional leadership, such as the Speaker of the House and the Democratic Caucus, had weakened significantly by World War II as a result of institutional and partisan reform. Within a congress-

²⁰ Bartholomew H. Sparrow, *From the Outside In: World War II and the American State* (Princeton: Princeton University Press, 1996), 33–66; 97–160; 270.

²¹ On the historiography of congressional studies, see Joel Silbey, "The Historiography of the American Legislative System," in *Encyclopedia of the American Legislative System: Studies of the Principal Structures, Processes, and Policies of Congress and the State Legislatures Since the Colonial Era*, ed. Joel Silbey (New York: Charles Scribner's Sons, 1994), 281–299.

²² Richard F. Bense, *Sectionalism and American Political Development, 1880–1980* (Madison: University of Wisconsin Press, 1984), 175–255; 317–367; 403–412.

²³ Richard Fenno, *Congressmen in Committees* (Boston: Little, Brown & Company, 1973).

sional system that valued specialized expertise and revolved around seniority, moreover, committee chairmen secured strong positions within the House as they mastered particular areas of policy. Committee chairmen also served for longer terms following the war; approximately 60 percent of committee chairmen held their positions for more than five years, and almost a dozen served for over a decade.²⁴ These chairmen provided the type of continuity within national government that political executives and bureaucrats had long contributed in Western Europe.²⁵ As a result of their position, chairmen such as Mills were a formidable presence at all stages of policymaking process.

Policy communities

The second answer from Mills's career to the question of the American state's achievements concerns the role that policy communities played in helping to facilitate policymaking despite the fragmented structure of the state. In particular, they offered an arena where congressional leaders would interact with other members of the state on a regular basis. A policy community, according to one political scientist, "hums along on its own, independent of such political events as changes of administration and pressure from legislators' constituencies."²⁶ To shape policies at every stage of the tax-writing process, Mills worked closely with a specialized tax community whose members included political party officials, leaders and experts from umbrella business and financial associations (such as the Chamber of Commerce), staff members of the executive and congressional branch, bureaucrats and administrators, university professors, independent specialists, editors and writers of the specialized policy media, and participants in think tanks.²⁷

Ultimately, policy communities needed to sell their ideas to committee chairmen. Mills often identified with and operated through the tax community. By balancing the competing needs of its members and translating their ideas into concrete legislative victories, he

²⁴ Steven S. Smith and Christopher J. Deering, *Committees in Congress*, 2nd edition (Washington, D.C.: Congressional Quarterly Inc., 1990), 39–45.

²⁵ Joseph White and Aaron Wildavsky, *The Deficit and the Public Interest: The Search for Responsible Budgeting in the 1980s* (Berkeley: University of California Press and New York: Russell Sage Foundation, 1989), 544.

²⁶ John W. Kingdon, *Agendas, Alternatives, and Public Policies* (Glenview, Illinois: Scott, Foresman, 1984), 124.

²⁷ Although in earlier work I have referred to this group as the "fiscal policy community," I have decided that "tax policy community" better defines the boundaries and the agenda of the membership.

expanded his influence in the state. Similar to his interaction with members of Congress and their interest groups, Mills hammered out compromises with the tax community, the tax men of Washington, D.C. The community traded information, agendas, and networks to the president, as opposed to the interest groups that tended to exchange money and constituents for political support.²⁸ The relationship between Mills and the community was unbalanced. Although Mills benefited from negotiating with this community to expand his influence in policymaking, as chairman of Ways and Means he could maintain his power simply by sitting on the chairmanship. The policy community, on the other hand, depended on Mills to achieve any legislative success. Nonetheless, through a strong working relationship, both partners in this marriage could increase their influence and productivity.

The tax community included three factions, categorized as Social Security, Growth Manipulation, and Tax Reform.²⁹ As chairman of Ways and Means, Mills negotiated with, and participated in, all three factions. The Social Security faction promoted contributory social insurance as the most generous form of government assistance that could be maintained within the nation's anti-statist culture. The growth manipulation faction argued that adjustments to the income-tax code, especially stimulative rate reductions, offered an effective form of economic policy. While members of this faction argued over questions of timing and size, they all agreed that tax manipulation surpassed government regulation, aggressive monetary policy, or public spending as a means of boosting economic growth. The tax reform faction supported an ongoing, incremental reform process in which Congress would periodically cleanse the tax code by eliminating as many tax breaks as possible. By demonstrating its willingness to control the system, according to this faction, Congress could maintain political support for a progressive, growth-oriented tax code and for the tax breaks that Congress deemed essential on economic and political grounds.

Together, these factions constituted a larger community that

²⁸ It is interesting to note that recent scholarship suggests that interest groups also engaged in the politics of information and agenda-setting. See Gary McKissick, "Issue Manipulation: Interest Group Lobbying and the Framing of Policy Alternatives" (Ph.D. diss., University of Michigan, 1997) and Theda Skocpol, *Boomerang: Clinton's Health Security Effort and the Turn Against Government in U.S. Politics* (New York: W.W. Norton, 1996), 133–172.

²⁹ These are labels that I have given to the various factions of the community. The factions at the time perceived themselves within these distinct groupings. While the members would certainly classify their interests around these typologies, the actual labels are my own construction.

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achieved considerable influence within the tax-writing committees during Mills's career. Although the names of the faction members – such as Robert Ball, Andrew Biemiller, Wilbur Cohen, Henry Fowler, Walter Heller, Robert Myers, Joseph Pechman, Herbert Stein, Stanley Surrey, and Laurence Woodworth – meant little to the average voter in New York or Arkansas, they were members of a community that helped design several monumental pieces of legislation, including the Revenue Acts of 1962 and 1964, Medicare in 1965, the Tax Reform Act of 1969, and the Social Security Amendments of 1972. The community was the product of a distinct historical period, an era that was characterized largely by economic growth, the Cold War, and the decentralized congressional committee system.

A “culture of tax policy” provided a considerable degree of coherence to this community. This political culture included a distinct discourse with its own vocabulary and conceptions of the political economy, certain types of social interactions between members of government, and established ways of learning the political process.³⁰ One scholar has defined the term “political culture” as “the underlying assumptions and rules that govern behavior in the political system . . . the political ideals and operating norms of a polity . . . the manifestation in aggregate form of the psychological

³⁰ My understanding of the term “political culture” comes from the following works: Kathryn Kish Sklar, *Florence Kelley & The Nation's Work: The Rise of Women's Political Culture, 1830–1900* (New Haven: Yale University Press, 1995); Frank Dobbin, *Forging Industrial Policy: The United States, Britain, and France in the Railway Age* (Cambridge: Cambridge University Press, 1994); Philip J. Ethington, *The Public City: The Political Construction of Urban Life in San Francisco, 1850–1900* (Cambridge: Cambridge University Press, 1994); Michael McGerr, “Political Style and Women's Power, 1830–1930,” *The Journal of American History* 77, No. 3 (December 1990): 864–885; Robert Kelley, “The Interplay of American Political Culture and Public Policy: The Sacramento River as a Case Study,” *Journal of Policy History* 1, No. 1 (1989): 19; Paula Baker, “The Domestication of Politics: Women and American Political Society, 1780–1920,” *American Historical Review* 89, No. 3 (June 1984): 620–647; Jean Baker, *Affairs of Party: The Political Culture of Northern Democrats in the Mid-Nineteenth Century* (Ithaca: Cornell University Press, 1983); Daniel Walker Howe, *The Political Culture of the American Whigs* (Chicago: University of Chicago Press, 1979). In their book, *A History of Taxation and Expenditure in the Western World* (New York: Simon and Schuster, 1986), Carolyn Webber and Aaron Wildavsky argue that political culture offers the best way to understand the tax and spending systems of particular nations across time and space. Although their work provides one of the most comprehensive histories of fiscal policy and a powerful argument for the influence of political culture on policy, their book plays down the relevance of institutional design, special interests, and policy. Their definition of culture is vague, and broad characterizations are used to label entire portions of a population. I attempt to use a much more specific definition of culture, by focusing on the particular culture of a distinct group within the U.S. government.