The Politics of Social Policy in America: The Causes and Effects of Indirect versus Direct Social Spending

Christopher Faricy Washington State University

The United States has a divided social system in that both the public and private sectors provide citizens with benefits and services. The effects of political party control on public social policy are widely known. An area of study less understood is how partisanship influences private social benefits. I develop and test a theory that political parties' choice between indirect and direct social expenditures is primarily motivated by a desire to alter the balance between public and private power in society. First, I find no statistically conclusive evidence that Democratic control of the federal government results in higher levels of total social spending. Additionally, my results show that Republican control of the legislature results in a higher ratio of indirect to direct social spending. These results have implications for determining the beneficiaries of social benefits and economic inequality.

The Democratic and Republican parties have fundamentally different preferences for social spending. Extant research reveals a consistent relationship across time between Democratic party control of government and higher levels of domestic spending, especially on social programs (Kiewiet and McCubbins 1991; McCarty, Poole, and Rosenthal 2006). Contrary to this common knowledge, I demonstrate that the relationship between Democratic party control and higher levels of aggregate social spending is inconclusive. And although the parties are comparable in total social expenditures, Republican party control results in higher levels of indirect versus direct social spending that finances private organizations and regressively redistributes income. Empirical research on the relationship between political party control and spending has not taken into account many of the fiscal tools used to finance public policy such as tax expenditures, grants, and loans. These policy tools have grown more popular in recent decades and constitute an increasing percentage of public financing efforts. The unnecessary exclusion of these financing instruments both restricts our ability to build robust theory and empirically misrepresents the full effects of political institutions on public policy. Important transformations to social policy occur not only in adjustments to the annual level of appropriations spending but more importantly in the modality of expenditures used to finance social benefits and services. The political choice between indirect and direct spending is more than just the innocuous selection of a policy tool, it is essentially a choice about altering the balance between public and private power in society.

Why would political parties in government use public policy, in general, and government spending, in particular, to move resources from one sector of society to another? A political party's decision to finance the public or private sector is primarily a function of its members' policy and election goals. The Democratic Party utilizes policy to allocate monetary resources to the public sector as a means to progressively redistribute income to their constituents and assuage economic inequities. The Republican Party promotes policy that is designed to shift public funds to private markets and regressively redistribute resources to business interests and wealthier voters. This theoretical argument challenges the idea that only the Democratic party actively supports social policy through increases to government spending. In recognizing America's bifurcated social system, the analysis of party conflict can move away from debates over the size of government to the study of political parties' perceptions of social

The Journal of Politics, Vol. 73, No. 1, January 2011, Pp. 74–83 doi:10.1017/S0022381610000873

ISSN 0022-3816

benefits as either a right of citizenship provided by the state or a commodity sold in market. The difference between direct and indirect spending not only tilts the balance of power between the public and private sectors but also has tremendous implications for who provides social benefits, who receives social benefits, and the direction of national income distribution. Understanding these differences is critical to properly representing the size, scope, and scale of political party influences on the American social welfare state.

Party Control, Policy Tools, and Social Spending

Political parties in government have significant influence over public policy. Political party control of government has been demonstrated to determine policy outcomes whether measured as important legislation, regulations, or government spending (Cooper and Bombardier 1968; Ripley 1969; Sundquist 1973; Clausen 1973; Cox and McCubbins 1993; Erickson, MacKuen, and Stimson 2002). Specifically, one of the most enduring findings in political science is that Democratic or leftist party control of government leads to more social spending. This resilient relationship has been found across time (McCarty, Poole, and Rosenthal 2006), across levels of government (Fellowes and Rowe 2004), and across countries (Blais, Blake, and Dion 1993, 1996; Huber and Stephens 2001). Although these past relationships are undoubtedly true, all of this research uses direct spending outlays to represent the totality of government spending.

The last forty years has witnessed a tremendous growth in the diversity of policy tools used by political parties to finance public policy initiatives. A policy tool is simply defined as "a method through which government seeks a policy objective" (Salamon, pg.29 2002). There are numerous and varied government tools used to finance private activities including: tax expenditures, grants, regulations, loan guarantees, government corporations, and loans (Hacker 2002; Howard 1997; Kettl 1997; Salamon 2002). In this article, I demonstrate that operationalizing government spending using both indirect and direct expenditures complicates and adds to our previous understanding of the relationship between partisan control of government and public policy.[1]

There are two social systems in the United States: one public and the other private. In *The Divided Welfare State*, Hacker (2002) traces the historical development of public and private pensions and health care. He argues that the divergent characteristics of public versus private social benefits presented alternative policy approaches and costs to the two major political parties. Hacker demonstrates that the decision to finance public versus private social programs has consequences for policy administration, beneficiaries of social policy, and the political incentives for groups to lobby for changes to public policy. In 2008, there were 44,831,390 beneficiaries of Medicare and 50,898,396 citizens who received assistance in the form of Social Security on the public side of the divided welfare state.[2] In comparison during the same year, over 158 million non-elderly citizens received health insurance through their employer or their partner's employer-sponsored health care plans and over 101 million people were enrolled in company pension plans.[3] In ignoring private-sector social benefits and the government subsidies that finance them, scholars unnecessarily exclude a significant amount of government activity from their research and the means through which most American citizens receive social benefits and services.

Social policy is commonly defined as any government effort to provide economic security to citizens through protection against income loss and guaranteeing a minimum standard of living. This definition allows and even invites us to examine all the ways through which government activity determines policy outcomes. Tax expenditures are the primary means of indirect public spending used to subsidize employer and private social benefits. The inclusion of indirect spending changes the analysis of both domestic and international social policy. Christopher Howard (1997) presents a study of how tax expenditures for social policy differ in their adoption and growth from public social programs. He finds that most tax expenditures for social programs were initially passed without much organized debate and originated sporadically over the years as opposed to the two "big bang" periods of the New Deal and Great Society. In comparison with other industrialized countries, the United States ranks near the bottom in public social expenditures. Yet, recent studies from the Organization

[1]All data from this article will be available upon publication on the author's website at http://faricy.wordpress.com.

[2]These data are presented by the Social Security Administration in their annual report for 2009.

[3]The data on private health care coverage are from the Kaiser Family Foundation's report on Employer Health Benefits for 2008 and the pension data are available from the Bureau of Labor and Statistics database (BLS).

for Economic Cooperation and Development (OECD) show that if tax incentives for private social benefits and public sector spending are taken together, American social spending rises to around the international average (Adema and Ladaique 2005).

Tax expenditures have become an increasingly common method used by the federal government to finance social programs. The Congressional Budget and Impoundment Act of 1974 officially codified and defined tax expenditures as "those revenue losses attributable to provisions of the Federal tax laws which allow a special credit, a preferential rate of tax, or a deferral of tax liability". In plain language, tax expenditures represent a method of counting in dollar terms the cost to the U.S. Treasury of tax exclusions, deductions, and credits. The primary purpose of the tax expenditure concept is to allow a side by side comparison between programs funded through the tax code versus programs financed using the appropriations process. Economists argue that tax breaks should be considered "expenditures" since these instruments target money to specific populations or activities and have the same effect as direct spending on beneficiaries, the market, and the budget (Howard 1997; Burman, Geissler, and Toder 2008). Tax expenditure programs are essentially a form of entitlement spending, since every taxpayer who qualifies can claim a benefit. Over the last forty years, tax expenditures for social welfare have grown as a percentage of all tax expenditures and now represent close to 60% of total tax expenditures in the United States. In the fiscal year 2008, the Joint Committee on Taxation (hereafter JCT) reported that the U.S. government allocated more than $600 billion dollars to private-sector social services in the form of tax subsidies. Americans receiving private social benefits in 2008, were able to claim more than $300 billion dollars worth of tax breaks for employer-sponsored health care and pensions alone (JCT 2008).

Indirect spending has doubled as a percentage of Gross Domestic Product (GDP) from 1967–2007. The period of fastest indirect spending growth occurred during President Reagan's first administration from 1981–1985, with assistance from a Republican Senate. In 1987, there was a steep drop in indirect spending as a result of the Tax Reform Act of 1986, in which President Ronald Reagan received tax cuts in the marginal income and corporate rates from a Democratic Congress in exchange for eliminating a number of tax breaks for businesses. Interestingly, most of the existing tax breaks for social programs were not eliminated by this legislation and indirect social spending continued unabated.

A Partisan Theory of Social Spending

Political party members have preferences for the proper balance of power in society, which reflect their policy and reelection goals. Democratic majorities prefer direct social spending programs that assuage societal inequality and progressively redistribute public social and financial benefits. Conversely, Republican members prefer high levels of indirect spending that promote capitalist markets and regressively redistributes national income. The majority party in government uses indirect and direct social expenditures as substitutable instruments, which can be exchanged or traded-off in order to meet their members' personal preferences and election needs.

There are a number of values represented in the American ethos but none more prominent than equality and individual freedom (Feldman 1988). Social psychological scholars demonstrate the importance of core democratic values in structuring people's attitudes and opinions about preferences for policy outcomes across issue areas (Maio and Olson 1998; Peffley, Kniggie, and Hurwitz 2001; Keele and Wolak 2006). Self-identified liberals consistently rank egalitarianism as their highest personal value while conservatives select individual economic freedom as their most important core value (Feldman 1988; Jacoby 2006). Specifically, political sophisticates are able to identify and rank-order their core values in ways that guide their preferences for government spending (Jacoby 2006). Jacoby finds that "people who believe that liberty is more important than equality are also more likely to favor reductions in government spending. Conversely, those who value an egalitarian society apparently recognize the relevance of governmental spending and services for achieving this objective (718 2006)".

The Democratic and Republican parties emphasize different core values, which in turn results in divergent partisan preferences for allocating economic resources to the public versus the private sector. During the period of this study, the two political parties in Congress polarized as the Democratic party became more uniformly liberal and the Republicans much more conservative (Poole and Rosenthal 1997, 2001). Consequently, the Democratic party is comprised mostly of members who value equality over liberty, and believe that equal opportunity is threatened by the uneven distribution of resources resulting from capitalist markets. The Republican party, dominated by conservative members, prioritizes liberty over equality and therefore argues that freedom is best secured by allowing citizens to function in economic markets protected from the encroachment of government power. These divergent partisan value hierarchies create hard and fast party preferences for one sector over another. The result from these contrasting ideologies is that Democrats use public policy to move economic resources and legal jurisdiction to the public sector and conversely, Republicans use policy to allocate resources and jurisdiction to private markets.

In addition to cultivating specific values, political parties use social spending to allocate public resources to core constituencies for reelection. McCarty, Poole, and Rosenthal (2006) find a relationship between increasing economic and political polarization in the electorate. They demonstrate that over the last thirty years, working-class voters are much more likely to identify with the Democratic party while wealthier citizens are increasingly self-selecting into the Republican party. The sorting out of voters along income class lines allows political parties to target loyal constituencies with changes to the ratio of indirect to direct social spending. Indirect spending redistributes both financial and social benefits to citizens in higher income brackets. Therefore, I expect Republican majorities to shift social spending from direct to more indirect policy tools.

Table 1 The Income Redistribution of Selected Tax Expenditures for Social Welfare by Income Class, 2007

Income Class	Tax Return (Average)
Medical Deduction	
10, 000& <	*NA*
10, 000 – 20, 000	$180.9
20, 000 – 30, 000	$289.7
30, 000 – 40, 000	$361.4
40, 000 – 50, 000	$479.1
50, 000 – 75, 000	$716.7
75, 000 – 100, 000	$920.4
100, 000 – 200, 000	$1, 809.6
200, 000& >	$6, 463.3
Charitable Contribution Deduction	
10, 000& <	*NA*
10, 000 – 20, 000	$91.2
20, 000 – 30, 000	$150.3
30, 000 – 40, 000	$198.2
40, 000 – 50, 000	$244.9
50, 000 – 75, 000	$363.9
75, 000 – 100, 000	$469
100, 000 – 200, 000	$837.5
200, 000& >	$4, 240.2

Source: The Joint Committee on Taxation - JCS-3-07

The majority of tax expenditures -all but refundable tax credits- have largely regressive effects on income redistribution. Since the income tax has a progressive structure, tax expenditures formulated as deductions or exclusions generally reduce the progressivity of the tax system. Tax expenditures regressively redistribute income by reducing average tax rates more for higher marginal rate taxpayers than for lower marginal rate taxpayers. For example, if a worker in the 40% bracket is allowed to exclude $10,000 from personal income, that worker receives a tax expenditure of $4,000. If a similar worker in the 20% bracket is allowed to exclude the same $10,000, the tax break is worth only $2,000 dollars. Table 1 presents the average tax returns for nine different class categories for both the medical deduction program, one of the primary tax expenditures for health care, and the charitable contribution program. The relationship between income class and indirect spending is clear. Marginal indirect expenditures for social benefits rise with each increase in income class category. Only those who itemize their personal deductions receive benefits from social tax expenditures. According to data from the I.R.S., taxpayers in higher income brackets are much more likely to itemize their deductions than those citizens in lower brackets. In addition, the use of deductions, exclusions, and exemptions excludes nontaxpayers, the poorest Americans, from tax benefits for social purposes. As of the mid-1990s, only around one in three taxpayers even itemized their taxes beyond the standard deduction. Since home ownership along with its accompanying deductions for interest and property taxes is almost essential for an individual to itemize, it is fair to say that the majority of tax expenditures for social benefits are government subsidies for wealthy, homeowners. The implications are that when social spending shifts from direct to indirect methods, the income redistribution effects associated with social policy become much more regressive.

The public and private social systems serve different populations. The beneficiaries of federal government social programs are the elderly, the disabled, the unemployed, and the poor. In addition, ethnic minorities, racial minorities, and single mothers are disproportionately represented in receiving public assistance for the poor. On the contrary, employer social benefits are biased towards workers who are White, full-time, in large companies, and high-wage earners. According to a recent study from the Congressional Research Service (CRS), in 2005 the percentage of 25 to 64 year-old workers in the private sector who participated in an employer-sponsored retirement plan was 45%. Black, Hispanic, and other non-white workers were less likely to have participated in an employer-sponsored retirement plan than white workers. In 2005, 57% of white workers participated in an employer-sponsored retirement plan, compared to 46.5% of black workers, 29% of Hispanic workers, and 48.8% of other non-white workers. The percentage of part-year or part-time workers in the private sector whose employer sponsored a retirement plan was 39.9% compared to 69.5% of full time workers. In addition, only 25.3% of workers at firms with fewer than 25 employees participated in an employer-sponsored retirement plan, compared to 45.2% of workers at firms with 25 to 99 employees and 65.4% of workers at firms with 100 or more employees. There is also a great deal of variance by income class, only 27.5% of workers whose earnings were in the lowest quartile (those under $25,000) participated in a retirement plan at work compared to 70.3% of workers whose earnings were in the top quartile (those above $60, 000). When social spending moves from direct to indirect, government subsidization shifts from more vulnerable to more privileged constituencies.

Measuring Social Spending and Partisanship

There are two questions I address by including both forms of social spending, direct and indirect, in evaluating the relationship between political parties and social policy: first, how do the two political parties differ in yearly changes to total social expenditures? And second, how does Republican party control affect changes to the ratio of indirect to direct social spending? Direct and indirect spending are the two largest categories of public expenditures for social policy that together summed to over $1.5 trillion dollars in 2006. In order to place this value in context, total U.S. budget expenditures in 2006 are listed at $2.6 trillion dollars. There are two new measurements of social policy used in this study. The first variable is a measure of annual total social expenditures that combines the data for indirect spending with direct government expenditures. The dependent variable for the regression analysis is the ratio of indirect to direct social spending represented by the annual change in tax expenditures for social programs in constant 2006 dollars over the annual change in direct appropriations for social programs in constant 2006 dollars.

I have constructed a new data set of all social policy tax expenditures, which represent indirect spending, from 1967–2006 by compiling estimates from the Joint Committee on Taxation. The JCT estimates tax expenditures in terms of revenues lost to the U.S. Treasury for each special tax provision included in the U.S. tax code. A provision has traditionally been listed as a tax expenditure if it departs from the normal income tax structure and it results in more than a de minimis revenue loss ($50 million). Under the JCT methodology, the normal tax structure for an individual includes the following: one personal exemption for each taxpayer and one for each dependent, the standard deduction, the existing tax schedule, and deductions for investment and employee business expenses. Most tax benefits to individual taxpayers can be classified as exceptions to the normal income tax law. Each tax estimate is a function of subtracting two predicted streams of revenues: predicted revenues under current law from predicted revenue under new and expanded tax provisions. According to the JCT, these estimates have been excellent predictors of actual changes in government tax receipts as calculated by I.R.S. returns.[4] The tax expenditures are organized by the JCT in the same budget categories as appropriations spending. The following budget categories from both indirect and direct spending data were selected to represent annual social expenditures: Health; Medicare; Income Security; Education, Training, Employment, and Social Services; Social Security; and Veterans Benefits and Services.

In measuring direct spending, I use appropriations data for social policy from the Policy Agendas Project. True, Baumgartner, and Jones (2007) have developed an appropriations data set back to fiscal year 1947. The use of outlays versus appropriations makes a difference in capturing political influences in the policy areas of defense and welfare. Wlezien and Soroka (2003) argue that scholars studying government spending should use appropriations spending since appropriations bills mandate the amount of budget authority to an agency or issue area and direct outlays often lag behind the appropriations decision.

The political variables of interest are Republican control of the presidency and the percentage of

[4]The federal government first began reporting tax expenditures in 1974. There were unofficial estimates generated from 1967–1972 from the JCT using similar methodology and therefore are used in this study. There was no data generated for the fiscal year 1973.

Republicans in Congress. I expect that for every unit increase in Republican party influence, for both the executive and legislature branches, there will be a corresponding increase in the ratio of indirect to direct social spending. In addition to the political variables, economic controls are included that represent standard ideas about government spending. The first economic variable is the annual percentage change in unemployment that is included given that most indirect spending is tied to employer fringe benefits. An increase in unemployment triggers public unemployment benefits so that the net effect will be a decrease in the indirect to direct social spending ratio.[5] Next, inflation affects tax expenditures by pushing people into higher tax brackets that in turn provides greater incentive for taxpayers to seek out additional tax breaks, including those for social purposes. Any unit increase in the annual percentage change for inflation should increase estimates for tax expenditures for social welfare.

The Influence of Partisan and Economic Factors on Spending

My theoretical framework suggests a certain relationship between political parties and social expenditures. The first statistical test is designed to assess the conventional wisdom concerning the relationship between political party control and total social spending. I use a two-sample difference of means test for assessing changes to annual levels of total social spending between the Republican and Democratic parties, across executive and legislative units. If traditional theories of partisanship and social spending are correct than Democratic party control will be associated with higher levels of annual social expenditures. In contrast, I predict that there will be no statistically significant difference between the two major parties in annual changes to total spending since the critical difference is over which sector to finance and not over the total level of expenditures. In addition to the difference of means tests, I ran an analysis of variance (ANOVA) to account for possible interaction effects and consider the case of divided government control.

In the second test, I use an Error Correction Model (ECM) since the relationship between political party control and spending will have both short-run and long-run effects. When there is a change in political party control there is an immediate impact in spending that will be represented in the budget and tax bills for that following year, but since many of the spending increases involve entitlements or spread spending changes out over a number of years the full effects will not be felt all at once. The expectation is that Republican party control will lead to higher ratios of indirect to direct social welfare expenditures in both the short and long runs. For the political variables of interest, I provide the long-run multiplier (LRM) that represents the total expected change in the social expenditure ratio for each unit change in Republican influence. ECMs are appropriate when using both stationary and non-stationary data and offer a conservative test of the theory (De Boef and Keele 2008).[6]

The single-equation error correction model is as follows:

$$\Delta Y_t = \alpha_0 + \alpha_1 Y_{t-1} + \beta_1 \Delta X_t + \beta_2 X_{t-1} + \epsilon_t$$

Political Party Influence and Social Expenditures

The results here indicate that political party differences on total social spending are inconclusive and that Republican control results in a trade-off of indirect for direct social expenditures. In table 2, I present results from three difference of means tests of partisan control and total spending, which is direct plus indirect social expenditures. In these tests, Republican control was dummy coded as 1 and Democratic control as zero.

[5]These numbers could be complicated by two facts: one, is that employer benefits might extend for a period past the original date of unemployment and second, the public unemployment insurance program is a joint federal-state venture.

[6]There are theoretical and statistical reasons to treat the data set as an integrated time series. First, the social expenditure ratio is composed of two spending data sets both of which are non-mean reverting. The numerator value is a function of the annual changes to indirect spending. These changes are produced by permanent changes to the tax code and therefore cannot be mean-reverting. The denominator is a function of annual changes to direct spending in the budget process that is determined by the previous year's estimates and therefore is a strictly cumulative process. In order to check the validity of theoretically integrated data, I ran multiple Augmented Dicky Fuller tests (ADF) with a constant, a time trend, and one lag for three measures: annual direct social spending, annual indirect social expenditures and the social spending ratio. Not one of these measures reported a negative value less than −3.50 so the null hypothesis of a unit root can not be rejected. Although the number of observations is small, these results confirm the theoretical argument for an integrated times series. I ran this analysis with an Engle and Granger two-step method and produced the exact results as with the one-step model. Additionally, I ran the model absent the data on social security, to determine if this one program was driving the results, and the same variables in the ECM were statistically significant and in the right direction. Finally, I ran a model subtracting tax expenditures that contribute to tax-free public social benefits and the results were nearly identical to the original model.

Table 2 The Percentage Change in Total Social Spending Between the Republican and Democratic Parties, 1967–2006

Institution	Democratic	Republican	T Score	P-value
Presidency	.045 (.008)	.051 (.011)	−0.371	.712
House	.051 (.011)	.044 (.003)	0.364	.717
Senate	.051 (.014)	.046 (.005)	0.293	.770

Note: N= 39, standard errors in parentheses.

Table 3 The Annual Change in the Ratio of Indirect to Direct Social Spending, 1967–2006

Independent Variable	Coefficients
Short-Term (Immediate) Effects	
Δ Republican President$_t$	.020 (.011)
Δ Republican Congress$_t$	.145* (.108)
Δ Unemployment$_t$	.004 (.007)
Δ Inflation$_t$	.002 (.002)
Long-Term Effects	
Republican President$_{t-1}$	−.007 (.012)
Republican Congress$_{t-1}$	.199* (.085)
Unemployment$_{t-1}$	.014* (.004)
Inflation$_{t-1}$	.004 (.003)
Error Correction Rate	
Δ Social Expenditure Ratio$_{t-1}$	−.285* (.111)
Constant	−.103* (.067)
Long-Run Multiplier	
Republican President	−.026 (.049)
Republican Congress	.700* (.313)
N	38
Adj. R^2	.361

Note: Entries are OLS estimates with standard errors in parentheses.
One-Tailed Significance Levels: *$p \leq .05$

The dependent variable is the annual percentage change of total social spending in constant 2006 dollars. As the p-values indicate, there is no statistically conclusive relationship between Democratic control of government and greater changes to the annual percentage change for social expenditures. This is true across all three institutions of the federal government. Although not reported in table form, I additionally ran an ANOVA with partisanship as a scaled variable to test for interaction effects, with three equating to total Republican control, two and one as divided control, and zero as total Democratic control. Again, there was no statistical difference with the partial sum of squares coefficient at .000, the p-value at .968, and a standard f-value of .05.[7]

The ECM results indicate that as the Republican party gains institutional influence social financing moves from direct spending to indirect subsidies for the private market. It is clear from the results in table 3, that more Republican influence in the legislative branch relates to higher ratios of indirect to direct spending in both the short-term and long-term. A one-unit increase in the percentage of Congressional Republicans will produce an immediate increase in the ratio of indirect to direct social spending of 0.145 for the next fiscal year. Over the long-run, this initial increase in the indirect to direct ratio is augmented, mainly due to the entitlement nature of tax expenditures, by an even larger magnitude of 0.199.[8] I find that Republican presidents increase the spending ratio towards more indirect spending in the short-run with a coefficient of 0.020 but the long-run impact in negative and all values are not statistically significant from zero. In total and as predicted, the Republican party produces social spending ratios that select higher levels of indirect social spending as compared to direct spending. The error correction rate adjusts at a modest rate of –.285.[9] This gradual movement in the spending ratio is indicative of both the steady growth of direct entitlement expenditures and the staggered design of tax expenditures that spread out increases over a number of years.[10]

[7] I ran this another way interacting the dummy variables so that the full model had the three original dummies and three more representing the presidency times the house, the presidency times the senate and the house times the senate again with the same results. Finally, I ran an ANOVA model that looked at only the differences in social spending the year after a switch in party control. Again, the same results were produced - no statistically significant difference between the political parties in total social expenditures.

[8] The social expenditure ratio variable has a range of .002 to .213.

[9] As to better understand the dynamics of the ratio measure, I ran two other models that treated indirect and direct social spending as sperate dependent variables. In the model that evaluated political party effects on direct spending, the short-term variables of interest perform as expected with an increase in Republican influence resulting in a decrease in social expenditures. In the long-term, Republican control correlates with positive increases to direct expenditures due to the growth of health care costs and entitlements. For the indirect spending model, three of the four variables of interest were signed in the right direction with Republican influence correlating with increased levels of indirect social spending. Only the long-term effects of a Republican presidency were negatively associated with indirect spending, yet this estimate was not statistically different from zero.

[10] I ran two other models that produced similar results: one, with the ratio of indirect to direct social spending represented by the percentage annual change in tax expenditures for social welfare over the annual percentage change and second, with tax expenditures as a percentage of total social spending. The difference between this last model and the one reported is just scale with one range between zero and infinity and the other between zero and one.

In the dynamic parts of the model, the total influence of Republican control of the presidency is negative and not statistically significant. In contrast, the total impact of an increase in Republican members of Congress has a sizable effect of .700 and is statistically significant. When Republican control of the legislature results in new or expanded indirect spending measures these programs are on ''autopilot'' since any taxpayer who qualifies can claim them and there is no annual review process.[11] There is a possibility that changes to social spending are determined by economic conditions. An increase in unemployment should decrease the amount of tax expenditures for social welfare since these rely on employment contracts. The results here indicate that unemployment has no short-term effect but influences the social spending ratio in the long-term with a coefficient of 0.014 that is statistically significant. The coefficients for both short and long run inflation were small and not statistically different from zero. To summarize, the results presented here confirm the hypotheses that under Republican leadership, exercised mainly by the Congress and not the President, indirect spending is utilized instead of direct spending.[12]

The totality of these results lend credence to the earlier argument that the primary divide between the two parties is not over support for social policy or the size of government but more importantly which sector, public or private, receives government resources and jurisdiction to administer and provide social benefits and services. The significant long-run effects show that the Republican party makes permanent changes to tax entitlement spending in an effort to move people away from relying on the state for social benefits to the market. Over a period of time, as citizens increasingly rely on the performance of the economy or the stock market for social insurance there is a possibility that political attitudes in the general electorate will grow more economically conservative.

Party Control, Social Policy, and Policy Feedback

The results presented here have several important implications for political parties, public policy, and economic conditions. First, the traditional narrative of Democratic party control of the federal government resulting in higher levels of social spending needs to be reconsidered. If social policy is measured by both major means of financial allocation, direct and indirect expenditures, than the two major political parties allocate similar amounts of public resources towards social programs. Republican party leaders often claim the distinction as the party of smaller government. However, social spending over the last 40 years grows on average around 5% a year regardless of which political party is sitting in the majority. Lowi (1969) was correct in that the two major political parties have positive inclinations towards government spending and the only difference that comes with changes to party power is who receives public monies. Next, an increase in indirect social spending has the same budgetary effect as direct social spending. For example, an increase in tax expenditures for private health care insurance that costs the Treasury $100 million dollars has the exact same effect on the budget deficit as a newly proposed public health insurance option that is projected at $100 million dollars. Therefore, any serious attempt to address the intractable problem of the rising federal debt must include the entitlement nature of both direct and indirect social spending. One major implication of these findings is that the jurisdiction of social provision, not the financial effort, shifts with changes to political party control of government. Future research on public opinion, interest groups, and political parties would benefit from operationalizing public policy as a choice of policy instruments instead of just changes to the level of appropriations. The federal government is heavily involved in subsidizing private organizations and activities. The use of alternative policy tool data open up other dimensions to government involvement in the economy and income redistribution. As evidenced from this study, the use of tax expenditure data opens up another dimension of government involvement in both the economy and income redistribution.

Numerous studies have found that Republican control of government increases economic inequality

[11] I ran two other models: one that represented Republican control by dummying up the Presidency, the House of Representatives and Senate. The other model used the three previous dummies and created three more variables by interacting the Presidency and the House, the Presidency and the Senate and the House and Senate. In both of these models the results mirrored those of the reported ECM - Republican control of the executive matters and control of the legislature matters more. In the first model with just the three dummied variables, Republican control of the Senate reported a higher coefficient than the House but both were significant. Also, a model was run subtracting the EITC credit, which is not a regressive program, and the results of Republican control were strengthened. In addition, a model was run with taking out Medicare Part D, which is partly private, and the initial results still held.

[12] I tested for residual autocorrelation using a Breusch-Godfey LM with two lags. The p-value was .832 with the null hypothesis being no autocorrelation.

through changes to fiscal policy and the macroeconomy (Jacobs and Skocpol 2005; Kelly 2005; Bartels 2008). The use of indirect social spending by the Republican party could well be a significant contributor to the recent rise in income inequality. Publicly-provided social benefits in the United States, and in most industrialized countries, are designed with particular emphasis on society's most vulnerable populations. The great irony of using the tax code to provide economic security is that the vast majority of tax expenditure programs accrue more money to the wealthiest and most financially secure citizens while offering nothing to the poorest. Not only do wealthier groups benefit financially from indirect spending but the employer-benefits being subsidized are unevenly distributed among the working population. As a result, the choice to increase indirect social spending at the expense of direct spending is a decision to fund social policy for the privileged over the disadvantaged.

Indirect and direct social spending follow different policy paths, finance different social providers, and have different policy effects. The policy process of indirect spending has been qualified in past studies as "hidden", "shadow", or "subterranean" (Howard 1997; Gottschalk 2000; Hacker 2002). Indirect expenditures are passed "off-budget" through tax legislation and therefore are not subject to the annual review of the appropriations process. As opposed to the interest group acitivity surrounding public social programs, tax expenditure programs are lobbied for on the *supply side:* by the private providers of social insurance and the companies that offer employee benefits. Finally, the move towards more indirect spending that privileges private-sector social provision, over government bureaucracy, produces "litigious policies" that both lower the costs and raise the benefits of addressing grievances through the court system (Burke 2002). I hope that future research confronts the numerous and varying policy effects that accompany the choice between indirect and direct government spending.

Acknowledgments

I would like to thank the following people for their advice and consultation on this article: Frank Baumgartner, Thomas Carsey, Christopher Ellis, Virginia Gray, Michele Hoyman, and James Stimson.

Manuscript submitted 5 June 2009
Manuscript accepted for publication 25 January 2010

References

Adema, William, and Mazime Ladaique. 2005. *Net Social Expenditures, 2005 Edition More Comprehensive Measures of Social Support*. Organisation for Economic Co-operation and Development, Employment, Labour and Social Affairs Committee.

Bartels, Larry M. 2008. *Unequal Democracy: The Political Economy of the New Gilded Age*. Princeton: Princeton University Press.

Blais, Andr, Donald Blake and Stphane Dion. 1993. "Do Parties Make a Difference? Parties and the Size of Government in Liberal Democracies." *American Journal of Political Science* 37 (1): 40–62.

Blais, Andr, Donald Blake and Stphane Dion. 1996. "Do Parties Make a Difference? A Reappraisal." *American Journal of Political Science* 40 (2): 514–520.

Burke, Thomas F. 2002. *Lawyers, Lawsuits, and Legal Rights: The Battle Over Litigation in American Society*. Berkeley: University of California Press.

Burman, Leonard E., Christopher Geissler and Eric J. Toder. 2008. "How Big Are Total Individual Income Tax Expenditures, and Who Benefits from Them? " *American Economic Review* 98 (2):79–83.

Clausen, Agge. 1973. *How Congressman Decide: A Policy Focus*. New York: St. Martins Press.

Cooper, Joseph, and Gary Bombardier. 1968. "Presidential Leadership and Party Success." *The Journal of Politics* 30 (4): 1012–1027.

Cox, Gary W., and Matthew D. McCubbins. 1993. *Legislative Leviathan: Party Government in the House. Berkeley*: University of California Press.

De Boef, Suzanna, and Luke Keele. 2008. "Taking Time Seriously". *American Journal of Political Science* 52 (1):184–200.

Erikson, Robert S., Michael B. MacKuen and James A. Stimson. 2002. *The Macro Polity*. New York: Cambridge University Press.

Feldman, Stanley. 1988. "Structure and Consistency in Public Opinion: The Role of Core Beliefs and Values." *American Journal of Political Science* 32 (2):416–40.

Fellowes, Matthew, and Gretchen Rowe. 2004. "Politics and the New American Welfare States." *American Journal of Political Science* 48 (2):362–373.

Gottschalk, Marie. 2000. *The Shadow Welfare State: Labor, Business, and the Politics of Health-Care in the United States*. Ithaca: Cornell University Press.

Hacker, Jacob S. 2002. *The Divided Welfare State: The Battle over Public and Private Social Benefits in the United States*. New York: Cambridge University Press.

Howard, Christopher. 1997. *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States*. Princeton: Princeton University Press.

Huber, Evelyne, and John D. Stephens. 2001. *Development and Crisis of the Welfare State: Parties and Policies in Global Markets*. Chicago: University of Chicago Press.

Jacobs, Lawrence, and Theda Skocpol. 2005. *Inequality and American Democracy: What we know and what we need to learn*. New York: Russell Sage Foundation.

Jacoby, William G. 2006. "Value Choices and American Public Opinion" *American Journal of Political Science* (50) 3: 706–723.

Joint Committee on Taxation. 2007. *Estimates of Federal Tax Expenditures for Fiscal Years 2007–2011*. Washington: U.S. Government Printing Office.

Joint Committee on Taxation. 2008. *Estimates of Federal Tax Expenditures for Fiscal Years 2008–2012*. Washington: U.S. Government Printing Office.

Keele, Luke, and Jennifer Wolak. 2006. "Value Conflict and Volatility in Party Identification." *British Journal of Political Science*, (36) 4: 671–690.

Kelly, Nathan J. 2005. "Political Choice, Public Policy, and Distributional Outcomes." *American Journal of Political Science* 49 (4): 865–880.

Kettl, Donald F. 1997. "The Global Revolution in Public Management: Driving Themes, Missing Links." *Journal of Policy Analysis and Management* 16 (3): 446–462.

Kiewiet, D. Roderick, and Mathew McCubbins. 1991. *The Logic of Delegation: Congressional Parties and the Appropriations Process*. Chicago: University of Chicago Press.

Lowi, Theodore. 1969. *The End of Liberalism: Ideology, Policy, and the Crisis of Public Authority*. New York: WW Norton.

McCarty, Nolan, Keith T. Poole, and Howard Rosenthal. 2006. *Polarized America: The Dance of Ideology and Unequal Riches*. Cambridge: Massachusetts Institute of Technology Press.

Maio, Gregory R., and James M. Olson. 1998. "Values as Truisms: Evidence and Implications." *Journal of Personality and Social Psychology* 74 (2):294–311.

Peffley, Mark, Pia , Kniggie, and John Hurwitz. 2001. "A Multiple Values Model of Political Tolerance." *Political Research Quarterly* (54) 2: 379–419.

Poole, Keith, and Howard Rosenthal. 1997. *Congress: A Political-Economic History of Roll-Call Voting*. New York: Oxford University Press

Poole, Keith, and Howard Rosenthal. 2001. "D-NOMINATE after 10 Years: A Comparative Update to Congress: A Political-Economic History of Roll-Call Voting." *Legislative Studies Quarterly* 26 (1): 5–29

Purcell, Patrick. 2008. "Pension Sponsorship and Participation: Summary of Recent Trends." *Federal Publications*: 543.

Ripley, Randall B. 1969. *Majority Party Leadership in Congress*. New York: Little Brown.

Salamon, Lester M. 2002. *The Tools of Government: A Guide to New Governance*. New York: Oxford University Press.

Sundquist, James L. 1973. *Dynamics of the American Party System*. Washington, DC: Brookings.

True, James L., Frank Baumgartner, and Brian Jones. 2007. *Historical Budget Records*. Policy Agendas Project.

Wlezien, Christopher, and Stuart N. Soroka. 2003. "Measures and Models of Budgetary Policy." *Policy Studies Journal* 31 (2): 273–286.

Christopher Faricy is an assistant professor at Washington State University, Pullman, WA 99164.