



*from the President*

## **Reflections on a Polarized America: Partisan Rancor and Development in the United States**

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Although they debate its depth and severity, political scientists, historians, sociologists, public intellectuals and pundits tend to agree that American politics and government have become more polarized over the past twenty five years. Partisan rancor has increased; what’s more, Republicans and Democrats have become anchored in distinct regions, states, and communities: the Republicans in the Southern, Border, and Mountain states, especially in small towns and “exurban” enclaves; the Democrats along the two coasts, especially in the major metropolitan areas. These regional, state, and community differences have been reinforced by changes in government, which have led to intense partisan differences within Congress as well as between the legislature and White House. Notably, as former Supreme Court Justice, Sandra Day O’Connor lamented in a recent speech, “hyperpartisanship” has also deeply implicated the courts; arguably,

no issue in contemporary American politics so arouses conflict between Democrats and Republicans as judicial politics.<sup>1</sup>

On most accounts, the division between “Red” and “Blue” America is a blight on America’s tradition of constitutional government. Partisan rancor, several experts argue, threatens the division and separation of powers by subordinating the institutional integrity of the three branches of government, as well as the system of federalism, to partisan discipline. Moreover, those pundits and scholars who see party polarization resting in fundamental principles fear that the popular consensus necessary to sustain responsible constitutional government, requiring a citizenry that celebrates individual rights and the separation of church and state, has been eroded by “culture wars”; the “two Americas,” they claim, have been divided on

### **In this Issue**

<i>From the President.....</i>	<i>1</i>
<i>From the Editor.....</i>	<i>2</i>
<i>Peter Swenson on Medicare.....</i>	<i>3</i>
<i>Politics &amp; History Officer Nominations.....</i>	<i>3</i>
<i>Short Course at the 2006 APSA .....</i>	<i>4</i>
<i>The 2006 APSA Program.....</i>	<i>5</i>
<i>2007 APSA Call for Papers .....</i>	<i>8</i>
<i>2007 Western PSA Call for Papers .....</i>	<i>12</i>
<i>2006 Midwest PSA Abstracts.....</i>	<i>12</i>
<i>2006 Western PSA Abstracts.....</i>	<i>18</i>
<i>Journalscan.....</i>	<i>21</i>
<i>Booknotes.....</i>	<i>32</i>
<i>Bookscan.....</i>	<i>34</i>
<i>Carl Albert Center Visiting Scholars.....</i>	<i>38</i>

*continued on page 44*

## **B is for Byrnes and Business: An Untold Story about Medicare**

Peter A. Swenson, *Yale University*

(We invited Professor Swenson to comment about his work. His article, “Varieties of Capitalist Interests: Power, Institutions, and the Regulatory Welfare State in the United States and Sweden,” in *Studies in American Political Development* [18:1, Spring 2004: 1-29] received the 2005 Mary Parker Follett award from the Politics and History section).

Before and since researching “Varieties” I have also been involved in a new project – the comparative history and political economy of health care. A distinct and intriguing aspect of health insurance is the controversy it generates not just about quantities – costs and distribution – but also about qualities. How much can or should be rationed for health services of different kinds, from competing providers, and for different people depends in part how *good* it is. Resources squandered on unnecessary and often injurious clinical and surgical practice are resources diverted from other social needs. Because the quality of much medical care is contestable even within the medical profession — and what to do about it even more so — complex power and distributional struggles between providers and purchasers are central to the progress of medicine.

This current research is in a way only a stone’s throw from my earlier work on the role of capital and labor in the shaping of welfare regimes. Big business and big labor – organized purchasers — share a compelling interest in influencing the behavior of providers, especially if they believe that much of everyday clinical practice is fraudulent, wasteful, harmful, and even fatal. Today, evidence about untested, ineffective, and bad medicine is good and plentiful; much of the most influential exposes of bad medicine, including the pharmaceutical kind, comes from top-flight medical scientists at elite institutions like the Institute of Medicine and in influential forums like the *New England Journal of Medicine*.<sup>1</sup> Even if medical technology and clinical practice improve over time, it also gets more expensive. So the motive to root out waste grows. And conflict remains a constant.

*continued on page 39*

## **Politics and History Nominations for Section Officers, 2006-2007**

The Nominating Committee for section officers for 2006-2007 was chaired by Sid Milkis and included Desmond King, David Vogel, Suzanne Mettler, and Victoria Hattam. Professor Hattam was chosen last year as President-Elect, and under the section bylaws, she automatically assumes the presidency at the 2006 section Business Meeting.

President-Elect:

**Kathleen Thelen**, Northwestern University

New Council Members, full 2-year term:

**Daniel Tichnor**, Rutgers University  
**Dorian Warren**, Columbia University  
**Adam Sheingate**, Johns Hopkins University  
**Eric Patashnik**, University of Virginia

Section by-laws provide for challenges by petition prior to the section meeting. The Nominating Committee should receive any petitions prior to August 10, 2006. The by-laws do not permit challenges from the floor to be entertained during the business meeting, which will be held at the Philadelphia APSA meetings on Friday at 6:00, followed by a reception at 7:00 pm.



A first installment in my long-term project is an article in *Health Care Politics, Policy and Law* arguing that the momentum in Congress behind the Clinton plan in the 1990s flagged when and because big employers began losing interest. At the outset many employers thought the Clinton plan would help cut costs and slow their increases by imposing managed competition over purchasers and patients on a quality as well cost basis. Resources saved could help pay for expanding access. Quality, economy, and equality would all be served.

But during the course of the debate, inflation in employer health costs fell precipitously. Because of “managed care” – or at least aggressive purchasing – employers concluded they were fixing things on their own without government help. So the Clinton plan stalled in Congress.<sup>2</sup> Then came the counterrevolution — the patients’ rights movement and retaliatory organization of providers — and revived inflation. Even organized labor, once allied with managed care (pre-paid, non-profit group practice of the Kaiser Permanente variety), turned against it. Doctors credibly blasted “mangled care” in its new, and flawed, profit-based incarnation. The press — and as Aetna CEO Jack Rowe often points out, Hollywood — helped spread the bad news (remember *As Good as it Gets* with Jack Nicholson and Helen Hunt and *John Q.* with Denzel Washington). Employers and insurance companies had relied more on blunt instruments of cost control (discounts, pre-approvals, and restrictions) and not on *cost-effectiveness through quality control*. Thus they betrayed the promise of earlier non-profit group health plans around the country that delivered good care at low cost.

I have also been back and forth to Germany to research the same issues, with the plan of developing two comparative-historical accounts (the first, on America, to be entitled *The Political Transformation of American Medicine*). Recent legislation is moving Germany toward regulated competition among managed caregivers. Organized labor and capital are collaboratively driving the transformation, much to the chagrin of organized medicine.

Historically health care has been more even more polarizing in Germany than here. Not long after the passage of the Bismarckian health insurance legislation in 1883, relations between doctors and the two main health fund systems (separately controlled

by big employers and unions) suffered recurrent inflammation. Deep conflicts over professional autonomy and fees help explain why physicians (the non-Jewish ones) were, by a clear stretch, the occupational group most likely to vote for and join the Nazi party. Politically orphaned, they saw all the core parties of Weimar democracy, including the Catholic Center Party (whose allied unions controlled some of the funds), as collaboratively hostile to the medical profession. Even the German National People’s Party, doctors’ traditional political home, served an enemy: big industry’s health funds, the most important, of course, being Krupp, the colossal steel and armaments company, which dominated the association of company funds.<sup>3</sup>

Dramatic changes in Weimar health policy show that that cross-class alliances between capital and labor influence health care just as they do other aspects of welfare state development.<sup>4</sup> Another place I have recently found them is in the American system of health insurance for retirees, passed in 1965. Here the class interests partly concerned quality, which is sometimes forgotten. Capital and especially labor – given unions’ wartime and growing postwar experience insurance in general and prepaid group practice in particular — were largely unmoved by the various disingenuous, paranoid, and demented claims of the medical profession that compulsory health insurance would enslave doctors, ruin our health, and kick us down the slippery slope from socialism to communism.

As I began to study the U.S. case it puzzled me that the story of Medicare’s “Part B” and the man behind it, Wisconsin Representative John W. Byrnes, has never been adequately told. (Part B pays for doctors’ services out of general revenues, Part A pays for hospitalization out of payroll taxes.) As a Republican and the ranking minority member of the House Ways and Means Committee (W&M), Byrnes held standard conservative views. Early in 1965, he submitted a bill endorsed by the Republican leadership as a comprehensive substitute for the King-Anderson Medicare bill coming out of W&M. Within months, part of his bill became Part B of Medicare.

What is puzzling is that the Byrnes bill was, on the whole, from a liberal standpoint, superior. While King-Anderson covered only hospitalization, the Byrnes bill covered hospitalization *and a lot more*: outpatient medical services (including

pharmaceuticals) and unskilled nursing care. Byrnes's bill, supported by the rest of the House Republicans, differed significantly from the Democrats' because of its semi-voluntary element, and only in this sense it was less "liberal." The elderly retired could opt out of coverage and therefore skip paying the modest premiums proposed. But because the standard premiums were heavily (two-thirds) subsidized, experts counted on participation to be around ninety per cent. One would be either very rich, very poor, or a fool not to sign up.

The Byrnes bill was at least as liberal as King-Anderson, if not more so, because of its financing. The compulsory King-Anderson plan called for semi-regressive payroll taxes. Byrnes vehemently criticized the King-Anderson bill for relying on "the most regressive tax we have" and unfairly forcing low-pay employees to pay for hospitalization of wealthy patients who either paid nothing into the system or paid a smaller share of their income.<sup>5</sup> In Byrnes's plan, many low-pay workers would pay none of the income taxes required for its financing. And their premiums were to be progressive, starting at a modest \$4.00 per month.

There are no historical treatments of Medicare that penetrate the Byrnes mystery. Accounts by Harris, Marmor, and Zelizer are essential, but do not dwell on the very attractive features of the Byrnes bill. A book by the HEW's chief actuary Robert J. Myers, who along with Aetna actuary Dan Pettingill and Congressional Research Service staff member Fred Arner assisted Byrnes with his bill, is tight-lipped about what he knew, which is probably a lot. Recent books by Oberlander and Quadagno only glancingly mention Byrnes. Sometimes he is forgotten entirely, for example in otherwise valuable books by Starr, Jacobs, Hacker, and Gordon.<sup>6</sup>

Accompanying my puzzlement about this liberal and comprehensive Republican initiative was the suspicion that there might be an interesting business back-story. To be sure, I didn't expect to find business pressure on Byrnes. My earlier research indicated that progressive initiatives do not as a rule come directly from businessmen and their organizations. But I did think I might find something. My suspicion about the interests of business and puzzlement about the historiographical silence were related. Most accounts of Medicare's history are written, I believe, by people who start with the

presumption that the American welfare state was built with good liberal intentions for mass electoral constituencies, and opposed at every step by conservatives and their core constituency, business. For this reason, perhaps, they didn't look around for other possibilities.

One place they couldn't have looked until recently was John Byrnes's papers because they were just opened to the public in January 2005. What I found there was eye opening. In a letter to Byrnes dated 22 February 1965, M. E. Feary, chairman of the Sub-Committee on Public and Private Benefits of the National Association of Manufacturers (NAM), thanked Byrnes for presenting his proposal to the committee and listening to their reactions. He summed up, praising various features of Byrnes's plan, including its pay-as-you-go financing out of general revenues, which were superior to King-Anderson and which "I personally believe can be strongly supported by industry."<sup>7</sup>

But there was already related evidence available. In a 1967 interview, Byrnes said that big employers like GM, Ford, and GE were unconcerned about Medicare, even the King-Anderson version. "They didn't get excited one way or the other," Byrnes said. "They weren't opposed . . . because they were already [paying retiree health costs], and it would have relieved them." The employers even thought they "might come out better in the long run."<sup>8</sup>

Because Byrnes's "Bettercare" would be paid for out of general revenue, it would actually have eased the burden on these big employers (and their workers) even more than the administration bill. It would spread the burden onto others and cushion the remaining burden by making it vary with productivity and profits. To almost everyone's surprise, Wilbur Mills – who we know was no enemy of business – jumped on Byrnes's idea, taking the medical services piece of it and adding it to the administration bill, calling it Part B. He also added the old Kerr-Mills idea of means-tested medical and hospital assistance to the poor, turning Medicare into the fancy "three-layer cake" that it came to be called.

Mills wanted, as Marmor quotes him saying, "to build a fence around the Medicare program" with Part B. That was exactly what Byrnes had wanted to do with his bill – to protect Social Security from politically uncontrollable and economically damaging pressures to raise payroll taxes coming out of a medical sector eager for more income and fiercely

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resistant to any third-party efforts to control its growth. The alternative was just as bad — cut Social Security’s cash benefits. Thus getting his ideas incorporated into Part B (“They should have named it the Byrnes portion, I guess,” Byrnes said<sup>9</sup>) was at least a partial victory, both for Byrnes and for big business, measured against doing nothing and even against the King-Anderson bill.

Mills’s move in response to Byrnes, everyone agrees, was a stroke of genius. To John Manly he claimed that if W&M had gone ahead and reported King-Anderson, “which is what they would have done if I hadn’t stepped in, Byrnes motion [to recommit King-Anderson back to W&M] would have passed.” He would then have had two choices: block Medicare yet again or report something like the Byrnes bill to the floor. In the first case, the Democratic Party would suffer at the polls for rejecting a bill that was more comprehensive and probably fairer than King-Anderson. In the second, Republicans would get credit for Medicare if it passed the House and the Senate, and Democrats would suffer if it didn’t.<sup>10</sup>

Mills was modest about his brilliance in public, but certainly not in private. On the floor of the House he claimed Part B was a product of Byrnes’s “fertile brain”; privately he claimed he had been exploring similar ideas with the same people as Byrnes. But supposedly he wanted Byrnes to move first. In an interview with John Manley at the time, he said he had asked Byrnes “Look, you don’t like this plan [King-Anderson] so why don’t you see if you can come up with another one?” In the end: “Actually John and all the others played right into my hands.”<sup>11</sup>

What do these new facts tell us about the role of big business in Medicare? At a minimum we can conclude that if very liberal legislation like the Byrnes bill could meet with business praise, the passage of health insurance for retirees in America was hardly a victory of labor and liberals over big business. There is no evidence for anything like a shift in a “balance of power” against capital, despite the oft-cited Congressional testimony of organizations like the U.S. Chamber of Commerce and the NAM. In fact, these organizations did not show up in Congress to testify against the Mills bill as they had against King-Anderson. Thus there is at least

suggestive evidence of an *interest shift* and thus cross-class realignment of interests in favor of something like Medicare.

If a Byrnes-like bill had been crafted and passed by Democrats, which is easily imaginable, it would now show up in history books as yet another liberal victory against the usual reactionary suspects. Indeed, William Quealy, W&M minority counsel and a main progenitor of the Byrnes bill, claimed to know that LBJ thought the Byrnes bill was so good that he rather wished that HEW’s Wilbur Cohen had thought of it first. It was just too late to derail the King-Anderson train without Republicans getting credit. It delighted Quealy to see the Democrats squirm.<sup>12</sup>

There is, to be sure, no evidence that American capitalists were dictating to Byrnes or driving Medicare. This is not an “instrumentalist” story in which big business pulls the strings, or even a pressure group story in which business pushes harder than the rest. The key instrumental actors were presidents and Congressmen. The drivers of legislation were growing popular pressures in response to increasing life expectancy and rising medical costs, not business demands. But a decisive constituency for the politicians was also big business. In general, according to Byrnes, W&M had a lot of people to consider, among them “sophisticated business and finance men who follow W&M closely.”<sup>13</sup>

Interestingly Byrnes did almost nothing, he said, to bring organized business around to support his plan officially. Not because they were beyond persuasion, but because they couldn’t be turned around fast enough. Their official meetings for approving major policy shifts were too few and far between. (There are also other reasons for taking business organizations’ pronouncements with a grain of salt.<sup>14</sup>) Thus most of his persuasive efforts were directed toward fellow Republicans. One way he did this was to arrange the above-mentioned meeting with the NAM subcommittee, which then generated the letter of approval that Byrnes distributed to fellow Republicans on W&M.

What is important to note is that Byrnes first assured himself and then fellow Republicans that what they were doing was good for business, and would be considered as such *after the fact*, even as

he rushed to satisfy an immensely popular cause when its time had clearly come. (Byrnes had other good reasons for abandoning his old views and accepting strong and expensive federal action: Quealy persuaded him that the private insurance industry would never come up with affordable individual policies for the elderly.<sup>15</sup>)

Thus two of Congress's most powerful politicians took major capitalist interests into account in designing and passing Medicare. In that sense capitalist power was at work simply because politicians like Mills and Byrnes, who got their way first in resisting reform and then turning it in both a more employer-friendly and a more progressive direction, felt they needed to please capitalists. Politicians bend to capitalist power even in the absence of immediate lobbying or pressure. Consider their incentive to keep business money flowing into next election year's campaign treasuries.

I want to repeat and emphasize the nature of my claims because criticism of my earlier work misses the mark by implicitly or even explicitly construing my argument as crudely instrumentalist: Capitalists "drive" welfare reform, I allegedly argue, and so, despite emphasizing cross-class alliances, leave out labor, liberals, Social Democrats and everyone else. To repeat: My argument only relies on decisive reform politicians' prior efforts to establish in their own minds some reasonable assurance that what they are up to is not bad for capitalists, or even good for them, and will be accepted as such. That is to say they want, as a rule, to avoid a costly backlash from powerful capitalist interests. The initiative-taking instrumental actors are politicians who want to serve a broad alliance of interests, including those of business.

Confidence that Medicare supports these conclusions is heightened by what we know from earlier periods of welfare state development. As I argue in my book and in "Varieties," the Old Age Insurance portion of the SSA bailed out many employers who had made unfunded and therefore unaffordable promises to their workers. The New Dealers knew that what employers could buy in the 1930s on the private insurance market to back up their promises would cost more than the anticipated social security taxes. So did personnel executives of major corporations in the American Management Association. They knew because FDR's experts,

closely tied to the business community, made sure of it.

Events after Medicare also bolster these conclusions. Absorption of health costs for retirees, not just managed competition, was a key element in Bill Clinton's plan to build a cross-class coalition in the 1990s. Because of early retirement and gaps in Medicare coverage, many employers across the country had gotten themselves into deep trouble with supplementary retiree health benefits. For this reason, much of Clinton's early, explicit support came from rust-belt industries like steel and autos.

Enter George W. Bush and Medicare Part D. The biggest expansion of the American welfare state in decades — Medicare's new prescription drug benefit — will bring vast new profits for drug companies. It will also be, according to Clifford Levy of the *New York Times*, "a boon to companies eager to trim soaring drug costs for retirees." A big supporter of the legislation, which promises \$41 billion in subsidies over ten years for employers with retiree drug coverage, was the Employers' Coalition on Medicare, including the National Association of Manufacturers and individual corporate members like Caterpillar and Goodyear. Big business support for expansion of the welfare state has roiled relations in the Republican Party. One faction supported front-runner Roy Blunt of Missouri for the House leadership, a leader in the fight for the Medicare reform and a supporter of a "more free-spending party in line with the demands of business."<sup>16</sup>

It is a common misconception that welfare reform passes only against the interests of corporate America. But social welfare is often corporate welfare. Strange bedfellows can give birth to strange reforms. To switch metaphors: It was Bismarck who compared the legislative process to the nightmare-inducing sight of sausage making. That was how he experienced the redesign of his health insurance legislation (supported by big business) before it came through the Reichstag in 1883. From then it took eighty-two years before passage of the first piece of national health insurance in America. A strange "three-layer cake" maybe, with Part B in the middle, but not an unappetizing one. But Part D, the new layer on top, is more like sausage.<sup>17</sup>

*ACKNOWLEDGEMENTS AND NOTES  
ARE ON THE FOLLOWING PAGE*

*Author's note:* I would like to thank John Manley for kindly making his interviews available to me, and Ted Marmor, David Mayhew, Steve Teles, and Julian Zelizer for helpful comments.

#### Endnotes

1. See for example, *To Err is Human: Building A Safer Health System* (Washington DC: Institute of Medicine, 2000), which broke the stunning news that up to 98,000 Americans die annually from medical errors, and the Rand Corporation study, "The Quality of Health Care Delivered to Adults in the United States," *New England Journal of Medicine* 348: 26 (June 26, 2003), which found that 36% of elderly patients sampled did not receive pneumonia vaccine, resulting in 10,000 deaths annually, and less than 65% received indicated care for hypertension, resulting in 68,000 deaths. Overall, physicians follow best practices only about 50% of the time.
2. Peter Swenson and Scott Greer, "Foul Weather Friends: Big Business and Health Care Reform in the 1990s in Historical Perspective," *Journal of Health Politics, Policy, and Law* 27:4 (August 2002).
3. See my "Capital, Labor, and Medicine in Germany," in Ian Shapiro, Peter Swenson, and Daniela Donno, eds., *Divide and Rule: The Politics of Distribution in Democracies* (manuscript).
4. In *Capitalists against Markets: The Making of Labor Markets and Welfare States in the United States and Sweden* (New York: Oxford University Press, 2002), and "Arranged Alliance: Business Interests in the New Deal," *Politics and Society* 25:1 (March 1997), I argue on the basis of historical evidence from the U.S. and Sweden that successful reform politicians strategically shape and time policies so as to anchor them in broad based supportive alliances after passage. Politicians, not cross-class alliances, are the agents of passage.
5. *Congressional Record*, April 7, 1965, 7223.
6. Richard Harris, *A Sacred Trust* (New York: New American Library, 1966); Theodore Marmor, *The Politics of Medicare* (New York: Aldine de Gruyter, 2000), Julian E. Zelizer, *Taxing America: Wilbur D. Mills, Congress, and the State, 1945-1975* (Cambridge: Cambridge University Press, 2000); Robert J. Myers, *Medicare* (Homewood IL: Irwin, 1970); Jonathan Oberlander, *The Political Life of Medicare* (Chicago: University of Chicago Press, 2003); Jill Quadagno, *One Nation Uninsured* (Oxford: Oxford University Press, 2005); Paul Starr, *The Social Transformation of American Medicine* (New York: Basic, 1982); Lawrence R. Jacobs, *The Health of Nations* Ithaca NY: Cornell University Press, 1993); Jacob S. Hacker, *The Divided Welfare State* (Cambridge: Cambridge University Press, 2002); and Colin Gordon, *Dead on Arrival* (Princeton: Princeton University Press, 2003).
7. Feary to Byrnes, 22 February 1965. John W. Byrnes papers, University of Wisconsin/Wisconsin Historical Society, Green Bay, Wisconsin.
8. Peter Corning, Interview with John W. Byrnes, 1967. Social Security Administration Project, Columbia University Oral History Research Office. Many employers had started unilaterally offering retiree hospitalization and medical benefits in the 1950s for their own managerial reasons but with little regard for costs down the road; in 1961 the UAW negotiated one of the first major contractual arrangements with GM.
9. Charles Morrissey, Interview with John W. Byrnes, 1979. Manuscript Division, U.S. Library of Congress.
10. Manley, Interview with Wilbur Mills, 20 September 1965, one of many interviews conducted for his book, *The Politics of Finance: The House Committee on Ways and Means* (Boston: Little Brown, 1970). Southern Democrats would have made it possible to defeat King-Anderson. Even the Mills bill lost 60 southern Democrats and 3 northern Democrats, who joined 128 Republicans, for a total of 191, in the vote to recommit (for Byrnes). Against recommitting were 188 northern Democrats, 38 southern Democrats, and 10 Republicans, for a total of 236. After the recommit motion was defeated, a majority of southern Democrats and almost half of Republicans voted for the Mills bill, which passed by 313 to 115. The House Republican Policy Committee had endorsed Byrnes, but had not taken a position against Mills. Eugene Feingold, *Medicare: Policy and Politics* (San Francisco: Chandler, 1964), 143.
11. Manley, Interview with Mills, 20 September 1965.
12. Manley, Interview with William Quealy, 5 February 1965.
13. Manley, Interview with John W. Byrnes, 29 January 1968.
14. Corning, Interview with Byrnes, 1967. On business pronouncements, see Swenson, *Capitalists against Markets*, 223-26, and "Varieties," 19-22.
15. Manley, Interview with Quealy, 2 April 1965.
16. "The New Corporate Outsourcing," *New York Times*, 29 January 2006. Blunt is now majority whip.
17. Bismarck used the birth analogy on the 1883 health insurance legislation. What was handed to him by the Reichstag was not really his baby; it was a changeling (*ein untergeschobenes Kind*).