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President Reagan was trying to explain the size of the national debt. The numbers were so large that he knew they would be meaningless to his television audience for that first major address of his presidency in 1981. Perhaps it would be possible to explain how *thick* a stack of dollar bills representing the national debt would be. “A tight pack of bills is based on the ‘bricks’ of money used by the Bureau of Engraving,” a Treasury aide had discovered. “One ‘brick’ is sixteen inches deep. A loose pack of bills is based on a Bureau of Engraving count of 233 bills in a one inch pack.”¹ The speechwriters chose the tight count for the million and the loose count for the trillion: “A few weeks ago I called such a figure, a trillion dollars, incomprehensible,” Reagan said, “and I’ve been trying ever since to think of a way to illustrate how big a trillion really is. And the best I could come up with is that if you had a stack of thousand-dollar bills in your hand only 4 inches high, you’d be a millionaire. A trillion dollars would be a stack of thousand-dollar bills 67 miles high.”²

The debt when Reagan entered office was just over \$900 billion, not historically high in constant dollars or as a percent of GDP, but by the time Reagan left office it had almost tripled in nominal terms, and in percent of GDP it had gone from 33.4 percent to 51.9 percent. At the end of his term, the debt stood at \$2.6 trillion, with a substantial portion of it contributed by Reagan’s own policies: a mountain over 160 miles high in loose or tight bricks.³

The irony is that the policy that accelerated the growth of that debt was the very policy Reagan was promoting in that first address, the Economic Recovery Tax Act of 1981 (ERTA). This tax cut remains the largest tax cut in American history. Of course, spending increases were also necessary to

the creation of the new mountain of debt, but spending has increased many times over the course of the century. What was historically new was the policy of not raising taxes to match those spending increases. Scholars disagree over the importance of the debt to the economy, but even more important for contemporary American politics, this tax cut turned out to be only the beginning of a decades-long push for tax cuts by Republican politicians that continues to today. This first tax cut taught Republicans that tax cuts could be popular—something that was not clear at the time, because for decades opinion polls had shown strong and consistent opposition to deficits.⁴ In demonstrating the electoral appeal of tax cuts even at the cost of deficits, and in eventually showing that deficits could be financed by foreign capital, the ERTA transformed the Republican Party from a party of fiscal rectitude into a party whose main domestic policy goal is cuts in taxes. This first tax cut remains a touchstone of both left and right, and many scholars see in it the rise of the era of the market in which we currently live.

Tax cuts are not the only neoliberal policy, but the ERTA can make a claim to being the most important instance of American neoliberalism. Unlike many other neoliberal policies, such as environmental deregulation, the individual tax rate cuts at the heart of the ERTA have not been reversed by later administrations, or subverted by action at other levels of government.⁵ Instead, the popularity of ERTA has seen similar tax cuts repeated again and again. And unlike policies like welfare reform, lower tariffs, or even financial deregulation, tax cuts affect everything the state can do, by threatening state capacity itself. Even though its many tax breaks for special interests made it an imperfectly market-conforming tax policy, as the largest tax cut in American history and the fountainhead of the era of tax cuts that followed, the ERTA remains the most central blow to state capacity the American state has ever experienced. It is thus a central episode, perhaps the central episode, of American neoliberalism.

Across-the-board cuts in tax rates for individuals represent more of a break with midcentury conservatism than other policies do. While elements of the right have always criticized the income tax,⁶ in the 1950s and 1960s the mainstream of the Republican Party was committed to balanced budgets, even at the price of tax increases. As the Kennedy administration considered tax cuts, Barry Goldwater thundered: “deficit spending is not now and never has been the answer to unemployment.”⁷ Richard Nixon and Gerald Ford both faithfully increased taxes in the mid-1970s. Nixon did propose tax cuts during the campaign of 1960, and his presidency did produce some tax-cut

legislation. But it also produced tax increases, and Nixon's tax cuts were for business, not for individuals.⁸

Given its historical importance, the ERTA has not lacked for commentary, and as with a literary classic or a religious text, several rival schools of interpretation have arisen seeking to explain it. Most of this commentary has been based on media accounts of the events, which are themselves based on interviews with the key actors. Recently, the Ronald Reagan Presidential Library released documents pertaining to this time, allowing a fresh evaluation of these rival interpretations. Because Reagan arrived in office with a fully worked-out policy agenda in place, it is his prepresidential records that are most useful for a picture of the origins of the policy.⁹ This new material affirms the arguments that some scholars, such as Elliot Brownlee and Eugene Steuerle, make about the importance of rising popular opposition to taxes caused by rising inflation. But this new material contradicts arguments that other scholars, particularly Kimberly Phillips-Fein and David Harvey, make about the importance of business interests to the origins of neoliberalism.

While intervening in this debate, I also bring to light several elements of the events that have been forgotten: most important, that even after the 1978 property tax revolts the course of the tax-cut proposals was uncertain in the Republican Party, partly because of the *opposition* of business to large tax cuts for individuals; and that the cuts stayed on the agenda, and eventually became policy, because in them Republicans found a solution that they could offer to the major problem of the time, stagflation. Reducing the size of government was certainly a goal, but tax cuts arrived on the agenda because of their popularity, and they persisted on the agenda despite business opposition because the Republican Party had settled on tax cuts as its main means of generating growth and fighting inflation, the most popular issues of the time. The origins of neoliberalism are not to be found in the disproportionate influence of business interests, but in the high unemployment of the 1970s and in how inflation interacted with a progressive tax structure to make tax cuts a winning political issue. The true story of the tax cuts shows a groping attempt by Republicans to respond to public opinion during a time of economic crisis—an attempt that is halting and tenuous, continuously frustrated by members of the Republicans' own coalition, including business, and buffeted by quickly changing realities, but that nevertheless seemed by many Republicans to be their best bet at getting into power.

The 1970s seemed placid compared to the turbulent decade that had just passed, but these years laid the groundwork for a revolution in domestic

politics.¹⁰ Discontent with many areas of politics was growing, and taxation emerged as a central arena of grievance. Under a progressive tax system, inflation pushes taxpayers into higher income brackets even if their real income is not growing, a phenomenon popularly called “bracket creep.” As this would lead us to expect, polls showed a steady rise in opposition to taxation in the inflationary 1970s, and recent scholarship shows that this rise matched the objective rise in taxes as percent of GDP.¹¹

The discontent with taxes soon found a champion in a young congressman from New York named Jack Kemp, a former football star with high ambitions. The story of how Kemp came to advocate tax cuts is well known, and it forms the most common explanation for the tax cuts—maybe because any story that begins with a sketch on a napkin and ends as the law of the land is inherently appealing. The story is that in 1974 a young economist named Arthur Laffer drew a diagram on a cloth napkin at a restaurant meeting with officials from the Ford administration (including Dick Cheney and Donald Rumsfeld) demonstrating the principle that high taxation reduces work incentives and can therefore reduce tax revenue. Following this logic, reducing taxation should increase work incentives, which should lead to economic growth and bring in more tax revenue. The idea, as Laffer has always noted, is not new, and seems to appear wherever taxation appears. The principals do not remember the napkin, but the wife of another participant, late *Wall Street Journal* editor Jude Wanniski, has a picture of what may be the main exhibit (Fig. 1). The Ford administration officials were not convinced, so Wanniski and Laffer took their napkin to others. In 1976, Laffer and Wanniski seem to have drawn this diagram for anyone in Washington who would sit still long enough. They did not have much luck until Wanniski met Kemp. Since 1974, Kemp had been trying to cut business taxes in a bill he called the Jobs Creation Act, an ill-fated private-enterprise response to the Humphrey-Hawkins full-employment bill.¹² Formulated with the help of Paul Craig Roberts and Norman Ture, this bill would have reduced overall tax amounts for business and on dividends.¹³

Wanniski knocked on Kemp’s door in 1976, and the two hit it off immediately.¹⁴ Wanniski thought the Jobs Creation Act was too complex. In his telling of it, he eventually persuaded Kemp to make income tax cuts the centerpiece of the bill, and to focus on cutting tax rates rather than overall amounts, on the argument that it is marginal tax rates that most affect production incentives.¹⁵ Although Kemp was already interested in tax cuts before meeting Wanniski, the specifics of Wanniski’s influence on Kemp can be seen in the changed shape of the legislation afterward, as Kemp did begin to focus on cutting individual tax rates. He also adopted, and began to repeat over and

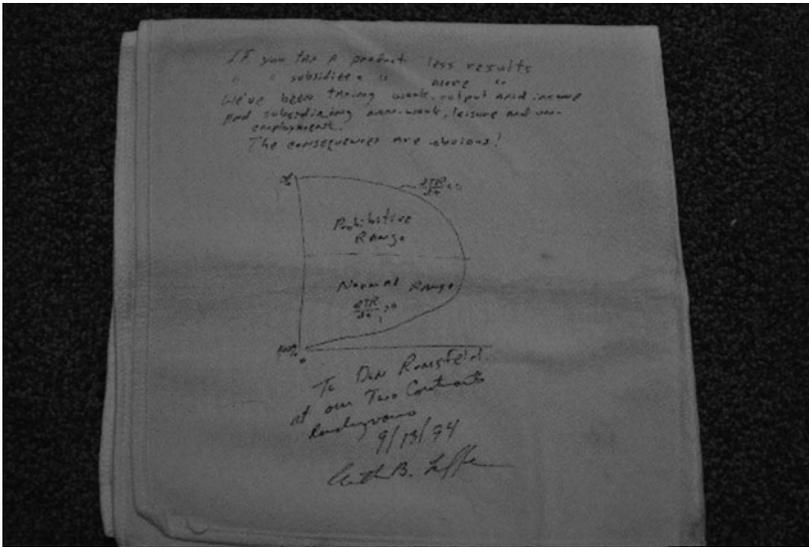


Fig. 1. The purported Laffer Curve napkin:

If you tax a product less results
 ” ” subsidize ” more ”
 We’ve been taxing work, output And income
 And subsidizing non-work, leisure, and un-employment.
 The consequences are obvious!

The signature reads: “To Don Rumsfeld at our Two Continents Rendezvous 9/13/74 Arthur B. Laffer.” *Photo courtesy of Patricia Koyce Wanniski.*

over, the phrase on Laffer’s napkin—“if you tax something, you get less of it. If you subsidize something, you get more of it. We tax work, growth, investment, savings, and productivity, while subsidizing non-work, consumption, and debt”¹⁶—a phrase not found in his speeches or writings before the Wanniski meeting.

According to the legend, Kemp eventually convinced the Reagan campaign team that cutting taxes would raise revenue, and after he was elected Reagan implemented tax cuts for that reason. We will see below the elements of this story that are true and false; but what has not been appreciated sufficiently is the *political* appeal that Kemp and other Republicans saw in tax cuts—not only that tax cuts would bolster the economy or increase revenue, but that they would win votes. Kemp began to articulate a vision of how the Republican Party could reconcile free-market principles with the need for popular

approval. Kemp, who came from a labor district and was the son of a social worker, was able to translate Republican principles into language that resonated with his labor constituents. Now he would use that ability to transform the issue of tax cuts into a new power structure.

Kemp's argument was that the United States emerged from World War II with an extremely durable framework of power based on government programs. Not only would such programs relieve short-run suffering, but, fortuitously, economists had elaborated a theory that such programs would actually be good for the economy. Politicians loved it. By taking care of their constituents through the short-term spending that kept them in power, they were fulfilling the principles that ensured long-term economic growth. It was hard for opponents of state expansion to break through this power colossus, and until the late 1970s most didn't even try. The few who did were not very successful. When in 1973 Ronald Reagan, as governor of California, proposed to limit the amount that the state could collect in taxes, he was lucky in that defeat of the proposal is all he suffered. Richard Nixon was not so lucky: his clumsy attempt to control the welfare state through impoundment succeeded only in making him enemies in Congress, who seethed and raged and eventually reacted.

Kemp began to see in tax cuts a chance to alter these basic building blocks of American power. In December 1976, just after meeting Wanniksi, Kemp wrote a letter to President Ford offering a plan that would "project a positive image with positive programs which will provide the basis for an effective alternative by the Congressional Republican Minority." The Democrats, he wrote, had solved a crucial problem: "Ever larger government spending is the way the Democrats have brought the divergent interests of divergent groups of people together to be satisfied under one political umbrella." In opposing these programs and the deficit spending they required, Republicans had fallen into the trap of having "good economics" but "bad politics."¹⁷ A few months later he spelled out the strategy: "Let the Democrats be the party of deficit spending. We are the party of lower taxes. Let the Democrats be the party of quick-fixes and more government jobs. We are the party of private enterprise jobs. Let the Democrats be the party of inflation. We are the party of a sound dollar. . . . This should be the program of the Republican Party. It's positive, consistent with our philosophy, and economically sound."¹⁸

Mostly because of Kemp, and even before the tax revolts of 1978, the Republican National Committee had decided to make tax cuts a key issue for the midterm elections, for political reasons (the wish to win votes) as much as ideological ones (the wish to reduce the size of government). In May 1977, Charlie Black of the RNC wrote to Jack Kemp: "You have indeed produced

'the issue' on which this party can win some elections. I know that Bill Brock [chairman of the RNC] agrees with me that we must continually hammer home the Republican Party's support for permanent tax reductions. The party unity demonstrated in the Senate on the Javits-Danforth [tax cut] amendment was particularly encouraging to me."¹⁹ Newt Gingrich called Kemp "the most important Republican since Theodore Roosevelt, the first Republican in modern times to show that it is possible to be both hopeful and conservative at once."²⁰ Daniel Patrick Moynihan marveled that "Of a sudden, the GOP has become a party of ideas."²¹

In 1977, a full year *before* the California property tax revolts, Kemp and Senate colleague William Roth introduced into Congress the legislation for a 30 percent cut in individual income tax rates that would culminate in the 1981 tax cut. It was defeated that year and also in March 1978, when they reintroduced it. But that summer, the property tax revolts ripped across California and across the nation. Just as inflation pushed federal income taxes higher because of bracket creep, so inflation puffed up the nominal values of houses and the local property taxes that homeowners owed. First in California, and then eventually in sixteen other states—out of twenty-three that allowed voter initiatives—voters forced referenda on ballot initiatives to limit property taxes. The attention to these developments in the media was profound, and, whatever the actual meaning of the tax revolt, the interpretation that voters were rejecting taxes took over the nation. Kemp and Roth had found a rising wave.²²

Although the Carter administration would succeed in fending off the tax cuts for another couple of years, Kemp rocketed to fame with the reputation of having predicted the popularity of tax cuts. Suddenly, Kemp was all over the media. One prominent national magazine opened an article on Kemp this way:

"Look at that physique, look at that athletic grace. . . . Look at that extraordinary vitality, like an old-time revivalist, all that power and drive. I love to watch him debate on the House floor—one shoulder goes down, one knee bends, and you've got the stance of a statue. Look at the way he moves—I bet he's a wonderful dancer.' Was [New Jersey congresswoman Millicent] Fenwick turned on by the custom-tailored, forty-three-year-old conservative with the Kennedyesque swath of blown-dry hair across his forehead? 'You bet I am,' she replied, without hesitation."²³

Everyone was a little bit smitten with Jack Kemp in the autumn of 1978. Kemp had anticipated the issue that now, in hindsight, struck all observers as the defining issue of the time. Now that he had showed them the path, the

Republicans followed him eagerly into the midterm elections. In a massive and well-financed attempt in the fall of 1978, they flew a string of speakers around the country to argue in favor of tax reduction and particularly the Kemp-Roth Bill. They distributed materials including information on the Kennedy tax cuts and its purported results in raising revenue, current tax burdens, and suggested answers to tough questions speakers might be asked. The materials also included a background paper on taxes by Michael Boskin and supporting quotes from various luminaries. Milton Friedman was on the record saying: “I support this bill since I believe that any form of tax reduction under any circumstances must eventually bring pressure to bear to cut spending.”²⁴

The perceived electoral appeal of tax cuts was a central reason for its popularity among Republicans at this stage. “I think we have an issue today that’s gluing the party together from California to Maine and from Florida to Washington,” said Roth. “You can go to blue collar workers, you can go into businesses, go talk to housewives, colleges—they’re all enthusiastic about it. I’ve had candidates—I think this is the real proof of it—call me and say, ‘Not only are we for it, but when we talk about the Roth/Kemp bill, they stand up and applaud.’” Kemp added that “it touches a responsive chord in the hearts and minds of the young, the minorities, blue collar workers—people who heretofore have not been in the Republican Party. It can truly broaden the base by again restoring hope and opportunity to this country. . . . [T]his is the national theme that can put the Republican party in control of the Congress in 1979. We could actually capture the Congress in 1979 on this issue.”²⁵ Kemp had been working this routine for two years now, and he was getting so good at it that he could even bring a labor audience to its feet, as he did at an international AFL-CIO convention in Miami.²⁶

Joining the cross-country effort in 1978 was Ronald Reagan, the defeated 1976 candidate for president and current Republican frontrunner. In 1977, he had written that “the Democrats are handing us Republicans the best issue we’ve had in a long time, and it’s one on which a majority of working Americans will agree with us. The issue is taxes.” In 1978, he wrote that at the recent meeting of his PAC people “talked of little else but Proposition 13. . . . No wonder Republicans are beginning to feel good about their party. We have an issue that unites us as a party and links us to the self-interest of the hard-pressed American taxpayer. . . . That sounds like a winning platform for any Republican candidate, come November.”²⁷

Reagan had of course been pushing for restraint in the size of the state for years, and had been interested in tax limitation since 1973. But other concerns

may also have been nudging him in this direction. In the spring of 1978, he was an unannounced candidate for the 1980 election—ostensibly still thinking about it—and his pollster, Richard Wirthlin, taking some soundings, found that tax limitation was popular everywhere. In one set of polls, he made a particularly intriguing discovery. He asked respondents what they thought of unnamed candidates who combined particular qualities: wants to attack inflation plus chooses a female vice president, say, or favors military spending plus tax limits. One of the qualities being combined was the candidate's age, a sore spot for Reagan, who would be seventy soon after taking office. Wirthlin found that “[l]imiting taxes is much more effective than either strong defense or a woman Vice President; at the same time, being 70 years old is the weakest attribute of all (indeed, only when coupled with limiting taxes does the 70-year-old with ‘Republican’ economic beliefs achieve victory).”²⁸

However, the midterm effort was only moderately successful in electing Republicans to Congress. The Republicans did gain seats, but fewer than had been predicted, and fewer than the average for the opposition party in midterm elections.²⁹ They did not get hold of either house.³⁰

One important hinge in the history of this first tax cut was the question of how the Republican Party would interpret the role of its tax-cut efforts in the midterm election. Was all that work—the chartered plane, the carefully prepared materials—wasted on an issue that did not resonate with the electorate? Or would the gains have been even stronger if the party had put even more resources into the tax-cut effort? There was poll evidence supporting both positions. Polls showed, for example, that the public believed Democrats were more likely to cut taxes. If this was the problem, then perhaps Republicans needed to double down on the effort and make their efforts on tax cuts more visible. But as President Carter noted, the tax revolts that had taken place across the nation were concentrated on iniquitous local taxes, suggesting that there may not have been a general aversion to high taxes. Perhaps chasing the tax-cut idea in the 1980 election would be sending good time and effort after bad.

There were several presidential candidates, and so there were many different answers to this question, just as there were in the news media and in the scholarly literature.³¹ In mid-January, the Reagan team met to hash out these issues and plot strategy for the general election. The purpose of the meeting as explained to the press was to decide whether Reagan should run,³² but the discussion at the meeting was oriented to the question of how to run, and what the 1978 results meant.

The minutes of the meeting show that the Reagan team considered the 1978 results extremely successful given the shadow of Watergate. Although

press reports at the time thought Republicans should have had a bigger win, Charlie Black of the RNC concludes: “I think the party’s image in the public mind has been improved, has been cleaned up substantially since the depths of Watergate in 1974. Just the baggage that any candidate carries around by virtue of being a Republican, I think, has been reduced substantially.” And pollster Richard Wirthlin pulls together data from various surveys and opinion polls to make a forceful electoral argument for tax reduction. He argues that persistent inflation pushed respondents into favoring tax reductions in California, and he predicts that Carter is going to be struggling with inflation for the next two years. He shows a map of legislative wins across the country, and says: “When Republican candidates got on the tax limitation and the tax initiatives issues early, like Prop. 13, in [Minnesota], Boschwitz did this. In [Colorado], Armstrong really focused his campaign on the big spending policy of Haskell versus his own policy of conservative restraint. When Republicans clearly get on those issues and express some social concern, invariably, they can use that as a vehicle for election.” The Reagan team interpreted the 1978 election as a success given the shadow of Watergate. And they concluded that tax reduction was still an issue with electoral potential.³³

The issue of tax cuts next received a strong boost during the Republican primaries of 1980. Despite being the frontrunner in Iowa since 1977, Reagan lost the Iowa caucuses in January 1980 to George Bush. The next big primary—the decisive one, if Reagan lost again to Bush—would be New Hampshire. In late January, Wirthlin conducted an extremely detailed poll of New Hampshire and found Bush leading Reagan among “somewhat conservative voters.” He concluded that “It would seem well advised to open up the ideological gap between ourselves and Bush in two ways. First, efforts should be made to secure the organizational backing of the pro-lifers and gun owners against Bush. Second, the Governor should once again re-emphasize the tax cuts and the economic issues. The data reflects our comparative issue strength over Bush in this area. . . . This would involve, in part, having the Governor speak more frequently about the economic issues of tax cuts, federal budgets and inflation. . . . the economic issues rank high in saliency and hit very close to the political soul of many New Hampshire voters.” Wirthlin noted to Sears that the team should be “emphasizing the themes of taxes, the economy, and what can be done to control inflation. These cut well with all ideological groups.” He notes with a hint of desperation that “a maximum-maximorum effort must be mounted to win New Hampshire.” Everyone in the campaign knew that if Reagan lost New Hampshire, the game was over. As it happens,

Reagan won New Hampshire for entirely different reasons, but the effect of New Hampshire on policy was to boost the profile of the tax proposals.³⁴

As the primary season marched on, Wirthlin found tax cutting to be a popular issue in many states, and not just among conservative Republicans. A poll in Vermont found that Republicans there “overwhelmingly agree that an absolute tax ceiling should be placed on the federal government’s revenue-raising powers.”³⁵ Tax limitation was also popular in Illinois, and “Strong agreement with this statement corresponds to strong support for Reagan.”³⁶ Over the next year, Reagan would reiterate his support of Kemp-Roth over and over and eventually would make it the heart of his campaign. He also invited Jack Kemp onto the Reagan team. Kemp’s prescience in anticipating “the issue” had made him a favorite with conservatives, such that he was now being talked about as the successor to Reagan—or perhaps even the youthful alternative to Reagan. Reagan’s campaign manager, John Sears, was worried enough about this to keep close tabs on Kemp and to ask pollster Wirthlin to keep an eye on Kemp’s name-recognition numbers. They briefly flirted with Kemp as a vice presidential pick, but eventually settled on giving him a role in policy development and putting the Kemp-Roth tax cut at the heart of the Reagan plank, in return for Kemp’s vow not to run himself and thereby split Reagan’s conservative support. Ever after, Kemp would be the “good soldier” in Reagan’s cause.³⁷ As observers noted, talk of tax cuts and of Jack Kemp “replaced the notorious ‘welfare queen’ of 1976 as a stock character in Reagan’s stump oratory . . . pushing tax relief for blue-collar workers has replaced flogging welfare recipients.”³⁸ Replacing the negative and critical focus on welfare queens with the positive and constructive solution of tax cuts allowed Reagan to cement his popular image as a sunny, upbeat political leader.

The team began especially to talk about how tax cuts would solve the major economic problem of the time—inflation. As early as August 1979, in Martin Anderson’s Policy Memorandum 1, the campaign had identified inflation as the “main domestic problem facing the United States today.”³⁹ Now the team was developing an argument that if inflation is a matter of too much money chasing too few goods, then to bring down inflation one can either restrict the amount of money available—addressing the demand side—or make more goods available, boosting the supply side. As Laffer put it, “Excessive money growth has long been recognized as a cause of inflation. It is equally true, however, that too few goods will also cause prices to rise.”⁴⁰

According to this view, tax cuts would boost productivity, thus creating more goods in the economy to absorb the excess liquidity, thus bringing down inflation. A briefing book on the issue explained: “capacity is not a

‘given.’ It depends on the rewards for using it and the quantity and quality of our total output. In the labor market, additional capacity comes from overtime, moonlighting, working harder and better, more family members working, less work in the underground economy, less early retirement, and so on.”⁴¹ Increasing incentives to work harder in these ways would raise productivity. Tax cuts would also boost the savings rate, thus making it easier to invest. These factors would increase the supply of goods, thus bringing down the cost of goods.

Moreover, tax cuts, unlike monetary measures, would not lead to unemployment, and would not require slowing down the economy. Reagan called it “another way to balance the budget and another way to end the inflation” and called the principle of a trade-off between inflation and recession “old fashioned economics”⁴² The head of the RNC ridiculed Carter for “still believ[ing] in the tired old notion that it is necessary to choose between either inflation or unemployment.”⁴³

It was certainly not an orthodox argument. That tax cuts would cure inflation seemed particularly jarring to most observers, who continued to worry that the cuts would be inflationary. The administration pressed the attack with all its means. Kemp insisted: “Cutting tax rates on income has a ‘supply-side’ effect because it rewards additional production relative to additional leisure, and rewards additional saving relative to additional consumption. Since the former increases productivity and the latter lowers prices, it is absurd to say that cutting tax rates is inflationary.”⁴⁴

Over time the administration would make the more tempered claim that tax cuts when combined with tight monetary policy would keep inflation down: “The monetary policy in the President’s program is aimed chiefly at reducing inflation by slowing the growth of the money supply. The tax package, with its emphasis on increasing after-tax rates of return to labor, saving and investment, both lowers costs directly and increases the growth rate of output. Thus, we have less money chasing more goods.”⁴⁵ The Council of Economic Advisers concurred: “A frequently raised concern is that the tax reductions will be inflationary. . . . In responding to these assertions, the Administration has emphasized the supply-enhancing effects of the reductions in individual tax rates and the important role that monetary policy plays in translating budget deficits into inflation.”⁴⁶ The official rationale for the program was that tax cuts “are designed to improve the economy by improving incentives. The purpose is to encourage people to earn more by producing more—to ease the tax barriers that discourage people from providing more labor, capital, and real output. At the same time, the demand policies of

government—spending restraint and slower money growth—will be used to prevent excess demand. That combination of policies is designed both to expand employment and output and to reduce inflation.”⁴⁷ The consequence would be that inflation “should come down rapidly.”⁴⁸

In fact the nonpartisan Congressional Budget Office, seen at the time as an opponent of Reagan, agreed with much of the administration’s argument, concluding: “Administration scenario is optimistic, but by no means impossible. More conventional analysis would lead one to expect less rapid improvement in inflation and growth. CBO sees less improvement as likely, but note that we too see improvement in both inflation and growth (productivity). Question of how fast.” They noted that the differences in the estimations were “not about supply side. Believe tax cuts will have positive supply side effects, but slowly. . . . Don’t perceive that we differ much from Administration here.”⁴⁹

As the general campaign unfolded over the summer of 1980, however, public opinion in favor of tax reduction waned, and the Reagan team knew this. During the primaries, it had become clear that, whatever the polls said about taxes, primary votes for Reagan did not reflect agreement with his ideological positions.⁵⁰ In March, at a major strategy session as Reagan was locking up the nomination, William Casey wrote: “Survey research conducted in the primary states shows that Ronald Reagan won *not* because his ideological positions were congruent with the electorate, but rather in spite of a rather substantial ideological gap between himself and the average Republican.” This continued throughout the summer, and on October 8, less than a month before the election, a campaign strategy document says “Strong Top-Of-Mind Reaction to Governor’s Positions Are *Double Edged*,” including on taxes. Moreover, there was worry that if tax cuts became the central theme of the campaign, Carter could undercut the whole campaign with an October-surprise tax cut of his own.⁵¹

But Reagan did not back down on the promise of tax cuts. One reason he did not is that opinion polls also showed consistent, unwavering, and strong support for fighting inflation, and without the tax cut Reagan had nothing to offer that would take on that concern. Tax cuts were the administration’s attempt to address the most popular issue of the time. As a memo from pollster Wirthlin put it a few months before the election, “a candidate is elected President because he correctly identifies the central issue of his time and generates the public expectation that he is capable of effectively dealing with that issue.”⁵² Wirthlin well knew that inflation was the runaway concern, and had been for years now: “Over half of the electorate now identifies inflation as *the most important problem* the United States faces today . . . fully 56% of the

voters say that Reagan, not Carter (14%) ‘offers the best hope to reduce inflation.’ Thus the pocketbook issue cluster and, specifically, the inflation module strongly reinforce our strengths and Carter’s weaknesses. We must, therefore, do all we can to keep the electorate’s attention focused on this issue as the campaign builds and, thereby, keep Carter on this ‘hood’ right through to November.”⁵³ Reagan was bound to the tax-cut proposal because without it he had nothing to offer against inflation, the most important issue of the day. As Richard Nixon, watching from the sidelines, put it shortly after Reagan’s inauguration in a letter to Kemp: “Not pretending to know anything about economics I am not *sure* your tax program will work. However I *am* sure that what we have been doing *won’t* work.”⁵⁴ Tax cuts were something—anything—at a time when something was desperately called for.⁵⁵ As Sean Wilentz suggests, the public was “looking for any bold move that promised to remedy the economy,” and that’s what Reagan gave them—a bold move that promised to remedy the economy.⁵⁶ In many ways, the actual *content* of that “promise . . . to remedy the economy” was less important than the promise itself, especially when gatekeepers such as the CBO had agreed that the numbers were, if optimistic, not impossible.

Another reason Reagan did not back down is that polls do not speak with one voice. Although many polls were suggesting the tax issue had peaked, it was possible to find contrary signals if one looked carefully. For example, in September 1980, Gallup found that 54 percent of respondents favored a 10 percent rate reduction and that 55 percent of respondents thought tax cuts would lead to greater work effort.⁵⁷ Supporters of tax cuts argued that the recent lack of enthusiasm for tax cuts was only a result of a flagging promotional effort on the part of the campaign.⁵⁸ There was enough murkiness in the polling tea leaves to make a radical change of course unwise.

Moreover, Reagan, having hammered the issue of tax cuts for over a year, could hardly back down now. Independent presidential candidate John Anderson had already been complaining of his opponents’ “flip-flops.”⁵⁹ Even after the election, backing away from what had been his central political promise would have costs. As one scholar notes, enacting the tax cuts “established Reagan’s professional reputation as someone who could play and win in the big leagues. Reagan was more than an electoral phenomenon; his political leadership would formulate and achieve strategic priorities.”⁶⁰

The continuing commitment to tax cuts during the campaign has been camouflaged because the administration began *talking* about taxes less in the general campaign than before. This was partly driven by the issue of “misuse of facts.” Reagan lost the Pennsylvania primary, and Wirthlin found that

media attention to alleged misquoting of facts by Reagan was “the fundamental explanation for the dramatic shift in the Reagan support in Pennsylvania.”⁶¹ A campaign enters dangerous territory when the opposing team is able to connect the dots to create a full-color negative portrait of the candidate. The Carter team was on the verge of connecting “misuse of facts” to naive and unsophisticated, to doddering and old, to extreme and dangerous. And defending a technical position on an untested economic idea that required subtlety to explain threatened to bring life to that portrait. Because of this, a policy memo from April notes that Reagan must “stay away from specific and arguable statements.” Casey eventually turned this memo into campaign policy, and in drawing up new policy documents moved tax cuts off center stage, wanting to “get us out of a looming ‘numbers game’ on whether tax cuts will generate revenues fast enough to avoid inflationary deficits.”⁶²

Reagan began to talk not specifically about tax cuts, but in more general terms about his program to combat inflation. But this was a rhetorical, not a substantive change. In March, a strategy memo had put the issue squarely: “Without question, the electorate must view Ronald Reagan in less extreme conservative terms in the Fall if we are to win. This can be done without altering any issue positions. By rounding out the total perception of Ronald Reagan as a more human, warm, approachable individual, and by stressing some issues and leaving others for the opponents to develop, we can ‘moderate’ the arch-conservative characterization of the Governor.”⁶³

It is around this point in the story, when Reagan becomes the Republican frontrunner, that a serious confusion in the scholarship arises. David Harvey is perhaps the best known source of this confusion, with his argument that the origins of neoliberalism lie in a concerted effort by organized business to increase profits by beating back state intervention.⁶⁴ Recently Jacob Hacker and Paul Pierson as well as Lawrence Lessig have made versions of this argument.⁶⁵ Another influential scholar, Kimberly Phillips-Fein, notes that “the most striking and lasting victories of the right have come in the realm of political economy rather than that of culture”;⁶⁶ she notes also that many business-people were involved in the coalition that helped Reagan get elected. Both of these things are true. The unarticulated implication here is that business wanted and pushed for the economic policies that Reagan implemented. But in the case of individual income tax cuts, this is not true.

To understand this point, it is necessary to understand that Reagan’s proposal had two main parts, a tax cut for individuals as well as a tax cut for business (alongside a host of more minor elements). There is no doubt that

business wanted the tax cut for business. But it was the tax cuts for individuals that were the largest part of the plan, leading to the largest revenue loss.⁶⁷ When the deficit ballooned in subsequent years, forcing tax increases, the tax cuts for individuals were sacrosanct, and it was the business tax cuts that were scaled back.⁶⁸ It was also those tax cuts for individuals, widely known as Kemp-Roth after the congressmen who had introduced them, that set the political tune for the Republicans for the next several decades.

And the record could not be clearer that business groups opposed Kemp-Roth. Businesses did not hesitate to make their opposition known, and consequently business opposition to Kemp-Roth has been clear to scholars examining the media record. Influential business lobbyists including Charls Walker relentlessly attempted to persuade the administration away from the individual tax cuts.⁶⁹ The head of the Business Roundtable said “Kemp-Roth is political rhetoric. Neither Kemp nor Roth are economists or students of the economy. They’re politicians. And they arrived at a formula that had a ring to it, and it played politically, and they milked it. But it ought to be discarded now . . . you can’t really commit the country to 30 percent tax cuts for individuals and believe that the Laffer curve is going to save you.”⁷⁰ When Reagan later tried to weaken the tax cuts for business, the chief economist of the Chamber of Commerce complained that “we supported you” on Kemp-Roth, and weakening business tax cuts now would be a betrayal.⁷¹ As two observers at the time put it, business groups “were thrilled to be rid of Carter, wanted help from the new administration on environmental and other regulatory issues, trusted Reagan’s old-hand advisers, and so had subordinated doubts about the tax cut.”⁷²

The Reagan Library documents support this picture of business opposition to Kemp-Roth. They also show that the business view against tax cuts was known within the administration, for example, in a document that rounds up objections from various business voices, including *Business Week*, as well as quotes from well-placed economists calling the plan “an invitation to financial disaster” and conservatives arguing that tax cuts would “touch off an inflationary explosion that would wreck the country and everyone on a fixed income.”⁷³

Business groups had originally supported John Connally during the primaries, and as Reagan locked up the primary nomination he moved to bring business on board.⁷⁴ His campaign team set up a “Business Advisory Panel,” but relations between this group and the campaign deteriorated to such a point that the organizer of the panel worried that it would “create more bad publicity for the campaign [and] create ill will among the

participants. . . . Even among the acceptances, there has been considerable doubt about the Panel itself. . . . Serious skepticism about whether Governor Reagan is serious about wanting substantive input on issues. They still feel he is not interested in substance. . . . [They f]ear that the participants are being used as a public relations gimmick and that the Governor or his staff will not utilize the input.”⁷⁵

Reagan met with the group to try to assuage their concerns. After several minutes of venting about the federal government’s adversarial approach to business, overregulation, and assorted business complaints, the conversation focused on taxes, and the gathered businessmen made their opposition to Kemp-Roth clear. Ed Zschau, a computer industry CEO, argued that a personal income tax cut “will decrease revenues and contribute to inflation,” arguing for a “tax cut that will stimulate investment” instead—a business tax cut. Another participant argued that the reason for inflation is that there has been a “consumption bias in this nation since 1966” and that a personal income tax cut had a consumption bias, when what was needed were policies that would rebuild the “infrastructure and capital base” of the country. The panel was right to think that the governor was uninterested in hearing their opinions, and Reagan remained unshakably committed to Kemp-Roth. Business, for its part, remained unsure about the across-the-board tax cuts, but they did eventually accept them in return for the business tax cuts that the bill also contained.⁷⁶

After the inauguration, the Reagan team jumped into the task of turning the electoral platforms into specific policy proposals. But unlike Jack Kemp, who was certainly influenced by the Laffer curve argument,⁷⁷ the majority of the administration was not convinced that lowering tax rates would raise revenue. Reagan did make this argument on occasion, contrary to what some administration members later claimed.⁷⁸ For example, at a press conference before the tax cut passed, he said, “Every major tax cut that has been made in this century in our country has resulted in even the government getting more revenue than it did before, because the base of the economy is so broadened by doing it” and after its passage he referred to the Kennedy tax cuts: “He cut those tax rates, and the government ended up getting more revenues, because of the almost instant stimulus to the economy.”⁷⁹ He noted that his hero, Calvin Coolidge, had cut taxes, and “Every one of those (Coolidge) tax cuts resulted in more revenues to the government because of the increased prosperity to the government as a whole.”⁸⁰ In his autobiography, he explicitly writes that lower tax rates result in “more prosperity for all—and more revenue for government” and he notes that Coolidge’s tax cuts proved that “the principle mentioned by [fourteenth-century North African scholar] Ibn Khaldoun

about lower tax rates meaning greater tax revenues still worked in the modern world.”⁸¹ A White House briefing book on the program prepared a few months before its passage notes that after Kennedy’s tax cuts, “federal revenues actually increased and deficits shrank.”⁸² David Stockman says to the House Republican Conference that “with the growth of the economy, the actual dollars of tax revenue collected will be rising, not falling.”⁸³ Quotes like these will keep commentators musing about the Laffer curve for years to come.

However, there are also signs that the administration was aware of the fragile foundations of the Laffer curve. Most important, the official budget documents *never* made any assumption that tax cuts would lead to greater revenue. There were some assumptions necessary to make the numbers add up, but the Laffer curve assumption of tax cuts leading to greater work effort was not one of them. On March 19, a group composed of the Council of Economic Advisers, the Office of Management and Budget, and the Treasury produced a detailed plan that was based on the following assumptions: that spending restraint would reduce the deficit; that lower taxes on savings would increase the propensity to save; and that accelerated depreciation schedules would lead to higher business savings.⁸⁴ The centerpiece of the plan was the assumption that tax cuts would lead to a moderate increase in savings. This was based not on the work of Arthur Laffer but on Stanford economist Michael Boskin’s recent research on the influence of taxes on savings. While some economists contested Boskin’s research, it was not outside the mainstream, and, unlike the Laffer curve, it had been published in peer-reviewed scholarly journals.

Boskin’s argument was that reducing taxes on interest income would lead to a rise in the savings rate and thus to greater economic growth.⁸⁵ On the strength of this argument, as well as on the assumptions of moderate spending reductions and increased business savings—and not any assumptions about greater growth in revenue because of increased incentives to work—the CEA-OMB-Treasury plan hashed out a budget that foresaw deficits coming under control within three years. The document points out that the assumption made about the rate of savings is “well below the 1966–1975 average. It is even further below 1971–1975 average.”⁸⁶

Boskin himself was in close contact with the administration during the formulation of the policy. Early in the general campaign, he had sent Ed Meese his appraisal of the tax cut, and of the role of the Laffer assumptions within it: “there is little evidence with which to have confidence that the response [to tax cuts] would be so large, so rapidly as to dispel the fears of

large deficit increases (I speak as someone whose own research is usually cited by Kemp et al.)” But, Boskin goes on, it could be made feasible by adding reductions in the rate of growth of spending.⁸⁷ Thus, the view that tax cuts would need to be combined with at least some spending cuts was also well known to the administration.

Boskin’s role echoes another common explanation for the tax cut, the argument that economists were central to the rise of neoliberalism. But most economists were unconvinced by the administration’s plan. Although there were certainly members of the profession, like Boskin or Milton Friedman, who were on board, when Congress surveyed economists on the wisdom of across-the-board tax cuts, they opposed it two to one.⁸⁸ An economist at Yale wrote to the head of Reagan’s Council of Economic Advisers: “I sympathize with part of the diagnosis, but feel that you have pushed it a bit far in various directions. I think your job, as chairman of the Council of Economic Advisors, is to fight off the wave of ideology that, if you don’t fight against it, is likely to sweep over the administration. Keep it sensible, keep it cool. Don’t become part of the problem yourself. I know you agree with me in this diagnosis.”⁸⁹ As for the Laffer curve, George Stigler of the University of Chicago said “Laffer is no longer a very serious scholar. . . . He is playing the role of a propagandist, and as such he is performing some service. But I would not base a \$125 billion tax cut on his work”; even Alan Greenspan, who supported the tax cut, said, “I’m for cutting taxes, but not for Laffer’s reasons. I don’t know anyone who seriously believes his argument.”⁹⁰ Instead of the force of economic ideas pushing the administration to action, the picture is instead of different views within the field of economics, allowing the administration to pick the views it preferred.

Another popular explanation for the tax cut is the “starve the beast” argument. This explanation—the exact opposite of the Laffer curve explanation—is that the Reagan administration sought to create a deficit in order to force cutbacks in government spending. Where the Laffer curve explanation argues that the administration thought tax cuts would lead to greater revenue, which would be good for the government, this explanation argues that the administration thought tax cuts would lead to less revenue, and this would be good for the country because it would force government to lower spending.⁹¹

There is no doubt that the administration wanted spending cuts, thought tax cuts would be a way to bring about spending cuts, and made this clear throughout the episode. In his very first televised speech, Reagan said: “Over the past decades we’ve talked of curtailing government spending so that we can then lower the tax burden. Sometimes we’ve even taken a run at doing

that. But there were always those who told us that taxes couldn't be cut until spending was reduced. Well, you know, we can lecture our children about extravagance until we run out of voice and breath. Or we can cure their extravagance by simply reducing their allowance."⁹² As one key figure put it, "tax reduction will force spending reduction just as spending reduction will force tax reduction."⁹³

This much is uncontroversial: the administration thought tax cuts would put immediate pressure on government for spending cuts. However, where the "starve the beast" argument goes further is in arguing that the administration actually wanted a *deficit* and strategically engineered a deficit in order to put pressure on government for spending cuts later. In the late 1980s and early 1990s, when it began to become clear that deficits could be financed by foreign borrowing, many Republicans did indeed adopt a variant of this position.⁹⁴ But during the 1981 episode, this more extreme version of the starve-the-beast argument is implausible. First, polls suggested that deficits were unpopular, and this made politicians fear them. Indeed, an internal strategy document says: "it is thought likely to be somewhat tougher to put together the necessary tax cut coalition [in Congress] than it was the budget coalition. . . . As you know from your telephone conversations, the question of prospective deficits is one of the most important issues for many key Congressmen."⁹⁵

Second, internal and external documents show widespread agreement in the Reagan administration that deficits were a factor in inflation and higher interest rates. Although some had predicted that foreign investors would step in to finance the deficit, this was not a widespread belief at the time.⁹⁶ For example, the Treasury document presenting the tax plan notes matter of factly that the deficit is "dissaving which absorbs private sector savings which would otherwise be used for investment" and forecasts a lower deficit raising the savings rate and increasing investment⁹⁷—indeed, the plan depends on the deficit falling. In comments to House Republicans, David Stockman notes that the financial markets "fear continued huge deficits" because congressional inability to cut spending "will mean large deficits and high interest rates—and the high interest rates, in a vicious circle, will make the deficits worse still because of the higher cost of paying the interest on the national debt."⁹⁸ A few months before the passage of the plan, Murray Weidenbaum notes that "*The financial markets are also concerned that our program will be inflationary. . . . They worry about large deficits in '81 and '82, especially reports of overruns from our targets. . . . They worry about 10-10-10 [the Kemp-Roth individual income tax cut plan].*"⁹⁹

Moreover, it seems unlikely that the participants strategically engineered a deficit because as late as August 1980, projections using the Congressional Budget Office's numbers were actually showing that the deficit would come under control under Reagan's plan: "The deficit as a percentage of total federal spending, which will be well over 10 percent under Carter in FY1980, drops steadily . . . from 8.3 percent in FY1981, to 7.1 percent in FY1982, 4.0 percent in FY1983, 2.9 percent in FY1984 and disappears in FY1985."¹⁰⁰ That the CBO tried to be nonpartisan, and was not known for supporting Reagan in general, made these numbers even more convincing. As the economic condition worsened over the next few months, the Reagan team turned to more optimistic projections released by the Senate Budget Committee (still controlled by the Democrats in 1980), which showed Reagan's plan producing a deficit in the first years that came under control in later years.¹⁰¹ This switch to a more optimistic forecast suggests legerdemain and presages the more serious decision to hide the true extent of the deficit on the eve of the tax cut's passage,¹⁰² but in investigating the origins of the tax cut it is important to note that this fiddling with projections came long *after* the decision to focus on tax cuts. It is best interpreted as attempts to save face at the last minute rather than deliberate attempts to create a deficit. Finally, the main reason to doubt the idea that the administration sought to engineer a deficit is what the administration actually did when the size of the deficit began to become clear—as we will see below, they raised taxes in order to try to cover it.¹⁰³ During the ERTA episode, the main actors seem to have assumed that the widespread fear of deficits would act as a constraint that would force spending reductions immediately; they did not foresee, or want, a deficit, and when a deficit appeared they acted quickly to try to erase it.

As the tax cuts wound their way through Congress, another explanation for the size of the tax cut began to gain ground: that a "bidding war" had erupted between the Republicans and the Democrats, who each tried to lure wavering Southern Democrats to their version of the bill, and that this blew up the size of the bill. Perhaps because of the appeal of the cut and thrust of political negotiation—is Rostenkowski winning? How will Reagan save face? Which way are the boll-weevil Democrats and the gypsy-moth Republicans leaning? What would the assassination attempt on Reagan do to the strategies of both sides?—more ink has been poured on the passage of the bill through Congress than on any other aspect of the tax cut. The bidding war did have important consequences, particularly the practice of indexing taxes for inflation, which was added to the bill during this stage.¹⁰⁴ But what is less often noticed is that all the concessions won

through that bidding war did not actually increase the estimates of how much the bill would cost, and did not add up to the most important part of the estimated revenue loss.¹⁰⁵ The original bill had been expected to lead to a \$487.7 billion revenue loss, while the bill that passed was expected to lead to a \$480.6 billion revenue loss. As an administration talking-points memo noted, “The higher revenues under [the bill that passed] reflect primarily the delay in effective dates, the reduction from 30 to 25 percent in the individual rate cut and slightly less costly ACRS provisions. These ‘compromises’ from the President’s original plan more than ‘pay’ for the new items added by the bi-partisan coalition.”¹⁰⁶ Despite the bidding war, the most costly part of the bill remained the Kemp-Roth individual tax-rate reductions, the plank that had been there all along. Other exemptions were necessary to buy off legislators with specific interests who otherwise might not have supported the package of individual tax cuts. Far from the usual interpretation of the individual tax cuts as the result of special-interest lobbying, the exemptions were a way to convince special interests to support the individual cuts that had been in the plan all along.¹⁰⁷

After the plan passed and the extent of the deficit quickly became clear, financial markets tumbled, the media communicated the pessimism, and Reagan’s popularity began to slide.¹⁰⁸ The administration panicked. As early as January, every member of the Republican leadership except for Jack Kemp had concluded that the tax cuts needed to be scaled back.¹⁰⁹ In February 1982, the presidents of the American Bankers Association, the Mortgage Bankers Association, the National Association of Home Builders, the National Association of Realtors, and the U.S. League of Savings Associations, and the chairman of the Mutual Savings Banks, wrote to the president: “In order to bring interest rates down, immediate action must be taken to reduce massive federal budget deficits. More than anything else, it is the spectre of an overwhelming volume of deficit financing which haunts housing and financial markets and poses the threat of economic and financial conditions not seen since the 1930s. . . . there is no alternative to: (1) slowing down all spending, not excluding defense and entitlement programs; and, if necessary, (2) deferring previously enacted tax reductions or increasing taxes.”¹¹⁰ In March 1982, Senator Ernest Hollings moaned to the president that “Our tragic situation is that the business community is refusing to take advantage of the supply-side business tax cuts of last year until it can be assured that deficits are reduced and the government will not be elbowing it out of the capital market.”¹¹¹

At a March meeting of the President’s Economic Policy Advisory Board, the advisers agreed that “large prospective budget deficits are the primary cause for the high levels of current interest rates . . . the financial markets are

convinced that deficits and prospective deficits matter.”¹¹² William Simon saw “bigger and bigger trouble” ahead if deficits were not brought under control, and George Shultz “observed that the budget numbers are leaving people feeling hopeless.”¹¹³ Martin Anderson thought that other issues “pale by comparison” to the deficit. Herbert Stein argued that “large deficits will frustrate private investment and slow productivity growth,” and Alan Greenspan argued that deficit reduction was a “necessary condition” to any economic recovery.¹¹⁴

And soon the administration was launched on a battle to increase taxes in order to close the deficit—beginning with rollbacks of the business tax cuts. But the individual tax cuts, the cuts that businesses had opposed, remained inviolable, and they would remain the unshakable center of politics and policy for several decades. The Tax Equity and Fiscal Responsibility Act of 1982 scaled back most of the ERTA’s tax provisions for business, but it did not touch the marginal tax rates that were the centerpiece of the individual income tax cuts.¹¹⁵

Some have suggested that the individual rate cuts were a “Trojan horse” for what the administration really wanted: business tax cuts and cuts in top tax rates. This stems from a comment OMB director David Stockman made to a journalist.¹¹⁶ But as an internal memo noted, “if the Reagan tax cut were really a ‘Trojan horse’ to cut taxes for the rich and businessmen. . . . Reagan would have accepted the Democrats’ compromise. [In the summer of 1981, during the negotiations, the] Democrats wanted to give the same tax cuts to the top personal brackets, but much smaller personal tax-rate cuts for everyone else; they also wanted to give a much larger share of the tax cut to big business than Reagan’s final bill.”¹¹⁷ This was an attempt to keep down the size of the revenue loss. Republicans responded to this compromise proposal as if it were radioactive: “What an anticlimax,” Kemp fulminated, “What an embarrassment for Democrats who are concerned about the state of our economy. . . . Perhaps [Rostenkowski] thinks that only the wealthy respond to incentives. They do; but so do all Americans.”¹¹⁸ Note the distance that Kemp had traveled: his Jobs Creation Act of 1974 had focused largely on business tax cuts and did not contain individual tax rate cuts for the middle classes. But now he was mortally offended by the suggestion to cut taxes for business and the wealthy only.

The two “ideological” explanations for the tax cuts—the Laffer curve explanation and the starve-the-beast explanation—do not hold up to scrutiny. But both explanations continue to resonate because the participants give confused accounts of their own motivations. Indeed, in his autobiography, Reagan gives *both* the Laffer curve argument—that cutting tax revenues will

lead to more revenue for government—*and* the starve-the-beast argument—that cutting tax revenues will lead to less revenue for government—in successive sentences:

I have always thought of government as a kind of organism with an insatiable appetite for money, whose natural state is to grow forever unless you do something to starve it. By cutting taxes, I wanted not only to stimulate the economy but to curb the growth of government and reduce its intrusion into the economic life of the country.

By the way, that philosopher, Khaldoun, and I weren't alone in believing lower tax rates result in higher revenues for government.¹¹⁹

In fact, the documentary record lends credence to this contradictory picture: Reagan and his administration wanted to pass tax cuts because they would lead to less revenue (thus forcing government spending down) and because they would lead to more revenue (thus paying for themselves). Psychologists would find nothing unusual here, and if anything, holding contradictory beliefs may be the norm. But this does cast doubt on the idea that the effects on revenue were the *reason* for the tax cuts, as the administration could not actually simultaneously have preferred lower revenues to more revenues, as well as more revenues to lower revenues. It does not seem correct to call this state of affairs a “preference” at all. The contradictions suggest that Reagan and the administration did not necessarily want either higher or lower revenues—what they wanted was tax cuts. Tax cuts were not the means to an end, but the end itself.

That end was shaped to a significant degree by popular opinion, as we can see from Republican efforts to scrutinize the political appeal of large across-the-board tax cuts at the very early stages of policy formulation in the mid-1970s, after the congressional elections of 1978, and throughout the primaries, at which point Reagan was locked into the position. The issue lost salience for the general public during the general election campaign, but after the election Reagan's need to make a bold policy move brought it back to the center of the political stage, and when offered tax cuts the public favored them, as Democrats discovered. Although the tax cut issue faded after the passage of ERTA, it came to dominate the next several decades because of two high-profile campaign losses: Walter Mondale's landslide loss in 1984 after a campaign promise to raise taxes; and George H. W. Bush's failed reelection bid after signing a tax increase and breaking his “no new taxes” pledge. These losses were interpreted as ratifying a popular mandate for tax cuts, and thus

tax cuts drove the presidency of George W. Bush, and continue to drive the enormously influential movement headed by Grover Norquist today.¹²⁰

The responsiveness of the political system to the wishes of the people is a central concern of democratic theory, and the attempt to measure it usually focuses on ascertaining whether policies match the stated preferences of samples of citizens.¹²¹ But the actual story of how the Reagan administration scanned, assessed, and anticipated public opinion is more complicated than that and reveals a central problem for politicians: public opinion can change quickly and often, whereas, for organizational reasons, politicians cannot change their stances quickly or often, particularly on highly salient issues. Ignoring this policy lag can lead to some crucial problems in our interpretations of history, and it can lead to the overestimation of the role of interests in politics.

Keeping this in mind, the story of the 1981 individual income tax cuts—the largest part of the tax-cut bill and the central element of domestic economic policy over the last three decades—is a story of political response to public opinion. Comparative historical scholars have shown that the American tax structure, which rests on highly visible taxes, is more likely to generate public support for tax cuts,¹²² and that was the case of the late 1970s rise in public support for tax cuts. This analysis reinforces the arguments of scholars who have argued for the popular roots of Reagan's neoliberalism,¹²³ but also qualifies those arguments: while public support for tax cuts was broad from 1978 to early 1980—the years when the Reagan team formulated its campaign strategy—it was less clear thereafter. Political pressures such as the need to avoid changing course and the need to generate a policy victory ensured that tax cuts would remain the central objective even though the polls had become less consistent. As I have shown elsewhere, the role of public opinion was also central to other neoliberal efforts at the time, such as the push for deregulation.¹²⁴

The role of public opinion leaves us with a story that is reassuring in some ways and disturbing in others. That it was public opinion that played the key role in bringing the tax cuts onto the agenda suggests that we do not need to fear secret plots by business having led to the current era of market dominance. On the other hand, a careful reading of the tax-cut episode leads to the suspicion that no one is in control. In a way, the business-power narrative is comforting. It implies that human beings do know what we are doing, but the problem is that there is a monster in our way, “the thing that feeds the other ills, and the thing that we must kill first,” as a recent book on business power puts it.¹²⁵ Kill the monster of business power and everyone lives

happily ever after. The truth is more frightening than that. It is clear from the story above that the key actors did not know what they were doing and were groping for solutions to an economic crisis that seemed to demand bold change. As Arthur Laffer himself put it, in a phrase that accurately sums up the whole episode: “There’s more than a reasonable probability that I’m wrong, but . . . why not try something new?”¹²⁶

Moreover, no one else knew what to do either. Despite our councils of wise men and women, our razzle-dazzle technology, our impressive social coordination, we have very little understanding of the capitalist economic system that rules all of our lives, of what causes it to fail or to revive, or of how to control it, if it can be controlled. One almost wishes it were a conspiracy.

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NOTES

1. E. George Cross III to Secretary Regan and Deputy Secretary-Designate McNamar, 17 February 1981, “Speechwriting: Drafts, Address to Joint Session/Economy Background, 18 February 1981 [4 of 5],” Ronald Reagan Presidential Library (hereafter RRPL).

2. Ronald Reagan, “Address Before a Joint Session of the Congress on the Program for Economic Recovery February 18, 1981.” *Public Papers of President Ronald W. Reagan* (Washington, D.C.), 18 February 1981.

3. Office of Management and Budget, *Historical Tables: Budget of the U.S. Government: Fiscal Year 2010* (Washington, D.C., 2009), table 7.1.

4. See, e.g., Hazel Gaudet Erskine, “The Polls: Some Gauges of Conservatism,” *Public Opinion Quarterly* 28, no. 1 (August–September 1980): 154–68; *Public Opinion*.

5. See Barry Rabe, *Statehouse and Greenhouse* (Washington, D.C., 2004), on state-level environmental policy, for example.

6. Rick Perlstein, *Before the Storm* (New York, 2001).

7. James L. Sundquist, *Politics and Policy* (Washington, D.C., 1968), 42.

8. Allen J. Matusow, *Nixon’s Economy* (Lawrence, Kans., 1998).

9. The “Ronald Reagan 1980 Presidential Campaign Papers, 1964–1980.” Prepresidential records are not subject to the Freedom of Information Act, and these records were only released by decision of the Library and Nancy Reagan. In this article, I have also drawn on several recently released collections from the Hoover Institution and the Library of Congress.

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11. Indeed, using only three variables—federal income tax as percent GDP, inflation, and change in real per capita income—Andrea Campbell is able to predict changes in tax

support quite accurately. Andrea Campbell, "What Americans Think of Taxes," in *The New Fiscal Sociology*, ed. Isaac Martin, Ajay Mehrotra, and Monica Prasad (Cambridge, 2009); for arguments on inflation as the source of the rising unpopularity of taxes, see W. Elliot Brownlee and C. Eugene Steuerle, "Taxation," in *The Reagan Presidency: Pragmatic Conservatism and Its Legacy*, ed. W. Elliot Brownlee and Hugh Davis Graham (Lawrence, Kans., 2003), 155–81; W. Elliot Brownlee, *Federal Taxation in America: A Short History* (Cambridge, 2004), 127–33; for poll evidence, see William G. Mayer, *The Changing American Mind* (Ann Arbor, 1993).

12. Jack Kemp to Editor, 8 April 1976, Jack Kemp Papers, box 103, folder 3, Correspondence General 1975–80, Manuscript Division, Library of Congress.

13. Bruce Bartlett, "Revolution of 1978," Jack Kemp Papers, box 89, folder 6, Mueller Kemp, Jack, Economics "Model Notebook" 1975–80 (4 of 4), Manuscript Division, Library of Congress.

14. Irwin Ross, "Jack Kemp Wants to Cut Your Taxes—A Lot," *Fortune*, 10 April 1978, Jack Kemp Papers, box 89, folder 5, Manuscript Division, Library of Congress.

15. Jude Wanniski to Karl O'Lessker, 2 November 1984, Jack Kemp Papers, box 41, folder 3, "Correspondence Wall-Wann 1984–1988," Manuscript Division, Library of Congress.

16. Quoted in Jon Margolis, "Jack Kemp Thinks He Has a Capital Idea," *Chicago Tribune*, 25 June 1978, A2. For other verbatim examples months apart, see, e.g., Bill Steigerwald, "Kemp Blitzes U.S. Government Policy," *Los Angeles Times*, 14 October 1979, O8; Joseph Sobran, "Bringing Back the Golden Goose," *Washington Post*, 22 July 1980, A13.

17. Jack Kemp to Gerald Ford, 15 December 1976, Campaign 1980, box 493, Rep. Jack Kemp (R-N.Y.), RRPL.

18. Jack Kemp to Republican Members of Congress, 22 February 1977, Campaign 1980, box 85, Black-Personal Correspondence 1977, RRPL.

19. Charlie Black to Jack Kemp, 23 May 1977, Campaign 1980, box 85, Black-Personal Correspondence 1977, RRPL.

20. Steven Hayward, *The Age of Reagan* (New York, 2009), 647.

21. Robert M. Collins, *Transforming America* (New York, 2006), 69.

22. Isaac William Martin, *The Permanent Tax Revolt* (Stanford, 2008), see, e.g., p. 50 for an example of inflation inspiring an episode of the tax revolt.

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33. Steering Committee Meeting, 13 January 1979, 16, 22, Campaign 1980, box 105, Meese Files–Campaign Ops–Citizens for the Republic, 5/1979 (background + status, including meeting minutes), RRPL.

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35. “A Panel Survey of Vermont Republicans,” February 1980, Campaign 1980, box 197, RRPL.

36. “A Statewide Survey of Republican Primary Voters in Illinois Wave II,” 9–10 February 1980, 17, Campaign 1980, box 195, RRPL.

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38. Rowland Evans and Robert Novak, “Reagan Talks Out of School,” *Washington Post*, 12 October 1979, A15.

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49. Congressional Budget Office, “Congress and the Budget,” 10 April 1981, Alice M. Rivlin Papers, box 26, folder “Congress and the Budget,” 16 April 1981, Manuscript Division, Library of Congress.

50. “Some Initial Strategic and Tactical Considerations for the 1980 Presidential Campaign,” 28 March 1980, Campaign 1980, box 104, Meese, Ed–Campaign Planning–Tactics (3/4), RRPL.

51. “Report on a Focus Group Discussion of the 1980 Presidential Election,” 12–13, Campaign 1980, box 250, Political Ops–General–Polling & Strategy (Wirthlin, Beal) (1/5) (Timmons), RRPL; Meeting 9 July 1980, Campaign 1980, box 105, Ed Meese–Campaign Planning Meetings, July 1980, RRPL; Richard B. Wirthlin to Governor Ronald Reagan et al., Campaign 1980, box 152, Meese, Ed–Staff/Advisors–Wirthlin, Dick (2/2), RRPL; “Campaign 80,” 8 October 1980, Campaign 1980, box 221, Media Campaign–[Campaign ’80, 10/8/80 Meeting] (Peter Dailey), RRPL.

52. Richard B. Wirthlin to Governor Reagan et al., 13 August 1980, Campaign 1980, Box 152, Meese, Ed–Staff/Advisors–Wirthlin, Dick (1/2), RRPL.

53. Ibid.

54. Richard Nixon to Jack Kemp, 5 March 1981, Jack Kemp Papers, box 382, folder 2, Scrapbooks Vol. 18, 1979, Aug. 31–1981, Dec. 28, 1 of 4, Manuscript Division, Library of Congress.

55. Benjamin I. Page and Robert Y. Shapiro suggest that business and political elites manipulated public opinion to oppose inflation in the 1970s (*The Rational Public*, University of Chicago, 1992, 149). Page and Shapiro’s own work shows that public opposition to taxation dropped as soon as ERTA indexed tax brackets to inflation (163), suggesting objective reasons for the antitaxation climate of the 1970s. If business was indeed behind the public opinion on inflation, its strategy backfired, for the individual income tax cuts that resulted were not favored by business.

56. Sean Wilentz, *The Age of Reagan* (New York, 2008), 141.

57. “Consumer Attitudes Toward Government Taxation and Spending,” 3 September 1980, Campaign 1980, box 252, Political Ops–Issues–Taxes (Timmons), RRPL.

58. Jude Wanniski, “The Campaign Homestretch,” Peter Hannaford Papers, box 6, folder 6–9, Hoover Institution, Stanford.

59. Richard L. Madden, "Anderson, in Manhattan, says Rivals Flip-Flopped," *New York Times*, 10 October 1980, quoted in Craig Shirley, *Rendezvous with Destiny* (Wilmington, Del.: Intercollegiate Studies Institute, 2009), 687.

60. John W. Sloan, *The Reagan Effect* (Lawrence, Kans., 1999), 164.

61. "A Statewide Survey of Republican Voters in Pennsylvania," 11 April 1980, Campaign 1980, box 199, RRPL.

62. William J. Casey to Governor Reagan et al., 7 April 1980, 2–3, Campaign 1980, box 128, Meese File–Subject File–Domestic–Briefing Papers /Memos (1/2), RRPL.

63. "Some Initial Strategic and Tactical Considerations for the 1980 Presidential Campaign," 28 March 1980, 11, Campaign 1980, box 104, Meese, Ed–Campaign Planning–Tactics (3/4), RRPL.

64. David Harvey, *A Brief History of Neoliberalism* (Oxford, 2005), 43. For an overview of the role of business interests in recent politics that comes to a very different conclusion, see Mark A. Smith, *American Business and Political Power* (Chicago, 2000).

65. Jacob S. Hacker and Paul Pierson, *Winner-Take-All Politics: How Washington Made the Rich Richer—And Turned Its Back on the Middle Class* (New York, 2010); Lawrence Lessig, *Republic, Lost: How Money Corrupts Congress—and a Plan to Stop It* (New York, 2011). Hacker and Pierson cite the influence of Charls Walker and the Carlton Group, who "literally wrote many of the key provisions influencing business in the new president's proposals"(134). But as we will see below, Walker opposed the plank that constituted the largest part of the revenue loss, the individual rate cuts. The accelerated depreciation proposals that the Carlton Group championed were scaled back the very next year, while the individual tax cuts they opposed were kept in place. The administration bought radical business support for the individual tax cuts with large business tax cuts, and then radically reduced the business tax cuts.

66. Kim Phillips-Fein, *Invisible Hands* (New York, 2009), xii.

67. See Eugene Steuerle, *The Tax Decade* (Washington, D.C., 1992), 186–87, for a breakdown of the costs of the tax bill. This means that the largest part of the revenue loss was not "supply side" at all, but "demand side."

68. See, e.g., *ibid.*; Sheldon D. Pollack, *Refinancing America: The Republican Antitax Agenda* (Albany, N.Y., 2003).

69. Patrick Akard, "Corporate Mobilization and Political Power," *American Sociological Review* 57 (1992): 597–615.

70. Art Pine, "DuPont's Irving S. Shapiro," *Washington Post*, 8 February 1981; quoted in Monica Prasad, *The Politics of Free Markets* (Chicago, 2006), 48.

71. Rowland Evans and Robert Novak, "Big Business is Furious, Too," *Washington Post*, 8 June 1981, A15.

72. Joseph White and Aaron Wildavsky, *The Deficit and the Public Interest* (Berkeley and Los Angeles, 1990), 165.

73. "Cautions from Conservatives," "Tax Bill '81 [1 of 2] 2/5 box 10533," David Gergen Files, RRPL.

74. Kim McQuaid, *Uneasy Partners* (Baltimore, 1994), 165.

75. James W. Fuller to William J. Casey, 12 June 1980, Campaign 1980, box 105, Ed Meese Files–Campaign Ops–Business Advisory Panel Meeting, 6/1980, RRPL.

76. Business Advisory Panel meeting, 17 June 1980, Campaign 1980, box 105, Meese, Ed–Campaign Planning Meetings, June 1980, RRPL.

77. See, e.g., Jack Kemp, "Congress' First Priority: Lower Federal Tax Rates," *Human Events*, 27 November 1976.
78. See, e.g., Martin Anderson, *Revolution* (New York, 1988), 140–63, for a lively denial.
79. Steven Hayward, *The Age of Reagan* (New York, 2009), 70–71.
80. George Skelton, "Reagan Assails Wall Street's Economic Advice," *New York Times*, 29 May 1981, A6.
81. Ronald Reagan, *An American Life* (New York, 1990), 232, 244.
82. The White House, "President Reagan's Program for Economic Recovery," April 1981, Craig Fuller Files, OA 10972, Economic/Budget Policy April 1981 (3).
83. David A. Stockman, "Reagan Economic Program II—General Materials [2 of 5]," box OA9020, White House Office of Public Affairs: Records.
84. "Savings and Investment in the Program for Economic Recovery," White House Office of Public Affairs: Records, OA 9015, "Reagan Tax Cut Plan [4 of 8]," RRPL.
85. Michael Boskin, "Taxation, Saving, and the Rate of Interest," *Journal of Political Economy* 86, no. 2, pt. 2 (April 1978): S3–S27.
86. Department of the Treasury, "Background on the President's Tax Program." Edwin Meese III Files, OA 2990, Background on the President's Tax Program, Binder 1, RRPL.
87. Michael J. Boskin to Ed Meese, 26 March 1980, Campaign 1980, box 116, Ed Meese—Correspondence File—EM Correspondence 3/1980 (2/2), RRPL.
88. U.S. Congress, *Leading Economists' Views of Kemp-Roth* (Washington, D.C., 1978).
89. Richard R. Nelson to Murray Weidenbaum, 16 March 1981, Weidenbaum Files, OA 11004, MLW General Correspondence 3/12/81–3/31/81 (3), RRPL.
90. Quoted in Seymour Zucker, "The Fallacy of Slashing Taxes Without Cutting Spending," *Business Week*, 7 August 1978, 62.
91. See, e.g., Paul Krugman, "The Bankruptcy Boys," *New York Times*, 21 February 2010, for a recent version of the "starve the beast" explanation.
92. Ronald Reagan, "Address to the Nation on the Economy," 5 February 1981.
93. Robert H. Michel to Republican Colleagues, 29 May 1981, Strategy-Republican, CA 8618, M. B. Oglesby Files, RRPL.
94. See Bruce Bartlett, "Starve the Beast': Origins and Development of a Budgetary Metaphor," *Independent Review* 12, no. 1 (Summer 2007): 5–26.
95. Richard G. Darman, "Meeting of Legislative Strategy Group," 12 May 1981, Craig Fuller Files, box 10972, Economic/Budget Policy, 5/81, RRPL.
96. Charls E. Walker to Richard V. Allen, MC box 1, 013293, 18 February 1981: "There are billions and billions of dollars around the world that will flow into U.S. bonds and stocks just as soon as foreign investors become convinced that the program will work." However, see Greta Krippner, *Capitalizing on Crisis* (Cambridge, Mass., 2011), 95, for a discussion of general absence of attention to the role of foreign markets in financing the deficit at this time.
97. Department of the Treasury, "Background on the President's Tax Program." Edwin Meese III Files, OA 2990, Background on the President's Tax Program, Binder 1, RRPL.
98. David A. Stockman, "Reagan Economic Program II—General Materials [2 of 5]," box OA9020, White House Office of Public Affairs: Records. See also Iwan Morgan,

“Reaganomics and Its Legacy,” in *Ronald Reagan and the 1980s*, ed. Cheryl Hudson and Gareth Davies (New York, 2008), 104.

99. Murray Weidenbaum, “Interest Rates and Monetary Policy,” 7 May 1981, [Economic/Budget Policy, 5/81], box 10972, Craig Fuller Files, RRPL.

100. Martin Anderson, “Memorandum for Governor Reagan,” 22 August 1980, Campaign 1980, box 129, Meese Files–Subject File–Federal Spending [Anderson to RR re: economic conditions], RRPL.

101. Martin Anderson, *Revolution* (New York, 1988).

102. See Richard Reeves, *President Reagan* (New York, 2005), 80–81.

103. W. Elliot Brownlee and C. Eugene Steuerle, “Taxation,” in *The Reagan Presidency*, ed. W. Elliot Brownlee and Hugh Davis Graham (Lawrence, Kans., 2003).

104. R. Kent Weaver, *Automatic Government: The Politics of Indexation* (Washington, D.C., 1988), 203.

105. In an earlier examination of this episode (Monica Prasad, *The Politics of Free Markets*, [Chicago, 2006], 45–61), I also failed to notice this.

106. “Talking Points,” Francis Hodsoll Files S.M., Series I: Subject File, box 5, “Tax Bill,” RRPL.

107. See, e.g., Congressman Mickey Edwards’s letter to the president on oil exemptions: “I am prepared to work for, fight for, bleed for, die for the tax package—but if the Democrats offer more relief from the windfall profits tax, I could either vote for the Democrat package or begin to groom a successor and wind up my Congressional affairs.” (Mickey Edwards to the President, 13 July 1981, Oglesby Files, Misc-Members of Congress, CA 8618, RRPL.)

108. John Ehrman, *The Eighties* (New Haven, 2005), 57.

109. “Voodoo Politics,” *Wall Street Journal*, 14 January 1982, 29.

110. Jenkins, Aylward, Napolitano, Masterton, Laguarte, and Green to the President, 25 February 1982, BE004 National Economy (062644) [5 of 5], WHORM Subject Files, RRPL.

111. Ernest F. Hollings to the President, 10 March 1982, BE004 National Economy (062644) [5 of 5], WHORM Subject Files, RRPL.

112. Edwin L. Harper to Regan, Baker, Meese, and Stockman, 25 March 1982, Economic Policy Advisory Board OA 9449, Ed Meese Files, RRPL.

113. *Ibid.*

114. *Ibid.*

115. See, e.g., Steuerle, *The Tax Decade*; Pollack, *Refinancing America*.

116. William Greider, *The Education of David Stockman and Other Americans* (New York, 1982).

117. John [Mueller] to Jack Kemp, 16 November 1981, “Ideas on the Trickle-Down Problem,” Jack Kemp Papers, box 82, folder 13, Mueller Correspondence 1981, October–December, Manuscript Division, Library of Congress.

118. Jack Kemp, “Statement by Congressman Jack Kemp on Ways and Means Chairman Dan Rostenkowski’s Tax Proposal,” 10 April 1981, Jack Kemp Papers, box 134, folder 6, Taxes and taxation General 1979–84, Manuscript Division, Library of Congress.

119. Ronald Reagan, *An American Life* (New York, 1990), 232.

120. On tax cuts after Reagan, see, e.g., Pollack, *Refinancing America*; John Micklethwait and Adrian Wooldridge, *The Right Nation: Conservative Power in America* (New York, 2004).

121. See, e.g., Alan D. Monroe, “Public Opinion and Public Policy, 1980–1993,” *Public Opinion Quarterly* Volume 62 (1998): 6–28.

122. Harold Wilensky, *Rich Democracies* (Berkeley and Los Angeles, 2002); Prasad, *The Politics of Free Markets*.

123. For just a few examples, see William G. Mayer, *The Changing American Mind* (Ann Arbor, 1993); Smith, *American Business and Political Power*.

124. Prasad, *The Politics of Free Markets*, 62–82. Indeed, deregulation began on the left, championed by Ralph Nader and Ted Kennedy.

125. Lessig, *Republic, Lost*, 2.

126. Walter W. Heller, “The Kemp-Roth-Laffer Free Lunch,” *Wall Street Journal*, 12 July 1978, 20.