Tax Policy in the United States: Was There a "Neo-Liberal" Revolution in the 1970s and 1980s?

W. Elliot Brownlee

This chapter examines the question of whether or not there was a "neo-liberal" revolution in tax policy in the United States during the 1970s and 1980s. Answering this question requires three tasks: a definition of "neo-liberalism"; an assessment of the extent to which tax and fiscal policies during the 1970s and 1980s, especially the policies promulgated by President Ronald Reagan and his administration, constituted a "neo-liberal" break from historic patterns; and an evaluation of the impact of those policies on the American political economy. That, in outline, is the structure of my chapter.[1]

What Is Meant by "Neo-Liberal" Tax Policy?

Answering the question of whether or not there was a "neo-liberal" revolution in the United States during the 1970s and 1980s requires first discussing the meaning of "neo-liberalism," especially in the American

W. E. Brownlee (✉)
University of California, Santa Barbara, Santa Barbara, CA, USA
e-mail: brownlee@history.ucsb.edu

© The Author(s) 2018

G. Huerlimann et al. (eds.), *Worlds of Taxation*,
Palgrave Studies in the History of Finance,
https://doi.org/10.1007/978-3-319-90263-0_7

context. In doing so, we have the benefit of the impressive work of the numerous scholars who have explored the significance of "neo-liberalism" to the development of the state since World War II.[2]

Historical actors who declared themselves "neo-liberal" and scholars who have studied "neo-liberalism" sometimes have used the terms in different ways. By "neo-liberal," scholars generally have meant certain "free-market" policies that took hold during the 1970s and 1980s in the wake of slowing economic growth and accelerating inflation. They have often cited tax policies as constituting an important element of "neo-liberalism." Anthropologist David Harvey, to take one example, has cast a very broad net, identifying a variety of specific policies as neo-liberal. He described what he calls "the neoliberal state" as revising "the tax code to benefit returns on investment rather than income and wages, promotion of regressive elements in the tax code (such as sales taxes), the imposition of user fees … , and the provision of a vast array of subsidies and tax breaks to corporations." Harvey goes on to add to his list "the corporate welfare programmes" that "amount to a vast redirection of public moneys" and tax deductions that provide subsidies "to upper income homeowners."[3]

Some prominent members of the very first generation of self-conscious "neo-liberals" ranged even more widely over the terrain of tax policy, embracing powerfully progressive taxation as well if it served to restore, foster, or protect free-market conditions. A leading American example is Walter Lippmann, whose book *The Good Society* (1937) inspired French philosopher Louis Rougier to organize a conference in 1938 (the precursor to the Mont Pèlerin Society) under the rubric of "neo-liberalism." In the book, Lippmann called for tax reform that would "strike at the source of the big incomes which arise from the various kinds of monopoly, from exclusive rights in land and natural resources, from bad markets in which the ignorant and the helpless are at a disadvantage. Income arising from these inequalities of opportunity and legal status is unearned by the criterion of the exchange economy." Such income is not, he declared, "the wages of labor or management, the interest on capital, or the profits of enterprise, as determined in free and efficient markets, but tolls levied upon wages, interest, and profits by the subversion or the manipulation of the market price for goods and services." In addition, Lippmann called for tax reform "to divert excess savings from the hoards of the rich and to plough them back into the improvement of the quality of the people and of their estate." This redistribution was "required not only by the long view of the imponderable national interest, not only as an expedient to

allay discontent, not only as a matter of social justice, but as a requisite for preserving the equilibrium of the exchange economy itself.”

Like most other American members of the first generation of “neo-liberals,” Lippmann sought to steer a middle course between collectivist initiatives of the New Deal and pristine nineteenth-century laissez faire. More generally, Lippmann’s shift in 1937 from his earlier (1914) embrace of Theodore Roosevelt’s New Nationalism in *Drift and Mastery* produced what Arthur Schlesinger Jr. correctly called “the most lucid statement of the tradition of the New Freedom” of Woodrow Wilson. In 1914 Lippmann had seen no need for an elaborate system of federal taxation to cope with the issues of inequality, monopoly power, and unearned income.[4] But in *The Good Society*, Lippmann outlined a tax program that was essentially that of Woodrow Wilson. Thus, Lippmann’s tax program put him where Wilson had been: on the offensive, advancing the ideals of both liberalism and republicanism on the boundary of progressivism where it bordered social democracy.[5]

The leading American economist among the first generation of self-identified “neo-liberals” was the University of Chicago economist Henry C. Simons. At the same time as Lippmann, but in a more technically sophisticated way, Simons proposed a program of tax reform that also squared ethically with Wilsonian principles. Simons’ central theme was the need to address the inequality that he saw as arising inevitably in a capitalist society. He viewed progressive income taxation as a necessary tool to address the concentration of wealth, and his most distinctive proposals were to treat all property transfers as realizations for taxation of capital gains and to tax capital gains at the same rate as other forms of income. This program would, he believed, cut off the relentless effort to transform taxable income into nontaxable gain and promote economic equality while advancing economic efficiency. During the 1940s, Simons, along with other self-identified neo-liberals, shifted their interests to attacking what they regarded as democratic-statism. But he continued to believe that the success of free enterprise depended on government structures, including tax policies, that would advance economic equality.[6]

The next generation of “neo-liberals,” including Simons’ student Milton Friedman, joined the intellectual fray during the 1940s. They retained, until the 1950s, an interest in anti-monopoly policies, but generally dropped an interest in tax reform that sought to promote both equality and competition. By the 1960s, these neo-liberals had abandoned as well a concern with monopoly (except perhaps where government was

thought to cause it) and ceased identifying themselves as "neo-liberals." Friedman may have done so as early as 1951. He and the other members of what Daniel Stedman Jones calls "the second Chicago school" probably shed the term so to avoid confusion with New Deal liberals. In effect, they (Friedman et al.) acknowledged that they had abandoned Walter Lippmann's and Herbert Simon's "neo-liberalism"—a political and social philosophy that steered between nineteenth-century liberalism and twentieth-century democratic-statism. They did so in favor of what historian Angus Burgin accurately describes as "the triumphant return of laissez-faire." In their social policies, they were far more than pro-capital or pro-business. They engaged in sweeping attacks on government in general, regarded free markets as the most important source of social freedom, largely ignored inequality as a social and economic problem, and disregarded evidence regarding market failure and dysfunction. To describe the economists and others who championed these views during the 1960s and after as "neo-liberals" fails to do credit to the social theorists who devised the term. A new and different term—let me suggest "retro-liberals"—better captures the reality that the "neo-liberals" of the 1960s had returned to the liberalism of the nineteenth century and, in some instances, to one of the narrowest versions of that liberalism.[7]

Political Consensus and Tax Cutting, 1945–1971

The first tax measure undertaken during the administration of Ronald Reagan was the Economic Recovery Tax Act (ERTA) of 1981, which made substantial cuts in personal and corporate income taxation. The adoption of this legislation took place in the context of a policy consensus that had prevailed since the end of World War II. The 1981 cuts seemed dramatic but a central element of that the post-1945 political consensus was a broad bipartisan agreement that in peacetime the revenue bonanza from personal and corporate income taxation would be sufficiently large to provide frequent cuts in those taxes. The cuts were in the form of reduction of rates and the expansion of tax expenditures—special preferences offered under the tax code in the form of income exclusions, tax deductions, and tax credits. A closely related element in the prevailing consensus was that the cuts would provide tax benefits across the income spectrum but wealthy taxpayers and corporations would reap a disproportionate share. After World War II, and the consequent ebbing of wartime patriotism as a factor in income tax compliance, tax cutting played a central

role in enhancing public acceptance of the new tax regime. Thus, well before 1981 and the enactment of ERTA, significant and sustained tax cutting had become a huge program funded by buoyant tax revenues. It had become well established as a fundamental component of the nation's fiscal consensus.

Ironically, perhaps, the structure of the US tax system, especially its highly progressive and mass-based character, was responsible for the scale and shape of the tax cutting as spending program. Its revenue elasticity in an era of high economic growth produced the revenues that funded the cuts, and the progressivity, coupled with the mass base of the income tax, created incentives for all taxpayers and a large fraction of the citizenry to seek tax cuts. The incentives were greatest for taxpayers with the largest incomes, and the pressures were especially great during episodes of inflation. During inflationary periods, increasing prices, absent indexing that was difficult politically and technically, pushed taxpayers into higher income brackets (the process known as "bracket creep") and imposed capital gains taxes on gains that resulted from inflation rather the growth in the real value of assets.

This ironic interplay of progressive taxation and tax protest had deep historical roots in inter-class tension over tax policy in the United States. Since the mid-nineteenth century, the political effort to reconcile an increasing concentration of income and wealth with democratic ideals and practice had produced volatile and intense debates over tax policy and profound shifts in tax regimes, particularly during major wars or periods of severe economic crisis.[8] The cumulative effect of the crises of the Great Depression and the two World Wars was to make the US tax system the most progressive among the large capitalist nations.[9] At the end of World War II, a new tax regime was in place, a product of both the New Deal and the mobilization for World War II. At the core of the tax regime created during World War II was a progressive and mass-based income tax that produced a revenue bonanza by exploiting the economic successes of the high growth era that accompanied and followed the war. But, at the same time, the successes of the progressive income tax stimulated a sustained reaction by class interests—those of large corporations and wealthy elites. Their power was the main driver in the expansion of tax cuts designed to reduce tax progressivity. But the combination of mass-based income tax and the process of "bracket creep" meant that high-income taxpayers had readily available allies within the middle class for cutting taxes. The reactionary force, as it played out over the last half

of the twentieth century, produced a "long-swing" away from progressive taxation toward what became a "retro-liberal" fiscal regime during the early twenty-first century.[10]

Tax cutting at the federal level began immediately after the war in two major measures enacted in 1945 and 1948, during a period of both high economic growth and inflation. The cuts in 1945 repealed the wartime excess-profits tax, cut income taxes across the board for all taxpayers, and reduced wartime excise taxes. The rationales included both a supply-side argument for encouraging private investment and demand-side one for stimulating consumer demand.[11] In 1948 Congress made additional across-the-board cuts and introduced the income-splitting joint return for husbands and wives.[12] President Harry Truman was able to restrain the tax cutting somewhat, arguing publicly for the need to contain inflation and work down wartime debts. But in 1946 his threat of a tax increase had contributed to Republicans winning control of Congress for the first time in 13 years, and doing so with the most dramatic gains in their congressional power until 2014. As a consequence, in passing the Revenue Act of 1948 the Republican Congress had been able to override Truman's veto.

Enthusiasm for tax cutting waned for a time during the Korean War but the last wartime measure, the Revenue Act of 1951, included tax increases and a variety of cuts in the form of larger tax expenditures. These included expansion of mineral depletion allowances to 30 mineral groups, exemption of home-sale profits from capital gains taxation if reinvested in another home, deduction of certain medical expenses by the elderly, various exclusions and exemptions for veterans, and exclusions of income for citizens living abroad.[13]

After the Korean War, the Eisenhower administration's Treasury and the Joint Committee on Internal Revenue Taxation undertook the most elaborate analysis of the income tax since World War II. In 1954 the two entities proposed 25 major revisions, some of which would have broadened the base. At the end of the day, the Revenue Act of 1954 closed a few loopholes but expanded many others. The reform intent of the Treasury had served mainly to provide political cover for continued tax cutting on behalf of special pleading. The 1954 measure expanded employer contributions to employee health plans as income (which became one of the most expensive tax expenditures), the deductibility of interest on installment purchases, the deductibility of charitable donations, the exclusion of dividend income, the option of certain partnerships to be taxed as corporations, and expanded depreciation allowances. Most of the tax expenditures were of

greatest value to wealthy individuals, who continued to pay the high marginal rates established during World War II.

As a consequence of the various tax cuts during the 1940s and 1950s, the effective rate of income taxation of the rich (defined as the richest 1% of households) fell to roughly 25%. Such rates were high by pre–World War II standards, but less than half of the peak rates of effective income taxation on the top 1% during the war.[14]

Interest in aggressive tax cutting intensified in the Democratic administrations of John F. Kennedy and Lyndon B. Johnson and the Republican administration of Richard M. Nixon. The two Democratic Presidents advocated a variety of selective tax cuts favoring the wealthy by both hawking long-term "supply-side" benefits, much as Andrew Mellon had done during the 1920s, and short-term Keynesian stimulation. In 1962 Congress enacted a corporate deduction that provided a credit of 7% of new investment against tax obligations and increased depreciation allowances, thus favoring capital income that was already treated well under the corporate income tax. At the same time, the Kennedy administration began considering an even larger set of tax cuts. The project came to fruition in 1964 when Congress responded to Johnson's call for a tax cut "to increase our national income and Federal revenues." The Revenue Act of 1964, enacting what became known as the Kennedy-Johnson tax cuts, slashed taxes in the face of large deficits. At the heart of the cuts were across-the-board cuts of 20–30% in income tax rates, reductions in capital gains taxes, and increases in depreciation allowances. The effect of the cuts in the rates of taxing personal incomes was somewhat progressive but the cuts in corporate taxes made the overall impact of the 1964 act regressive. The Council of Economic Advisers, led by economist Walter Heller, was committed to what was called "growthmanship" and actively supported the 1964 cuts. Most liberals in Congress regarded the 1964 tax cuts as a victory for Keynesian countercyclical stimulation of demand. But many also embraced a supply-side rationale for the cuts, particularly those that reduced the marginal rates on the rich. The trickle-down rhetoric echoed that of Andrew Mellon during the 1920s.[15]

The war in Vietnam delayed further tax cuts until August 1971, when the war was winding down and President Nixon launched a major program of economic stimulation. In doing so, he announced: "Now I am a Keynesian in economics." And, Nixon became the first President to express a belief in an extreme "supply-side" position, declaring that "as a result" of the cuts, "federal tax collections in the long run will increase."[16]

Nixon hoped the tax-cutting approach would set the table for his re-election campaign in 1972. He had blamed his defeat in the 1960 Presidential elections partly on fiscal decisions of the Eisenhower administration that had contributed to a recession and rising unemployment in 1960–1961. Nixon was determined to avoid those conditions in 1972. The resulting Revenue Act of 1971 allocated most of the cuts to the business sector, mainly through the codification of provisions that accelerated depreciation allowances; the authorization for the creation of "Domestic International Sales Corporations" (known as DISCs); and the re-enactment of the investment tax credit, which was set at an annual rate of 7% of investment expenses. (The credit had been enacted in 1962 but suspended in the Revenue Act of 1969.) The remainder of the cuts included increases in the minimum standard deduction and personal exemptions.[17]

The relentless tax cutting that began after World War II and continued into the 1960s undoubtedly contributed to the political success of the tax regime created during the war. The cutting won support from groups across American society that benefitted from the rate reductions and increases in tax expenditures. While all income groups received some of the largesse, the nation's poorest citizens received the smallest and the wealthiest the largest shares, partly because of the progressive structure of income taxation.[18] The overall effect was to reduce the progressivity that had been established during World War II. The erosion of the progressivity embedded in the tax system inherited from the New Deal and World War II began well before the 1970s.

The Crisis of the 1970s and Its Impact on Tax Policy

In the 1970s, during a crisis-ridden decade, two significant economic problems deepened the political base of support for tax cutting. One problem, a slowing of productivity growth, had actually begun during the late 1960s. The other was accelerating inflation, which resulted partly because of slower productivity but mainly because of oil crises in 1973 and 1979 (producing surges in oil prices) and the demise of the Bretton Woods international monetary system. In what became known as the "Great Inflation" the increase in the consumer price index peaked in 1980 at 13%.[19] An increasing rate of inflation had always added new energy to the continual search for new tax preferences and the exploiting of old ones as ways to offset bracket creep. For example, the huge inflation following World War I, between 1918 and 1920, led to irresistible pressure for new

tax preferences, and much the same kind of thing had occurred, to a lesser extent, after World War II. The inflationary pressures of the 1970s were not as intense as those immediately after World War I, but they were more severe than those following World War II and they held sway for a longer period of time than either of the two postwar episodes of inflation.

The price increases meant large, unlegislated, and prolonged tax increases for most individual taxpayers. The effective rates of taxation paid by the rich edged up during the 1970s. The rates reached nearly 30%, or roughly those that had prevailed immediately before and after World War II.[20] But it was not just the rich and middle class who were affected. Many lower-income people, especially those with dependents, had to pay income tax for the first time as the value of their personal and dependent exemptions and the effective tax-exempt level of income eroded. By the early 1980s, the portion of the labor force paying taxes had increased to more than 75% from the 60% reached at the end of World War II.[21]

The "bracket creep" (actually often bracket leap) drove even greater efforts on the part of pressure groups to find loopholes, and the level of tax exclusions, exemptions, deductions, and credits soared. In 1974 Congress recognized the magnitude of the problem by including in the Congressional Budget Act of that year the annual publication of a "tax-expenditure budget," which Stanley Surrey, the Assistant Secretary of the Treasury from 1961 to 1969, had recommended in order to highlight the degradation of the income tax base. Later the bipartisan Congressional Budget Office estimated that in 1967 tax expenditures had cost the federal government nearly $37 billion, which was equal to 21% of federal expenditures. By 1984 the total cost had soared to $327 billion by 1984, equal to 35% of federal expenditures.[22]

During the 1970s, for the first time in the history of the American income tax, calls for rolling back the surging wave of tax preferences seemed to gain significant momentum.[23] In the 1976 Presidential campaign, Democratic candidate Jimmy Carter called the US tax system "a disgrace to the human race" and promised to eliminate tax expenditures and thereby broaden the base of taxation as part of a larger progressive economic agenda.[24] As such, he focused on those that favored the rich, hoping to make the tax system more progressive, more horizontally equitable, and more economically efficient. Whatever the details of his program might turn out to be when in office, he promised to avoid "a piecemeal approach to change."[25] During his first two years in office, he continued to advocate systematic reduction of tax expenditures and in January 1978 he

proposed a program of sweeping tax reform which more or less followed the Treasury's proposals in a document, *Blueprints for Basic Tax Reform*, which the department had published in 1977, at the very end of the administration of President Gerald Ford. Nonetheless, Carter found himself entangled and paralyzed in working with Congress on piecemeal change. Carter never offered rate reduction at the top to sweeten base broadening for powerful economic interests, and his reform efforts stalled.[26]

The political problem that Carter could not solve was that the Democratic Party was badly divided over tax reform. Many Democrats as well as most Republicans in Congress favored a very different approach to the fiscal implications of stagflation—an approach that was philosophically at odds with Carter's. Their approach was to expand, rather than reduce, tax preferences in order to stimulate economic growth and provide tax relief in the face of inflation. And, in contrast to Carter, they sought to favor the rich.

The advocates of this approach, following in the tradition of Andrew Mellon, relied on "trickle-down" arguments for tax subsidies that would favor business investment. They argued that previously enacted tax preferences designed to reduce the cost of capital had stimulated productivity and growth, and called out, in particular, the putative results of the Kennedy-Johnson tax cuts of 1964. They also stressed that the combination of personal income and corporate taxation meant taxing some capital income twice—taxing the income after corporations earned it and then taxing it again after it was passed on to individuals as dividends. They went further, arguing the income tax penalizes savers by taxing twice income that is earned and saved while taxing only once income that is earned and spent. They called for tax breaks for capital income as compensation.[27]

For the most part, these were old rationalizations and familiar to many both inside and outside the economics profession. But they received new, energetic, vocal, and well-financed advocacy during the 1970s from the "retro-liberal" movement, whose origins I discussed at the beginning of this chapter. The leadership of this movement consisted of a diverse collection of people and organizations. They included economists who held extreme free-market views, entrepreneurs of think tanks like the Heritage Foundation and the Cato Institute, op-ed contributors and to the pages of the *Wall Street Journal*, and their supporters within the business community, including lobbying groups which proliferated and grew in strength during the 1970s. Among the economists in this informal group, the most prominent and influential was no doubt Milton Friedman, the

leader of the "second Chicago school" of economics. Many economists promoted "supply-side" tax cuts to reduce the cost of capital and promote growth, but retro-liberal economists like Friedman proposed cuts within the context of a broad-gauged attack on government. They received support framing a broad retro-liberal attack on government from economists like James Buchanan of the University of Virginia (1956–1968), Virginia Tech (1969–1983), and George Mason University (1983–2013), who developed a libertarian critique of modern government within what he described as the theory of "public choice."[28]

At the same time, both Democrats in Congress and President Carter had difficulty countering the retro-liberal campaign with progressive programs and messages. No one found an effective way to dramatize the call for horizontal equity, and many Democratic leaders were no more interested in closing loopholes in the income tax than were the Republicans. Some, led by Senator Russell Long (D-Louisiana), chair of the Finance Committee, and Representative Al Ullman (D-Oregon), chair of the Ways and Means Committee, weakened Carter's position by proposing, in 1978, the adoption of a value-added tax (VAT), rather than reforming the income tax, as a means of both broadening the federal tax base and shoring up tax revenues. Adopting a VAT might have been an effective means of accomplishing these goals, but most liberal Democrats, along with Carter, disliked adding regressive sales taxes to the federal tax system, and business leaders, whose support Long and Ullman hoped to attract, opposed the VAT because they feared, probably correctly, that it would encourage the growth of government. The proposal for a VAT never came to a vote in Congress, and in 1980 Oregon voters, perhaps precisely because of their dislike of a VAT, failed to return Ullman to the Congress.

The most effective member of Congress in mobilizing a broad base of support for a combination of capital-favoring cuts and across-the-board cuts was Representative Jack Kemp (R-New York). In 1975, with the support of retro-liberal economists on his staff, Kemp invoked conventional Mellon-style supply-side arguments, enhanced by the claim that it was necessary to reduce the penalty that income taxation placed on earnings saved rather than consumed.[29] Over the next two years, Kemp and his staff refined the program in order to package wealth-favoring tax cutting in ways that he hoped would have broad popular appeal to voters, including Democrats. To that end, in 1977 Kemp expanded his proposed tax reform by including deep, across-the-board cuts in income taxes. He first proposed a 30% reduction across the board in one year. Then, in July, he

joined with Senator William Roth (Republican-Delaware) to spread the cuts over three years—to cut across the board by 10% every year, for three years (these became known as the 10-10-10 tax cuts). They emphasized the benefits that would accrue to all voters but conveniently ignored the fact that a large portion of the tax cuts would benefit many wealthy families even though they had no "bracket creep" problem because they were firmly ensconced in the top income bracket.

In promoting the cuts Kemp and his colleagues added an argument that Mellon had used in only a limited way. The cuts, Kemp and his colleagues claimed, would actually reduce budget deficits and thus relieve the upward pressure on prices, including interest rates. This deficit reduction would occur, they argued, because big cuts in tax rates would invigorate American investors and workers to expand the tax base. Thus, Kemp et al. embraced what would become the most controversial proposition of the supply-side argument for tax cuts: The cuts would not just stimulate productivity; they would also reduce deficits.

The Kemp-Roth plan gained support even from some Democrats in Congress, including Senator Sam Nunn (D-Georgia). In 1978, Senator Nunn nearly succeeded in including a version (a 5% per year cut linked to spending restraints) in the Revenue Act then under consideration. Both houses endorsed the Nunn Amendment, but Carter used the threat of a veto to force Congress to drop the supply-side initiative. Ultimately, Carter signed the Revenue Act of 1978, stripped of the across-the-board cut. The final measure provided only minimal tax relief and simplification for individuals but offered significant cuts in capital gains and business taxes, including a reduction in the maximum capital gains rate from 39% to 28%.[30]

Thus, this measure stood firmly in the tradition of the tax cuts that had begun in 1945. In the future, with a less progressive President in the White House, little would stand in the way of expanding these cuts and enacting the kind of broad cuts that the federal government had made in the 1920s, in 1945, and again in 1964.

Ronald Reagan and the Economic Recovery Tax Act (ERTA) of 1981

While Jack Kemp had crafted his tax policy within Congress, Ronald Reagan engaged in a parallel effort in what became his campaign for the Presidency. Both Kemp and Reagan shared the goal of exploiting the inflationary situation to develop a tax program as the core of a populist

economic message and a promise to expand tax benefits for the wealthy members of the traditional Republican base.

When Reagan had been Governor of California (1967–1975), he had been frustrated in his attacks on the size of government that had been staples of his political rise. He had been particularly disappointed by the 1973 failure of Proposition 1, a measure that would have amended the state constitution to limit state spending. He had campaigned extensively, with economist Milton Friedman in tow, for the measure. After his two terms as Governor, Reagan began campaigning for President, and used a weekly radio address to develop new approaches to limiting government and cutting taxes. In 1977, he endorsed first the indexing of income rates for inflation and then the 10-10-10 proposal of Jack Kemp's, including its supply-side rationale. Martin Anderson, a Hoover Institution Fellow and a central economic adviser during Reagan's Presidential campaign and first term as President, later claimed that Reagan and the supply-siders were actually moderate in their views, arguing only that tax cutting "would *not lose as much revenue as one might expect*" (emphasis in original). Anderson was correct for most supply-siders—especially among professional economists who leaned toward that view—but not all. On occasion, Reagan himself suggested that he held the most extreme view, which implied almost no loss in revenues, even in the initial years.[31]

For both Kemp and Reagan, the political wisdom of their anti-tax strategies was born out in 1978 by the smashing victory of Proposition 13 revolt by California taxpayers.[32] Reagan observed that victory and became certain that dismal economic conditions had created an opportunity to use tax issues in a popular revolt against the size of government. This approach was likely to be far more successful than California's Proposition 1 five years earlier. Reagan made tax reform the core of his economic program in his bid for the presidency in 1980, and he settled on Kemp's proposals as the core of his tax program. Under the leadership of Martin Anderson, Reagan's campaign organization began drafting a fully detailed piece of tax legislation.

The proposed legislation did not push beyond rate cutting to reform the federal tax system in a fundamental way. Most important, broadening the base of income taxation was a nonstarter for Reagan and his campaign. In July 1979, he declared that the term "tax expenditures" was "the new name government has for the share of our earnings it allows us to keep. You and I," he said, "call them deductions." "All told," Reagan concluded, "our rich … Uncle Sam has an eye on about $170 billion that we

think is ours."[33] Reagan's sympathy for tax expenditures meant that he lacked a principled position from which to oppose the efforts of corporate lobbyists to influence his tax program. However, some of Reagan's economic advisers resisted the lobbyists, fearing that corporate favoritism might diminish the popular appeal of across-the-board cuts. But in the summer of 1980, the lobbyists succeeded in inserting huge tax expenditure into the Reagan proposals. Their leader was Charls Walker. He represented industrial clients with enormous investments in plant and equipment. Reagan was less concerned than his advisers with the optics of Walker's support and was more enthusiastic himself about the prospect of expanding business support for his campaign. Consequently, the Republican platform committee approved Walker's proposal of a dramatic increase in the allowances to corporations and individuals for the depreciation of tangible assets. The platform plank became known as "10-5-3," which was shorthand for the three new depreciation lifetimes for structures (ten years), equipment (five years), and light vehicles (three years). To pay for 10-5-3, the platform committee abandoned the proposal to index the personal income tax rate for individuals, even though that reform would have provided a major tax cut to middle-class families.[34]

Pragmatism reigned within the Reagan campaign. Reagan and his political operatives played down the fact that their tax program now included traditional pro-capital Republican legislation. At the same time, they focused the public campaign on the enactment of the deep, across-the-board tax cut that would be easily understood. After the Republican convention, Reagan and his economic advisers worked intently to refine their tax cut proposal. The programmatic marriage between 10-10-10 and 10-5-3, however, did not go entirely smoothly. Charls Walker and Reagan's economic advisers, including Alan Greenspan, began to worry that the entire package might be too large, increasing budgetary deficits. Larger deficits, through the upward pressure on interest rates, could impede capital formation and, perhaps even worse from their standpoint, might prompt Congress to pare back the 10-5-3 cuts in the face of the popularity of 10-10-10. About three weeks after Reagan's nomination, in what became a famous meeting, Reagan resisted the pressure from Walker and Greenspan to scale back 10-10-10, and successfully protected the 10-10-10 formula and never proposed reducing the benefits of 10-5-3.[35] He wanted to cut everyone's taxes, regardless of whether or not they increased deficits, and he may actually have wanted higher initial deficits to restrain spending. He said as much in February 1981, in a national address. "Well,"

he said, "we can lecture our children about extravagance until we run out of voice and breath. OR we can cure their extravagance simply by reducing their allowance."[36]

As a political proposition, Reagan's tax populism was decidedly successful. The tax platform helped Reagan sweep to victory in 1980, and the passage of the Economic Recovery Tax Act of 1981, expedited by an outpouring of popular support for the President after a serious assassination attempt, became the first major legislative victory for the Reagan administration. In the process of enacting the legislation, the Congress significantly expanded the capital-favoring aspects of the administration's proposal and, at the same time, reduced the across-the-board benefits to taxpayers. A bipartisan bidding war decorated what became a "Christmas tree" bill with a spectacular array of tax shelters. To help pay for the larger benefits in the form of tax expenditures, Congress reduced the across-the-board cuts. The final legislation turned the 10-10-10 cuts into 5-10-10 and delayed indexing until 1985, moving many people back into higher tax brackets. Thus, Congress turned Reagan's campaign proposal into a measure even more closely resembling the Mellon tax cuts of the 1920s.

Was Reagan's Tax Program Revolutionary?

There are various ways in which the Economic Recovery Act of 1981 may have constituted or initiated a revolution in tax policy. But, in terms of the possible ways, any revolution was short-lived, at best. First, the capital-favoring cuts were of a piece with the entire stream of tax cutting since World War II. Second, the across-the-board cuts, which were the central element in Reagan's tax populism, were not breaks in principle from the inflation-adjusting cutting in income taxes that the federal government undertook following the periods of inflation during and after both World Wars. Third, while all the 1981 cuts, taken together, reduced income taxes, relative to gross domestic product (GDP), more than had the earlier big tax cuts, the 1981 cuts were followed immediately by three significant tax increases, not by a wave of further neo-liberal "Starve-the-Beast," anti-government tax cutting. The three measures were the loophole closing Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), the 1983 acceleration of Social Security taxes, and the Deficit Reduction Act of 1984 (DEFRA), which closed more loopholes. Taken together, these three tax measures restored most of the revenue that ERTA cut from the federal budget in 1981, making the revenue reductions no more consequential

than the earlier post-inflation cuts. Even by the end of the Reagan administration, ERTA, in terms of its net fiscal effect, had turned out to be essentially a routine contributor to a much longer history of significant tax cutting. ERTA represented a continuation of the long-term swing of tax policy that began immediately after World War II. Following Reagan, two other Presidents, George H.W. Bush and Bill Clinton, continued the tax increases. George H.W. Bush followed in the Omnibus Budget Reconciliation Act (OBRA) of 1990, which raised the top marginal personal income tax rate from 28% to 31%. Clinton drove the adoption of OBRA 1993, which raised the top marginal rate again, to 39.6%. The string of tax increases that began in 1982 and continued over more than a decade amounted to the most significant string of peacetime tax increases in American history outside of the New Deal era.

Why did Reagan's efforts to cut taxes collapse so quickly, and so hard, after 1981? This is a puzzle because, in fact, various members of the Reagan administration, including Reagan himself, had reservations about the tax increases following the passage ERTA. The short answer as to why they had so little effect on the course of tax policy: is "deficits," and how they were regarded by the nation's most powerful economic elites. As early as 1981, bipartisan worries about defeats and their upward pressure on interest rates led to serious questioning of the wisdom of the tax cutting of 1981. Pressure from the business community and, most importantly, the financial community was most influential. The nation's investment bankers worried about the possibility that large deficits would crowd out private capital, and that high interest rates would threaten recession. Also, American exporters wanted to reduce interest rates and thereby reduce the attractiveness of American federal debt to Japanese investors whose dollar holdings enabled Japanese exporters to maintain the advantage of a low-priced yen. At the same time, leaders in both political parties, including the President, wanted to avoid cuts in Social Security (the "third rail of American politics"), Medicare, and national defense. Moreover, many veteran lawmakers in Congress, like Russell Long, the chair of Senate Finance Committee, had never fully embraced ERTA. They voted for it knowing that in the future they could comfortably support tax increases.

ERTA proved not to be revolutionary but another element of the Reagan tax program had the potential to become revolutionary—the Tax Reform Act of 1986. If the measure had succeeded, its effects would have been very different from those of retro-liberal tax reforms. It would have

produced a base broadening that powerfully strengthened the base of the income tax and the financing of the federal government. The movement toward the 1986 act began with a retro-liberal proposal for converting the income tax into a tax on consumption and replacing the progressive tax structure with a single, low rate of tax. But the more important source of support was the growing outrage within the Treasury, key congressional leaders, and the general public over the soaring expansion of tax shelters and tax expenditures during the Great Inflation of the late 1970s and early 1980s. Ever since the inflation that had followed World War II, economic experts within the Treasury had pressed for base-broadening reform, but their program never gained any traction beyond the tax policy community. Finally, the combination of public outrage and vigorous leadership on the part of President Reagan presented these experts an opportunity for a major legislative victory. At the end of the Reagan administration, many observers believed that it might be possible to expand even further the base broadening. However, the administrations of George H.W. Bush and Bill Clinton failed to search for such opportunities and, in the next century, the George Bush administration actively reversed the base broadening as it forged a retro-liberal tax regime.[37]

In sum, by 1993, the remnants of ERTA's across-the-board cutting and capital-favoring tax expenditures were moderate adjustments for inflation in income taxation, and some business-oriented tax expenditures. All were similar in scope and impact to those that had come earlier during the period since World War II. There had been no revolution in tax policy. How much of an impact did Reagan have on these relatively moderate measures? It is worth remembering that even before Reagan's election there was considerable support in Congress for the kind of cuts enacted in 1981. If Jimmy Carter had won re-election in 1980, his administration, in the face of additional inflation, might have agreed to across-the-board cuts and base-broadening reforms. By the end of Carter's second term, the policy outcome might have turned out to be roughly the same, except perhaps without the policy gyrations of the Reagan administration.

Effects of the Reagan Tax Cuts on Inequality

The across-the-board reduction of income tax rates and the investment-favoring tax expenditures in ERTA may not have marked a revolution in tax policy from the standpoint of revenue reduction or increases in tax expenditures, but the legislation's cuts in the highest marginal rate, combined

with the additional cut in that rate by the Tax Reform Act of 1986, may have had a major impact on the distribution of income and wealth. The cut in 1981 was from 77% to 50%—a cut of 27 percentage points that reduced the top rate by 35%. The cut in 1986 was even larger—from 50% to 28%, a cut of 22 percentage points that reduced the top rate by 44%. Both of these were the largest of either of the two earlier post–World War II cuts in the top rate. The two other cuts came in 1964—a cut from 91% to 77%, a cut of 14 percentage points that reduced the top rate by 14%, and in 1946—a cut from 94% to 86.45%, a cut of 7.55 percentage points that reduced the top rate by 8%. The Reagan cuts were more on the scale of the large cuts engineered by Andrew Mellon during the early 1920s. These cuts, in 1922 and 1923, reduced the top rate from 74% to 43.5%. The reduction by 29.5 percentage points reduced the top rate by 40%. This reduction was huge—but not as large as the overall cut of about two-thirds in the top rate in 1981 and 1986. Certainly, if all else had been equal, the reductions in the top rate in 1981 and 1986 would have increased the overall level of inequality substantially, just as did the cuts of the early 1920s. But other things were not equal.

Other elements in the tax legislation during the Reagan administration actually had offsetting effects, in the direction of reduced inequality. The lower rates reduced the value for the wealthy of the tax preferences than remained in the tax code after 1986, and they may have increased voluntary compliance with the tax code. More important, the loophole closing in 1982 through 1986, along with the expansion of the Earned Income Tax Credit (part of the 1986 legislation that provided major tax benefits for the working poor) and a set of increases in personal exemptions and standard deductions in 1986 (taking 6 million taxpayers off the rolls), had distinctly progressive effects. These provisions represented the success of a kind of rearguard action by Congressional Democrats, joined by some members of the Reagan administration, against the declining progressivity of the income taxation. As a consequence, the net effect of the tax policies of the Reagan administration was to leave the overall progressivity of the income tax essentially unchanged between 1981 and 1989. During the next decade, the tax increases of the administrations of George H.W. Bush and Bill Clinton moved that rate in a progressive direction.[38]

While the overall rate of progressivity did not change across the 1980s, the rate of taxing the top 1% of taxpayers did decline significantly. For this elite group, the effective tax rate (including all federal taxes and taking into account tax preferences as well as statutory rates) declined from slightly

more than 35% in 1979 to under 30% in 1989.[39] In other words, the Reagan revisions of the highest marginal rates tended to increase the concentration of income and wealth at the very top of the income scale. However, as a consequence of the increases in the taxation of the highest income earners during the Bush and Clinton administrations, the most affluent 1% of taxpayers experienced the largest increases of any income group in their effective rates. In the 1990s, the average effective rate on the top 1% increased to slightly less than 35%, representing a reversal of their gains during the Reagan administration.[40]

For an even more select group, the top 0.1% of taxpayers, the fluctuations in the effective rate across the 1980s and 1990s were even greater. Thomas Piketty and Emanuel Saez found that their rate fell from about 50% in 1980 to about 30% in 1990 and then increased to about 40% by the end of the century. The increase would have been even greater but, as Leonard Burman has pointed out, a 1997 cut in the capital gains tax eased the increase for the highest income families.[41]

The combination of the cutting of the highest income tax rates during the 1980s and the late 1990s, coupled with the fluctuations in those rates, may have significant effects on the political and institutional behavior of the wealthiest Americans. Thomas Piketty has recently suggested an example of an important institutional response. He writes that the "very large decrease in the top marginal income tax rate in the English-speaking countries after 1980 … seems to have totally transformed the way top executive pay is set, since top executives had much stronger incentives than in the past to seek large raises."[42] Changes in the tax code—especially the 1997 cut in capital gains taxation—may also have been important to the trends he identifies.

The most important effect of the political successes of both the wealthiest Americans, and the reversals they experienced, during the years of the Reagan, Bush, and Clinton administrations may well have intensified their efforts to shape the future course of tax legislation during late 1990s and the administrations of George W. Bush and Barack Obama. Large tax cuts in 2001 and 2003 decisively undid the effort of the framers of the Tax Reform Act of 1986 to equalize the rates of taxation on labor and capital income and roll back tax expenditures. The combination of these cuts, coupled with the large cuts of the top rates in 1986 rate cuts, most of which survived the Clinton administration, initiated a new tax and fiscal regime, which I have referred to as "retro-liberal."[43]

Effects of the Reagan Expenditure Policies on Inequality

Focusing on ERTA in particular, or tax policy in general, as the expression of Reagan's retro-liberalism, or neo-liberalism, risks neglecting a major fiscal thrust of the President's program. He wanted not only to cut taxes but also to contain or even roll back the scale of domestic government. Perhaps the dominant fiscal expression of a "Reagan Revolution" was on the expenditure side of the public ledger. This aspect of fiscal policy may have had a significant effect on the distribution of income and wealth, particularly through the weakening of the middle class.

Federal tax revenues were stable as a share of GDP during the 1980s, to some extent as a result of the strengthening of the income tax system by the Tax Reform Act of 1986. However, entitlement spending through the Social Security and Medicare systems was increasing. This meant that spending on the remainder of federal programs—the spending on discretionary programs in education, infrastructure development, job training, and welfare—was declining as a share of GDP. The Reagan administration encouraged this trend as a useful point of departure in rolling back the domestic programs that had been established during the New Deal and expanded through the 1970s. In 1981, especially with the 1981 OBRA, the administration was able to make real cuts in discretionary domestic spending and then slowed the growth of this spending, reducing its size as a percentage of GDP.[44]

Reagan's rhetorical attacks on the tax system contributed to this slowing of discretionary domestic spending. The attacks undermined tax consciousness and public confidence in the tax system. Throughout his post-1981 period of tax raising Reagan railed against big government in general and welfare spending in particular, reinforcing the public perception that their income taxes went primarily to fund wasteful social spending. As late as 1982 he repeated the racist "welfare queen" story he had told for the first time in 1976, exacerbating the racial divides that had long weakened many of the major initiatives in social policy undertaken by the federal government from the New Deal through Lyndon Johnson's Great Society.[45]

In yet another way, Reagan's rhetoric confused the public and interfered with the development of a healthy tax consciousness. In discussing its tax increases, Reagan never admitted he was, in fact, raising taxes. For example, he described the Social Security tax increases as simply acceleration of

increases that had been previously scheduled while he largely ignored the benefit cuts. And, he described TEFRA and DEFRA as tax reforms rather than tax increases. By stressing the goal of deficit reduction rather than support of government programs, Reagan further contributed to undermining public support for taxing on behalf of social spending.

Arguably, the campaign of Reagan and his administration against discretionary social spending had greater long-term social effects than did the Reagan tax cuts. While the changes in the tax system during the 1980s were neutral overall in their effects on the overall distribution of income and wealth, the Reagan administration’s anti-government campaign contributed significantly to the stagnation of social spending during the decade.

Reagan’s immediate successors in the Presidency, George H.W. Bush and Bill Clinton, helped make the tax system more progressive but they did not ease the restraint on discretionary social spending that Reagan had initiated. In fact, they reinforced it. Neither Bush nor Clinton ever justified their tax increases in terms of increasing funding for domestic programs. George H.W. Bush was as fervent as Reagan in feeding negative images of welfare recipients, and Clinton never challenged those images in his program of welfare reform. To his credit, Clinton may have held the belief that controlling deficits through a tax increase would pave the way for subsequent expansion of domestic programs and even the enactment of some form of national health insurance. But he did not make that part of his public case for the tax increases in OBRA 1993. The only significant program of cash redistribution that Bush and Clinton expanded was the Earned Income Tax Credit (EITC). Republican leaders in Congress generally accepted the EITC because it created incentives for the working poor to get off traditional welfare and because it was funded within the tax system, enabling it to fly under the public’s anti-government radar. The EITC’s survival did not reflect popular tax consent.

Collectively, Reagan, Bush, and Clinton stabilized domestic spending as a share of GDP at approximately the 15% level. Thus, Bush and Clinton as well as Reagan pursued fiscal consolidation not only by raising taxes but also by reversing what had been a trend of increasing spending on civilian programs as a share of GDP. Meanwhile, demographic trends and the increasing relative cost of health care caused spending on the entitlement programs Social Security and Medicare to grow more rapidly than GDP. In response, Bush and Clinton, as well as Reagan, accepted spending cuts, as a share of GDP, in education, infrastructure, job training, and other discretionary

programs. With the reductions in discretionary domestic spending Bush and Clinton may have offset entirely the progressive effects of the tax increases during their administrations. In fact, these reductions probably contributed more than any changes in the tax code to the growing concentration of income and wealth during the last two decades of the twentieth century. At the very least, the regressive distributive effects of cuts in discretionary spending reinforced the regressive effects of tax expenditures that favored the wealthy, and these regressive effects may well have been growing in size during the 1990s.[46] The result was an increase in poverty and the weakening of the middle class that rose to the level of a national crisis in the early twenty-first century.

The success of the organized retro-liberal movement undoubtedly helped undermine popular confidence in government, beginning in the 1970s and 1980s. As a consequence, political leaders, including liberals, became increasingly hesitant to discuss tax increases as a means of funding new programs. But retro-liberals were able to succeed only because of a fundamental weakness of the American welfare state that had become apparent during the progressive and New Deal eras. This weakness was its setting within a broker state. The American welfare state had always been fragmented rather than comprehensive in the scope of its benefits, and included the nation's wealthiest among its clients. The fragmentation of traditional welfare functions became reflected in programs such as cash benefits for relief of old age, unemployment, disability, and poverty; provision of services such as education and medical care; and innumerable tax preferences extended to the entire spectrum of taxpayers. This fragmentation in turn created opportunities for retro-liberal forces to pit the beneficiaries of various welfare programs against one another and meanwhile conceal their own benefits.[47] In short, the relative decline of discretionary domestic spending that began during the last two decades of the twentieth century, and resulting growth in inequality, resulted from long-standing weaknesses in the American welfare state as well as from the growing force of the organized retro-liberal movement during the Reagan years.

American Exceptionalism Redux

The structural weaknesses in American welfare provision, in turn, had their basis in a web of social and institutional realities with profound historic roots in the United States. The realities included the sustained significant surge in economic productivity and rising expectations that began

in the nineteenth century and continued into the late 1960s.[48] The same period, however, was also marked by episodes of significant unemployment and increasing concentration of incomes. The most notable such episode was the Great Depression of the 1930s. The combination of productivity increases, rising expectations, and economic reversals for many Americans fueled political confrontations over distributional tax policy. These were sharpest during the 1930s and major mobilizations for war but reoccurred even after World War II. But productivity gains gradually strengthened popular support for tax policies that favored capital investment and tended to weaken the American labor movement, which failed to generate sustained support for building a comprehensive welfare state. The flagging of productivity in the 1970s and 1980s further increased the appeal of tax cuts that favored capital as a means of restoring economic health. Persistent nativism and racism reinforced such policies by creating opportunities for the largest and most powerful beneficiaries to undermine popular support for addressing the problems of structural poverty. It has become fashionable in recent decades to describe and dismiss such explanations of policy shifts as building on an “‘American exceptionalism’ thesis.”[49] But such dismissal may neglect explanatory factors, embedded in institutional development, that are more fundamental to explaining policy and distributional trends than the circumstances immediately surrounding crisis-driven public policy choices. And, paying attention to factors often associated with American “exceptionalism” may, in fact, help create a framework that is more robust in explaining comparative international trends in fiscal policy and distribution.[50] For the American case, the long retro-liberal swing in American fiscal institutions that began after World War II was driven primarily by profound political and economic contradictions. Resolution of those tensions may well be required before the American polity is able to reverse the long swing toward retro-liberalism.

Notes

1. I have benefitted from many careful readings of this chapter, which began in draft for the workshop, “Taxation for and Against Redistribution since 1945: Trajectories and Comparative Outcomes,” sponsored by the German Historical Institute in December 2014. I am especially grateful to the other contributors to this volume, and to the following: Nicholas Barreyre, Carl-Henry Geschwind, Roman Huret, Ajay Mehrotra, and Joseph Thorndike.

2. See, for example, Angus Burgin, *The Great Persuasion*; David Harvey, *A Brief History of Neoliberalism*; Roman Huret, *American Tax Resisters*, Daniel Stedman Jones, *Masters of the Universe*; Philip Mirowski and Dieter Plehwe, *The Road From Mont Pèlerin*; Kim Phillips-Fein, *Invisible Hands*; Raymond Plant, *The New-liberal State*; and Monica Prasad, *The Politics of Free Markets.*
3. David Harvey, *A Brief History of Neoliberalism*, 164–165.
4. Walter Lippmann, *The Good Society*, 225–226 and 230, and *Drift and Mastery*. On Lippmann's larger economic agenda in *The Good Society*, see Crauford D. Goodwin, *Walter Lippmann*, 233–245. For Arthur Schlesinger's assessment see his *The Politics of Upheaval*, 393.
5. W. Elliot Brownlee, "Wilson's Reform of Economic Structure."
6. See, most importantly, Henry C. Simons, *Personal Income Taxation*. For a superb analysis of the complexities of Simons' thought, see Daniel Shaviro, "The Forgotten Henry Simons."
7. W. Elliot Brownlee, *Federal Taxation in America: A History*, 176–177. The last time Friedman referred to "neo-liberalism" in print seems to have been in 1951, when he published "Neo-liberalism and its Prospects." On "the two Chicago schools," see Jones, *Masters of the Universe*, 89–100.
8. Decades ago I began my study of the political economy of American taxation by analyzing the hotly contested issues surrounding the adoption of the Wisconsin income tax, the first modern such tax in the United States, during the progressive era. See, for example, Brownlee, "Income Taxation and the Political Economy of Wisconsin," 299–324. About ten years later I suggested a more general framework to analyze that class-based volatility, emphasizing the "path-dependent" nature of the development of American tax institutions, particularly for the period between the 1890s and the end of World War II. See W. Elliot Brownlee, "Taxation for a Strong and Virtuous Republic," *Tax Notes.* In 1996 I argued that beginning in the late nineteenth century, the polarized construction of "tax issues would exacerbate class conflict for nearly a century." Brownlee, *Federal Taxation in America: A Short History,* 35. In her 2006 book, Monica Prasad took a somewhat similar approach in understanding the enactment of ERTA, suggesting the importance of progressive income taxation and adversarial politics in explaining its timing. See Prasad, *The Politics of Free Markets*, 3–4, 43–61, and 280–283. In contrast with my analysis, hers discounted the influence of class in shaping tax policy.
9. An OECD analysis of inequality suggests that over the two decades beginning in the mid-1980s the United States ranked nearly at the top of the 22 nations in progressive tax redistribution. See OECD, *Growing Unequal*, especially 111–115.

10. For my definition and survey of US tax regimes, see Brownlee, *Federal Taxation in America: A History*, and the previous two editions. In the 2016 edition I engaged in an effort to integrate my concepts of tax regime shifts and "long-swings."
11. "Supply-side" has taken on various meanings in the context of tax cuts or tax reform. In the broadest sense, which is its meaning here, it refers to changes in tax policy that seeks to make the production of goods and services more efficient rather than to stimulate demand for goods and serves by leaving more money in the hands of consumers. In the 1970s, the term "supply-side" took on a narrower and sometimes pejorative meaning, referring to tax cuts that proponents claimed would pay for themselves by stimulating demand, incomes, and finally tax revenues.
12. The economic benefits of the latter change were enjoyed mainly by relatively wealthy families. See Carolyn C. Jones, "Mass-Based Income Taxation: Creating a Taxpaying Culture, 1940–1952," 132–138; Edward J. McCaffery, *Taxing Women* 29–62; and Dennis J. Ventry, "The Treatment of Marriage under the U.S. Federal Income Tax."
13. On the early postwar tax cuts in the United States, see John F. Witte, *The Politics and Development of the Federal Income Tax*, 131–134; Steven A. Bank, Kirk J. Stark, and Joseph J. Thorndike, 12–125; and Joseph J. Thorndike, *Their Fair Share*, 265–272.
14. Brownlee, "Historical Perspective on U.S. Tax Policy Toward the Rich," 60–61.
15. On the Revenue Acts of 1962 and 1964, see Brownlee, *Federal Taxation in America: A History*, 166–167; Herbert Stein, *The Fiscal Revolution in America*, 385–453; and "The Fiscal Revolution in America, Part II," 194–201; John F. Witte, *The Politics and Development of the Federal Income Tax*, 155–165; Seiichiro Mozumi, "A Prelude to Fiscal Gridlock of the United States: Social Policy, Taxation and Policymaking of the Administration of John F. Kennedy." On the favorable taxation of capital income under the corporate income tax, see Steven A. Bank, *From Sword to Shield*, xxv. For the Lyndon Johnson quotation, see Public Papers of the Presidents of the United States, 9–10.
16. Nixon quoted by Stein, "The Fiscal Revolution: Part II," 228.
17. On the Revenue Act of 1971 see Witte, *The Politics and Development of the Federal Income Tax*, 176–179; Stein, "The Fiscal Revolution: Part II," 234–241; Steven A. Bank et al., *War and Taxes*, 139–141.
18. There is much important scholarship on the income tax preferences that have classic welfare, rather than a corporate welfare function. See, for example, Christopher Howard, *The Welfare State Nobody Knows* and Molly C. Michelmore, *Tax and Spend: The Welfare State, Tax Politics, and the Limits of American Liberalism*.

19. Consumer price index for urban wage earners, U.S. Bureau of Labor Statistics data in *Economic Report of the President*, 351.
20. Brownlee, "Historical Perspective on U.S. Tax Policy Toward the Rich," 61.
21. Brownlee, *Federal Taxation in America: A History*, 173. For a summary of the operation of postwar individual income tax, including the trends in progressiveness, see Jon Bakija and Eugene Steuerle, "Individual Income Tax since 1948," 451–475.
22. Leonard Burman and his colleagues have noted that non-business tax expenditures increased swiftly between 1976 and 1985, growing from 4.2% to 6.4% of GDP. Leonard E. Burman, Christopher Geissler, and Eric J. Toder, "How Big are Total Individual Income Tax Expenditures?," 79.
23. On the history of the base-broadening movement and the role of the Treasury, see Brownlee, *Federal Taxation in America: A History*, 168–172.
24. Jimmy Carter: "Our Nation's Past and Future."
25. Jimmy Carter, "A New Beginning."
26. On Carter's program for tax reform, see Brownlee, *Federal Taxation in America: A History*, 173–174; Mozumi, "Tax Reformers' Ideas, the Expenditure-Taxation Nexus, and Comprehensive Tax Reform in the United States, 1961–1986," Chap. 8, this volume, 196–200; W. Carl Biven, *Jimmy Carter's Economy*, 198–200; and Witte, *The Politics and Development of the Federal Income Tax*, 199–219. See, also, Department of the Treasury, *Blueprints for Basic Tax Reform*.
27. Brownlee, *Federal Taxation in America: A History*, 174–175.
28. Ibid., 175. Recently, the historian Nancy MacLean has written a powerful analysis of the career of James Buchanan, effectively highlighting the importance of that career, which histories of retro-liberalism have often neglected. See MacLean, *Democracy in Chains*. On the "second Chicago school" of economics, see p. 158, above.
29. On the development of the Kemp proposals, see Paul Craig Roberts, *The Supply-Side Revolution*, 1–33 and 69–88.
30. Brownlee, *Federal Taxation in America: A History*, 180; Michael B. Berkman, *The State Roots of National Politics*, 48–49 and 53–56; and Witte, *The Politics and Development of the Federal Income Tax*, 204–217.
31. Brownlee, *Federal Taxation in America: A History*, 177–178. On Reagan and Friedman's friendship and cooperation during the Prop 1 campaign, see Milton Friedman and Rose Friedman, *Two Lucky People*, 172–173. On Reagan's endorsement of Kemp's supply-side argument, see Ronald Reagan, "Taxes, October 18, 1977." For Martin Anderson's explanation of supply-side theory, see his Anderson, *Revolution*, 152.
32. There is now a fine collection of studies of the movement for Proposition 13. See, for example, Isaac Martin, *The Permanent Tax Revolt* and Huret, *American Tax Resisters*, 229–232.

33. Ronald Reagan, "Tax Loopholes, May 1975" and "Tax Expenditures, July 27, 1979."
34. On the development of the "10-5-3" proposal; the mobilization of the business community behind it; the negotiations over the formation of a coalition between the Reagan transition team and organized business; and the crucial role of Charls Walker, who became the chair of President Reagan's tax transition team, see Brownlee, *Federal Taxation in America: A History*, 183–184; Cathie J. Martin, *Shifting the Burden*, 47 and 116–123; Cathie J. Martin, "American Business and the Taxing State: Alliances for Growth in the Postwar Period," 383–386; and Jeffrey H. Birnbaum and Alan S. Murray, *Showdown at Gucci Gulch*,16–18. Monica Prasad places greater emphasis on the tensions between advocates of "10-10-10" and the architects of "10-5-3." See Prasad, "The Popular Origins of Neoliberalism in the Reagan Tax Cut of 1981," 351–383.
35. Charls Walker quoted by Martin Feldstein, ed., *American Economic Policy of the 1980s*, 224–225.
36. Ronald Reagan, "Economic Speech—Address to the Nation, February 5, 1981," 490. David Stockman, Reagan's director of the Office of Budget and Management, denied that Reagan and the administration had a "Starve the Beast" strategy, but he may not have fully understood Reagan's intentions or have known how much weight others gave to this approach at least as a secondary consideration. David Stockman, *Triumph of Politics*, 267–268. See also his comments quoted by Feldstein, ed., *American Economic Policy of the 1980s*, 287.
37. On the long-standing interest of the Treasury in broadening the base of income taxation, see Brownlee, *Federal Taxation in America: A History*, 168–172. For a summary and analysis of the enactment of the Tax Reform Act of 1986, see W. Elliot Brownlee and C. Eugene Steuerle, "Taxation," 168–173.
38. Brownlee and Steuerle, "Taxation," 173–174.
39. It should be emphasized that this measure includes social security taxes, incorporating the increase in the regressive payroll taxes during the 1980s.
40. See Brownlee and Steuerle, "Taxation," 181 n. 64; C. Eugene Steuerle, *Contemporary U.S. Tax Policy*, 50–51; and Burman, "Taxes and Inequality," 571–572.
41. Thomas Piketty and Emmanuel Saez, "How Progressive is the U.S. Federal Tax System?," 16; Burman, "Taxes and Inequality," 572.
42. Thomas Piketty, *Capital in the Twenty-First Century*, 335.
43. Brownlee, *Federal Taxation in America: A History*, 264–266.
44. For a useful analysis of Reagan's budgeting for discretionary domestic programs, see Dennis S. Ippolito, *Deficits, Debts, and the New Politics of Tax Policy*, 143–146.

45. For the Reagan story, see Lou Cannon, *President Reagan*, 518. On Reagan's racial attitudes, rhetoric, and policies, see Cannon, *President Reagan*, 516–525 and Jeremy D. Mayer, "Reagan and Race: Prophet of Color Blindness, Baiter of the Backlash," 70–89.
46. In 2008 Leonard Burman and his colleagues found that "overall, tax expenditures for individual taxpayers … disproportionately benefit those with higher incomes." And, they found that while non-business tax expenditures had declined during the late 1980s as a consequence of the Tax Reform Act of 1986, by 2001 they had increased as a share of GDP to about the same level as in 1985. Burman et al., "How Big Are Total Individual Income Tax Expenditures?," 79–80.
47. For analytical surveys of the fragmentation of traditional welfare services, including the contribution of liberals to the process, see Michelmore, *Tax and Spend* and Howard, *The Welfare State Nobody Knows*. For the related suggestion that high progressive taxation contributed to this fragmentation, in part by privileging "the development of a private system of welfare," see Monica Prasad, *The Land of Too Much,* 153–171.
48. For the best survey of the long-term patterns of productivity change see Robert J. Gordon, *The Rise and Fall of American Growth.*
49. See, for example, Prasad, *The Politics of Free Markets*, 3.
50. For suggestions along these lines, see W. Elliot Brownlee and Eisaku Ide, "Fiscal Policy in Japan and the United States since 1973: Economic Crises, Taxation, and Weak Tax Consent."

References

Anderson, Martin. 1988. *Revolution*. San Diego: Harcourt Brace Jovanovich.

Bank, Steven A. 2010. *From Sword to Shield: The Transformation of the Corporate Income Tax, 1861–Present*. Oxford: Oxford University Press.

Bank, Steven A., Kirk J. Stark, and Joseph J. Thorndike. 2008. *War and Taxes*. Washington, DC: The Urban Institute Press.

Berkman, Michael B. 1993. *The State Roots of National Politics: Congress and the Tax Agenda, 1978–1986*. Pittsburgh: University of Pittsburgh Press.

Birnbaum, Jeffrey H., and Alan S. Murray. 1987. *Showdown at Gucci Gulch: Lawmakers, Lobbyists, and the Unlikely Triumph of Tax Reform*. New York: Random House.

Biven, W. Carl. 2002. *Jimmy Carter's Economy: Policy in an Age of Limits*. Chapel Hill: University of North Carolina Press.

Brownlee, W. Elliot. 1976. Income Taxation and the Political Economy of Wisconsin, 1890–1930. *Wisconsin Magazine of History* 59: 299–324.

———. 1989. Taxation for a Strong and Virtuous Republic. *Tax Notes* 45 (15): 1613–1621.

———. 1996. *Federal Taxation in America: A Short History*. 1st ed. Cambridge and Washington, DC: Cambridge University Press and Woodrow Wilson Press.

———. 2000. Historical Perspective on U.S. Tax Policy Toward the Rich. In *Does Atlas Shrug? The Economic Consequences of Taxing the Rich*, ed. Joel B. Slemrod, 29–73. New York and Cambridge: Russell Sage Foundation and Harvard University Press.

———. 2008. Wilson's Reform of Economic Structure: Progressive Liberalism and the Corporation. In *Reconsidering Woodrow Wilson: Progressivism, Internationalism, War, and Peace*, ed. John Milton Cooper Jr., 57–89. Washington, DC and Baltimore, MD: Woodrow Wilson Center Press and The Johns Hopkins University Press.

———. 2016. *Federal Taxation in America: A History*. Cambridge: Cambridge University Press.

Brownlee, W. Elliot, and C. Eugene Steuerle. 2003. Taxation. In *The Reagan Presidency: Pragmatic Conservatism and Its Legacies*, ed. W. Elliot Brownlee and Hugh Davis Graham, 155–181. Lawrence, KS: University Press of Kansas.

Brownlee, W. Elliot, and Eisaku Ide. 2017. Fiscal Policy in Japan and the United States Since 1973: Economic Crises, Taxation, and Weak Tax Consent. In *Leviathan After the Boom: Public Finance in Western Capitalist Countries Since the 1970s*, ed. Marc Buggeln, Martin Daunton, and Alexander Nützenadel, 57–82. Cambridge: Cambridge University Press.

Burgin, Angus. 2012. *The Great Persuasion: Reinventing Free Markets Since the Depression*. Cambridge: Harvard University Press.

Burman, Leonard E. 2013. Taxes and Inequality. *Tax Law Review* 66: 571–572.

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

Cannon, Lou. 1991. *President Reagan: The Role of a Lifetime*. New York: Simon & Schuster.

Carter, Jimmy. 1976a. A New Beginning: Presentation by Jimmy Carter to the Platform Committee of the Democratic Party. Copy in Walter F. Mondale Papers, Minnesota Historical Society. http://www2.mnhs.org/library/findaids/00697/pdfa/00697-00150-5.pdf

———. 1976b. 'Our Nation's Past and Future': Address Accepting the Presidential Nomination at the Democratic National Convention in New York City. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*. http://www.presidency.ucsb.edu/ws/?pid=25953

Economic Report of the President: 1991. 1991. Washington, DC: U.S. Government Printing Office.

Feldstein, Martin, ed. 1994. *American Economic Policy of the 1980s*. Chicago: University of Chicago Press.

Friedman, Milton. 1951. Neo-Liberalism and Its Prospects. *Farmand* 17: 89–93.

Friedman, Milton, and Rose Friedman. 1998. *Two Lucky People: Memoirs*. Chicago: University of Chicago Press.

Goodwin, Crauford D. 2014. *Walter Lippmann: Public Economist*. Cambridge: Harvard University Press.

Gordon, Robert J. 2016. *The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War*. Princeton: Princeton University Press.

Harvey, David. 2005. *A Brief History of Neoliberalism*. Oxford: Oxford University Press.

Howard, Christopher. 2007. *The Welfare State Nobody Knows: Debunking Myths About U.S. Social Policy*. Princeton: Princeton University Press.

Huret, Roman. 2014. *American Tax Resisters*. Cambridge: Harvard University Press.

Ippolito, Dennis S. 2012. *Deficits, Debt, and the New Politics of Tax Policy*. Cambridge: Cambridge University Press.

Jon, Bakija, and Eugene Steuerle. 1991. Individual Income Tax Since 1948. *National Tax Journal* 44: 451–475.

Jones, Carolyn C. 1996. Mass-Based Income Taxation: Creating a Taxpaying Culture, 1940–1952. In *Funding the American State, 1941–1995: The Rise and Fall of the Era of Easy Finance*, ed. W. Elliot Brownlee, 107–147. Washington, DC and Cambridge: The Wilson Center Press and Cambridge University Press.

Jones, Daniel Stedman. 2012. *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics*. Princeton: Princeton University Press.

Lippmann, Walter. 1937. *The Good Society*. Boston: Little, Brown.

———. 1986. *Drift and Mastery*. Madison: University of Wisconsin (republication of the 1914 edition).

MacLean, Nancy. 2017. *Democracy in Chains: The Deep History of the Radical Right's Stealth Plan for America*. New York: Viking.

Martin, Cathie Jo. 1991. *Shifting the Burden: The Struggle Over Growth and Corporate Taxation*. Chicago: University of Chicago Press.

———. 1996. American Business and the Taxing State: Alliances for Growth in the Postwar Period. In *Funding the American State, 1941–1995: The Rise and Fall of the Era of Easy Finance*, ed. W. Elliot Brownlee, 353–406. Washington, DC and Cambridge: The Wilson Center Press and Cambridge University Press.

Martin, Isaac. 2008. *The Permanent Tax Revolt: How the Property Tax Transformed American Politics*. Stanford: Stanford University Press.

Mayer, Jeremy D. 2007. Reagan and Race: Prophet of Color Blindness, Baiter of the Backlash. In *Deconstructing Reagan: Conservative Mythology and America's Fortieth President*, ed. Kyle Longley, Jeremy D. Mayer, Michael Schaller, and John W. Sloan, 70–89. Armonk, NY: M.E. Sharpe.

McCaffery, Edward J. 1997. *Taxing Women*. Chicago: University of Chicago Press.

Michelmore, Molly C. 2012. *Tax and Spend: The Welfare State, Tax Politics, and the Limits of American Liberalism*. Philadelphia: University of Pennsylvania Press.

Mirowski, Philip, and Dieter Plehwe, eds. 2009. *The Road From Mont Pèlerin: The Making of the Neoliberal Thought Collective*. Cambridge: Harvard University Press.

Mozumi, Seiichiro. 2014. *A Prelude to Fiscal Gridlock of the United States: Social Policy, Taxation and Policymaking of the Administration of John F. Kennedy*. PhD dissertation, Keio University.

OECD. 2008. *Growing Unequal?: Income Distribution and Poverty in OECD Countries*. OECD Publishing. http://www.oecd-ilibrary.org/social-issues-migration-health/growing-unequal_9789264044197-en

Phillips-Fein, Kim. 2009. *Invisible Hands: The Businessmen's Crusade against the New Deal*. New York: W.W. Norton.

Piketty, Thomas. 2013. *Capital in the Twenty-First Century*. Cambridge: Harvard University Press.

Piketty, Thomas, and Emmanuel Saez. 2007. How Progressive is the U.S. Federal Tax System? A Historical and International Perspective. *Journal of Economic Perspectives* 21 (7): 1–24.

Plant, Raymond. 2010. *The New-Liberal State*. Oxford: Oxford University Press.

Prasad, Monica. 2006. *The Politics of Free Markets: The Rise of Neoliberal Economic Policies in Britain, France, Germany, and the United States*. Chicago: University of Chicago.

———. 2012a. The Popular Origins of Neoliberalism in the Reagan Tax Cut of 1981. *Journal of Policy History* 24 (3): 351–383.

———. 2012b. *The Land of Too Much: American Abundance and the Paradox of Poverty*. Cambridge: Harvard University Press.

Public Papers of the Presidents of the United States. 1965. *Lyndon B. Johnson, 1963–1964, Book 1*. Washington, DC: U.S. Government Printing Office.

Reagan, Ronald. 2001a. Tax Loopholes, May 1975. In *Reagan, In His Own Hand: The Writings of Ronald Reagan that Reveal his Revolutionary Vision for America*, ed. Kiron K. Skinner, Annelise Anderson, and Martin Anderson, 268–270. New York: The Free Press.

———. 2001b. Taxes, October 18, 1977. In *Reagan, In His Own Hand: The Writings of Ronald Reagan that Reveal his Revolutionary Vision for America*, ed. Kiron K. Skinner, Annelise Anderson, and Martin Anderson, 274–277. New York: The Free Press.

———. 2001c. Tax Expenditures, July 27, 1979. In *Reagan, In His Own Hand: The Writings of Ronald Reagan that Reveal His Revolutionary Vision for America*, ed. Kiron K. Skinner, Annelise Anderson, and Martin Anderson, 283–284. New York: The Free Press.

———. 2001d. Economic Speech—Address to the Nation, February 5, 1981. In *Reagan, In His Own Hand: The Writings of Ronald Reagan that Reveal His Revolutionary Vision for America*, ed. Kiron K. Skinner, Annelise Anderson, and Martin Anderson, 487–492. New York: The Free Press.

Roberts, Paul Craig. 1984. *The Supply-Side Revolution: An Insider's Account of Policymaking in Washington*. Cambridge, MA: Harvard University Press.

Schlesinger, Arthur M., Jr. 1960. *The Politics of Upheaval*. Boston: Houghton Mifflin.

Shaviro, Daniel. 2013–2014. The Forgotten Henry Simons. *Florida State University Law Review* 41 (1): 1–38.

Simons, Henry C. 1938. *Personal Income Taxation: The Definition of Income as a Problem of Fiscal Policy*. Chicago: University of Chicago Press.

Stein, Herbert. 1969. *The Fiscal Revolution in America*. Chicago: University of Chicago Press.

———. 1996. The Fiscal Revolution in America, Part II. In *Funding the American State, 1941–1995: The Rise and Fall of the Era of Easy Finance*, ed. W. Elliot Brownlee, 194–286. Washington, DC and Cambridge: The Wilson Center Press and Cambridge University Press.

Steuerle, C. Eugene. 2004. *Contemporary U.S. Tax Policy*. Washington, DC: The Urban Institute Press.

Stockman, David. 1986. *Triumph of Politics: How the Reagan Revolution Failed*. New York: Harper & Row.

Thorndike, Joseph J. 2013. *Their Fair Share: Taxing the Rich in the Age of FDR*. Washington, DC: The Urban Institute Press.

U.S. Department of the Treasury. 1977. *Blueprints for Basic Tax Reform*. January 17. https://www.treasury.gov/resource-center/tax-policy/Documents/Report-Blueprints-1977.pdf

Ventry, Dennis J. 2001. The Treatment of Marriage Under the U.S. Federal Income Tax, 1913–2000. Ph.D. Dissertation, University of California, Santa Barbara.

Witte, John F. 1985. *The Politics and the Development of the Federal Income Tax*. Madison: University of Wisconsin Press.