

**Economic Ideas and the Political Process:
Debating Tax Cuts in the U.S. House of Representatives, 1962-1981**

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Abstract

While sociologists and political scientists have become interested in the role of ideas in the political process, relatively little work looks at how ideological claims are actually deployed in political discourse. This paper examines the economic claims made in two pairs of Congressional debates over tax cuts, one (in 1962 and 1964) generally associated with Keynesian economic theories, and one (in 1978 and 1981) tied to supply-side ideas. While these bills were indeed initiated by groups subscribing to different economic ideologies, subsequent debates look surprisingly similar. The bills were closer in substance than one might expect, and while their proponents came from opposite political camps, in both cases supporters focused more on supply-side than demand-side effects and emphasized tax cuts' ability to pay for themselves through economic stimulation. We propose that politically acceptable economic claims may evolve more slowly than the economic theories that inspire policy entrepreneurs, and that this "discursive opportunity structure" may not only constrain the political process but may potentially shape the political effects of expert knowledge.

Keywords

ideas, discourse, Congress, Keynesianism, supply-side economics, taxes

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In recent years, there has been an upsurge of interest in political sociology and political science in the question of how ideas—particularly economic ideas—shape politics.¹ Grounded in historical institutionalism, this literature has tried to explain how beliefs about the economy shape political outcomes, either because actors use ideas as tools with which they try to achieve their interests, or because ideas help reconstruct actors' interests at critical moments.²

Some scholars have suggested that a constructivist approach to understanding the role of ideas in politics might be fruitful, and argued for a greater attention to the ways that ideas and interests interact with one another or a focus on discourse as a process through which ideas are dynamically given meaning.³ This would suggest an examination of mid-range mechanisms of change rather than grander claims about the causal power of ideas.

This paper builds on such suggestions by looking at the economic claims made in four debates over tax cuts that took place in the U.S. House of Representatives between 1962 and 1981. Tax policy is one of the most important domains in which economic ideas are put into political action; for more than 50 years, tax policy has had economic goals as well as fiscal ones. Tax debates are full of explicit and implicit theories about how the economy works. Will cutting taxes encourage investment? Stoke inflation? Do nothing at all? Every couple of years Congress has a major debate over tax policy, and almost without exception, the economic impact of the proposed legislation is a central issue.

Yet both tax policy and ideas about the economic impact of taxes have changed substantially over the decades. In particular, the cuts in the late 1970s and early 1980s that followed the “tax revolt” and the Reagan Revolution have been seen as ushering in a new political era.⁴ As supply-side economics gained visibility in Washington, political discourse

came to emphasize the role of capital formation and the effects of marginal tax rates on incentives to work and invest.

Whether one sees supply-side economics as playing a causal role in these tax cuts or as merely reflecting increasingly organized business interests, supply-side arguments were certainly closely associated with this shift, which resulted first in the Revenue Act of 1978 and then in the Economic Recovery Tax Act of 1981 (ERTA). The former, in some ways a relatively incremental piece of legislation, notably contained a major reduction in the capital gains tax, including a cut in the maximum rate from 49% to 28%.⁵ The latter policy, one of President Ronald Reagan's major legislative achievements, cut individual income tax rates by 23% across the board, as well as cutting corporate taxes substantially and making other changes.⁶

These supply-side tax cuts, however, were not the first major tax cuts made with economic goals in mind. Large individual and corporate tax cuts were also made under the Kennedy and Johnson administrations in 1962 and 1964. These earlier tax cuts, however, have often been seen as reflecting a Keynesian approach in which government could keep the economy functioning smoothly by managing levels of aggregate demand.

We do not challenge the fundamental outlines of this picture—that these decades saw a shift from a Keynes-inspired to a supply-side tax policy. But our empirical examination of claims made by members of Congress during tax debates complicates it in ways that have implications for thinking about the role of economic ideas in the political process. We expected that in the early 1960s we would see liberals (and moderates) defending Democrat-sponsored tax cuts on largely Keynesian grounds—that is, arguing that tax cuts would help the economy by increasing demand—while in the late 1970s and early 1980s we would see conservatives (and moderates) defending Republican-inspired tax proposals with supply-side arguments.

This is not what we found. First, the tax cuts of the early 60s and those of 1978 and 1981 looked surprisingly similar, despite having very different ideological origins. The policy shift itself was not that dramatic. Second, and more significantly, we found that the tax cuts were debated in terms that were much more similar than we expected. Instead of a shift from largely Keynesian claims to largely supply-side claims, we found a much more modest change. While the 1978 and 1981 tax cuts were indeed defended dominantly with supply-side claims, the 1962 and 1964 cuts were also, on balance, justified in supply-side terms. So while we anticipated a clear shift from demand-side to supply-side claims among supporters, we instead observed a smaller move from a mix of claims, with the balance tilting toward the supply side, to a supply-side-dominant position.

Moreover, we often found the “wrong” groups making particular economic claims, particularly in the 1960s. For example, in the 1962 debate conservative Republicans occasionally argued that the tax cuts were inadequately Keynesian while Democrats were defending them as encouraging the capital formation necessary to increased productivity. And in 1964 especially, Democrats were frequently found claiming that substantial tax cuts would pay for themselves, a position that they would later criticize Republicans for taking. Nor does support for the bills always line up in the ways one might expect: business and labor, for example, united in their opposition to the investment tax credit contained in the 1962 bill.

This paper details these observations—both the unexpected continuities in the terms of debate and the unexpected shifts in economic claims made by particular political groups. It then goes on to propose a potential explanation for these observations by noting that ideas may play different roles at different points in the political process. We suggest that ideas may actively shape policy early in the political process, but be used more opportunistically in Congressional

debate, when legislators make the economic claims that best support their already-chosen position from a range of claims that are seen as politically acceptable. If, however, the range of acceptable claims evolves relatively slowly, as appears to be the case here, that may limit the discursive moves that are available to legislators by providing openings for some arguments but not for others, even when expert discourse is changing fairly rapidly. This means that while the economic claims made by legislators on the floor on Congress may indeed be opportunistic rather than idea-driven, the range of claims seen as legitimate may itself have political implications.

Tax Cut Debates in the U.S. House of Representatives

We demonstrate this through an analysis of floor debates in the U.S. House of Representatives over these four pieces of tax legislation. The House was chosen for two reasons: first, because the House plays a unique role in tax legislation since the Constitution obligates that tax bills originate there, and second, because we expected to find a greater diversity of political views in the House. The index of the *Congressional Record* was first used to identify periods of debate over the bills. We then expanded our sample using legislative histories of each bill, which identified all days of floor debate in the House: from LexisNexis for the 1978 and 1981 bills, and for the 1962 and 1964 bills, for which no Lexis histories were available, from Congressionally-published legislative histories.⁷ The complete text of the floor debates, as published in the *Congressional Record*, was downloaded from HeinOnline. The 1962 and 1964 bills saw a total of 269 pages of debate, and the 1978 and 1981 bills saw 224 pages. These numbers exclude pages that simply reprinted the text of a bill or amendment.

The methods used were largely inductive. We began by reading these tax debates as well as a number of others, including portions of debates in 1971, 1986, 1990, 1997, and 2001 and some segments of debate in the Senate as well as the House. The focus was the kinds of economic claims legislators were making about the economic effects of various tax policies. In particular, we were looking for claims about whether a particular policy would benefit or hurt the economy and the specific means through which it was claimed to do so. We made no assumptions about whether legislators actually believed the claims they were making, nor do we view these statements as necessarily being made with the intention of converting others to the speaker's position. Instead, we assume only that legislators are generally making claims that they find politically acceptable and appropriate.

We expected to see a marked change in the kinds of claims being made over time, based both on the shift in expert economic discourse around taxes that took place in the 1970s and on our sense of the late 1970s and the Reagan years as a period of tax revolt and a sharp turn in policy direction. As already noted, however, we were struck by continuity rather than change, and by the failure of economic claims to line up with the political groups we expected to see making them.

This led to a more specific focus on the four debates examined here, in which the scope of our examination was limited to claims being made about the economic effects of tax *cuts* specifically rather than tax policy more generally. (Even these debates, which all include consideration of significant tax cuts, also include discussion over other kinds of tax provisions.) In particular, we began to focus on whether claims fit better with a Keynesian or a supply-side approach.

As the content of the 1978 and 1981 debates was less surprising than that of the 1962 and 1964 debates, we were particularly methodical in our examination of the earlier pair and more of our discussion here focuses on them. While the nature of the data does not lend itself easily to quantitative coding and thus our summary is narrative in form, we did read through this earlier pair systematically noting all claims made about the economic effects of tax cuts. Cases in which the “wrong” sides were making particular economic claims were also noted. This primary analysis was supplemented with a variety of secondary sources on these tax debates (such as political and economic histories and government publications) which helped to flesh out our understanding of the politics behind them.

The Revenue Acts of 1962 and 1964

Tax reduction and reform were on the agenda of President John F. Kennedy from the outset of his administration.⁸ His initiatives led to the passage of two major pieces of tax legislation, both of which enacted substantial cuts in taxes. The first, the Revenue Act of 1962, had as its centerpiece a 7% investment tax credit, which would allow businesses purchasing certain kinds of assets to reduce their taxes by up to 7% of the cost of those assets.⁹ The second, the Revenue Act of 1964, was initiated by Kennedy but passed into law under Lyndon Johnson after Kennedy’s assassination. It cut both individual and corporate tax liabilities very substantially: individual by an average of 19.4% and corporate by 7.7%.¹⁰

The Kennedy-Johnson tax cuts conventionally have been seen as Keynesian in origin, focused on increasing demand by encouraging consumption and investment.¹¹ It was, in fact, in a *Time* magazine article on Keynesianism and the Kennedy-Johnson economic policies that Milton Friedman was famously quoted as saying, “We are all Keynesians now.”¹² Historians tell

a slightly more nuanced story. The Kennedy administration is generally regarded as a high-water mark for the influence of technocratic Keynesian economics on presidential politics.¹³ But scholars have typically described Kennedy-era economic policy as “commercial Keynesianism,” meaning that it focused on demand management through tax cuts rather than government spending, and that it embraced some degree of concern with the supply side as well, particularly with encouraging capital formation as a means of increasing productivity.¹⁴

Nevertheless, while the strand of Keynesianism embraced in the U.S. may have differed from that found in social-democratic Europe, and while prominent officials in the Kennedy administration have acknowledged that they took supply-side concerns seriously, Kennedy’s economic advisers clearly saw themselves as Keynesian and made their policy recommendations within a Keynesian framework.¹⁵ Walter Heller, chair of Kennedy’s Council of Economic Advisers and generally regarded as the father of the Kennedy tax cuts, clearly saw them as such, later calling them “applied Keynesian economics.”¹⁶

But while the 1962 and 1964 tax cuts may have been inspired by Keynes, in their final form they did not look so different from the supply-side tax cuts implemented in 1978 and 1981.¹⁷ First of all, they *were* tax cuts; government spending, the more traditional Keynesian prescription for demand management, was politically off the table for a variety of reasons. Second, while it is often assumed that Keynesian tax cuts will be targeted at lower-income consumers, who will be more likely to spend them, the Kennedy-Johnson tax cuts were not particularly focused on this group. The 1962 cut went to business, not consumers, and the part of the 1964 cut that was targeted at individuals was only slightly progressive. Herbert Stein goes so far as to suggest that the administration would have preferred even less progressive cuts in order to strengthen business confidence, had they not been politically unacceptable.¹⁸

In the end, the Revenue Act of 1964 lowered the top marginal individual income tax rate by 23%, from 91% to 70%. The bottom rate was lowered by 30%, from 20% to 14%.¹⁹ This makes the cuts appear moderately progressive. But in some ways it overstates their progressivity. Taxpayers with half the median income saw an actual *increase* in their effective tax rate, though from a very low base, once the Act's tax reductions had taken effect. Taxpayers earning the median income or twice the median saw much more significant cuts.²⁰ And while apples-to-apples comparisons are difficult because of different starting points in the tax rates, the change in effective tax rates for these three groups does not look dramatically more progressive than that which resulted from the Reagan tax cuts of 1981 (see Table One).

[Insert Table One about here.]

Thus while the Kennedy-Johnson tax cuts may have had Keynesian origins, that did not translate into a special focus on consumers or on lower-income groups. Nor did their supporters in Congress emphasize their Keynesian virtues. The 1962 cuts, in particular, were defended very dominantly on supply-side grounds by members of the House of Representatives. Proponents repeatedly emphasized that the purpose of the bill was to increase investment. One might encourage investment as a means to increase aggregate demand, and many times supporters simply praised the bill for encouraging investment without being explicit about what the positive effects of increased investment would be. But on occasions when legislators went into more detail, they specified that the bill was meant to encourage capital formation as a means of increasing productivity and thus growth.

Such claims can be seen repeatedly, and they were made by Democrats and liberals, not, for the most part, by Republicans. For example, Thomas Steed (D-OK) argued that

It is crystal clear that, in order to maintain the economic health of this country, it is necessary to raise our level of investment in productive equipment. The rate of growth necessary to continued and expanded national prosperity; the attainment of full employment; the restoration of a balance in our international payments—all these can be helped immeasurably by an increase in investment in more modern and more efficient equipment.²¹

John Watts (D-KY) similarly said,

This strong incentive to increase capital good expenditures in this country by increasing the profitability or rate of return on such investment is the most effective and economical way of increasing our national growth...New investment will create more jobs, as new technological developments, new processes, and new products are incorporated through use of more productive equipment.²²

No demand-side factors were mentioned. Similar supply-side arguments can be seen in statements made by Hale Boggs (D-LA), Richard Bolling (D-MO), James Burke (D-MA), Frank Karsten (D-MO), Eugene Keogh (D-NY), Cecil King (D-CA), Wilbur Mills (D-AR), and Al Ullman (D-OR), among others.²³

On the other hand, mention of demand-side effects of the investment tax credit were rare. There were occasional references to the tax credit's potential to "stimulate" the economy, which could possibly, though not necessarily, imply demand-side effects. And on a handful of occasions it was argued that the bill would encourage demand in some specific set of circumstances. For example, Winfield Denton (D-IN) talked about the benefits of new equipment for the coal and railroad industries, then went on to say that "[t]he tax credit will provide that encouragement [to invest in new equipment], and in consequence it will put some thrust into the economy of communities that build and make parts for railroad equipment."²⁴

So for the most part the debate simply was not framed in Keynesian terms. But it was actually among Republican opponents of the investment tax credit that one could see a handful of claims made about the importance of demand. Noah Mason (R-IL), ranking minority member of the Ways and Means Committee, emphasized that “our problem is not lack of capacity to produce, but lack of a market in which to sell,” and Bruce Alger (R-TX) similarly claimed that “our problem today was [*sic*] not lack of capacity to produce, but lack of customers to buy.”²⁵ And when William Harsha (R-OH) criticized the bill for giving a smaller tax credit to public utilities than to other businesses (3% of capital investment vs. 7%), he made a demand-oriented argument in their favor. Utilities, he argued, were being excluded on the grounds that their tax credit would just be passed on to consumers, “thereby negating much of the stimulative effect on investments.” But, he continued, “What better way to stimulate the economy than to give the consumer more purchasing power in the form of reduced rates? Certainly increased purchasing power will create a demand for more products and in turn create more jobs.”²⁶

The Revenue Act of 1964 was even more clearly inspired by Keynesian thinking than the investment tax credit had been. As early as 1960, Kennedy’s advisers were making strong arguments for a tax cut aimed at increasing demand and stimulating the economy.²⁷ Though Kennedy himself resisted this recommendation for a considerable period of time because of a political commitment to balancing the budget, by the summer of 1962 he was becoming a convert to economists’ arguments that current tax rates were dampening the economy. The moment to seek tax reduction was now, they suggested, just as the peak of the business cycle was passing, rather than once the economy was back in recession.²⁸

Kennedy was of course an excellent politician and when necessary, he could sell his proposals in the language preferred by the business community. In an important speech to the Economic Club of New York in December 1962, he emphasized that:

The final and best means of strengthening demand among consumers and business is to reduce the burden on private income and the deterrents to private initiative which are imposed by our present tax system...[which] exerts too heavy a drag on growth in peace time...siphons out of the private economy too large a share of personal and business purchasing power...[and] reduces the financial incentives for personal effort, investment, and risk-taking.²⁹

Though Kennedy saw the speech as “straight Keynes and Heller,” liberal economic adviser John Kenneth Galbraith called it “the most Republican speech since McKinley.”³⁰

Regardless of the rhetoric used to sell the proposal to potentially hostile audiences, the focus within the administration continued to be explicitly Keynesian. Indeed, when in mid-1962 Walter Heller passed along to the President a letter from British economist Roy Harrod arguing that budget deficits were necessary to increase demand enough to convince industry to invest, Heller noted that “Harrod (one of England’s great economists) thinks that both the President and Heller need to become convinced Keynesians – as if we weren’t!”³¹

The tax cut initially proposed by the Kennedy administration was both larger and more progressive than the one that eventually emerged from Ways and Means.³² But during its nine-month sojourn with that committee, chairman Wilbur Mills worked to make it both less deficit-inducing (in accord with his own relatively conservative economic preferences) and more politically realistic, which meant eliminating some revenue-raising closures of tax loopholes.³³ The bill passed the House in September 1963 by a vote of 271 to 155, but its future was thrown into question with Kennedy’s assassination in November.³⁴

New President Lyndon Johnson, however, quickly stepped in with strong support for the bill. Moreover, he facilitated its passage by limiting budget expenditures in a way that Kennedy

had been reluctant to do. This, of course, decreased its demand stimulus. But it also helped reassure the skeptical business community, which had always distrusted Kennedy, that the bill was fiscally responsible. The result was the conversion of a number of Republicans, so that when the bill was reported from conference in February 1964, the House approved it by the large margin of 326 to 83.³⁵

Despite the bill's Keynesian origins, its supporters in the House did not primarily argue for it on the grounds that it would help the economy by stimulating demand. When, back in September, Mills had introduced the revamped bill for floor debate, he portrayed it instead as a small-government, pro-free-enterprise tax cut: "We are loosening the constraints which the present high tax system imposes on our economy. We are taking a step toward a freer economy. Perhaps most important of all, we are taking a step away from big Central Government."³⁶ While he mentioned demand factors in this speech (e.g., "the problem of excess capacity has plagued American industry since 1957"), they were balanced by concern with supply-side effects ("...what we need is an expanded export market. This can occur through higher domestic productivity which...because of new plant and equipment, gives rise to more economical production").³⁷

Mills was presumably trying to make the bill sound acceptable to those who might disagree with Kennedy's advisers about the economically beneficial effects of deficits. Nevertheless, his statement set the tone for a debate that did not place a dominant emphasis upon demand stimulus. Instead, the bill's supporters in the House most frequently emphasized balance. As Al Ullman asked,

[H]ow do you stimulate the economy? Do you do it by shoring up the purchasing power of the people of this great Nation of ours? Or do you do it by expanding the investment capital so that industry may move ahead? Of course, the program that was sent up by the administration faced both of these alternatives and said

what we need is a balanced program. We need to shore up the purchasing power and we need to increase investment capital.³⁸

Similarly, Edward Boland (D-MA) claimed that the tax cuts “will give American consumers billions of dollars of additional purchasing power” as well as fostering in businesses “a new incentive and greater financial capacity to invest and to employ.”³⁹ And a Republican supporter, Paul Fino of New York, noted, “I voted for this bill because it would put into the pockets of our individual taxpayers added dollars which could be spent for consumer products. I voted for this measure because it would add to the coffers of our American corporations more money which could be used for expansion and reinvestment purposes.”⁴⁰

In contrast to the 1962 debate, which was framed almost exclusively in terms of supply-side arguments, supporters of the 1964 bill did make explicitly Keynesian arguments from time to time. Martha Griffiths (D-MI) spelled out the multiplier effect of tax reduction:

The theory of the tax cut is to return to each taxpayer an amount roughly equivalent to \$200 which it is hoped he will spend. The conservative estimate of the speed with which that money will be respent is 2 ½ times per year. The top estimate is four times. As that money is spent and respent it is anticipated that it will create additional employment, put more people on the tax rolls and thus finally create additional tax revenue.⁴¹

But these sorts of claims were intermingled with ones about the bill’s effect on the supply side: it would “help supply the capital for the survival and growth for our 4.5 million small business enterprises, “stimulate capital investment,” “specifically increase the overall profitability of business and enhance the financial capacity and incentives of business for investment,” and counteract “industrial slowness to replace obsolete machinery and obsolete plants with something better in order to meet the challenge of an increasingly-competitive world.”⁴² Overall, the bill was primarily presented by its supporters as an effort to encourage free enterprise and the private sector through a balance of supply- and demand-side effects.

While the idea of tax cuts drew support from across the political spectrum, Republican and conservative opponents of the bill expressed concern that it did not hold spending down enough. On the one hand, they argued, this would produce damaging deficits, which were seen as problematic on both economic and moral grounds. On the other, it would encourage dangerous levels of inflation—an argument that seemed to have a surprising level of resonance given that inflation had been under 2% for most of the previous decade.⁴³

Certainly some opponents of the bill were opposed to budget deficits under any circumstances. Interestingly, however, some Republicans do not make categorical arguments against deficits, but instead argue that the bill is not Keynesian *enough*: it is rejecting an acceptable Keynesianism of deficit-spending during times of recession in favor of something more radical. As Thomas Curtis (R-MO) declares:

We are adopting a new fiscal theory in accepting this conference report, on deficit financing....The old theory was we balanced out the deficits we creating in economic declines through the surpluses during periods of economic upsurge. Today, in 1964, no one denies we are in a period of economic upturn, at the top. This is the very time when we should be recouping and paying off the Federal debt, according to that old theory. The new theory is to balance the budget in periods of full employment, whatever that means....According to the administration, they think it might mean 1967. According to the eminent economist Dr. Arthur Burns, it means probably 1972. But it is certainly a brand new theory and completely abandons the Puritan ethic.⁴⁴

So in 1964 we see supporters making a mix of supply- and demand-side arguments for the tax cuts, while opponents focused on the risks of deficits and inflation, though they did not collectively oppose the Keynesian argument for demand stimulus during economic downturns.

There is one other claim made repeatedly during debate over these tax cuts, and particularly with regard to the 1964 bill, by what seems to be the “wrong” group, given later political events. Supporters of the bill—largely Democrats—argued repeatedly that the tax cuts would prove so economically stimulative that they would increase revenues. This was not the

first time such claims had been made; Andrew Mellon had famously proposed similar arguments in the 1920s.⁴⁵ But Mellon, like the supply-siders of 1978 and 1981, was a conservative Republican, not a liberal Democrat.

In 1962 claims about the positive revenue effects of tax reduction were relatively muted, though they did appear occasionally. Wilbur Mills, for example, reported that year that the Treasury Department predicted that when the effect of the investment tax credit on the national economy was taken into account, “the bill will be substantially in balance.”⁴⁶ But the 1962 tax cut was itself relatively small in comparison with the reductions made two years later.

The Revenue Act of 1964, however, was clearly a revenue reducer by conventional measurements. Its supporters explicitly argued, however, that it would pay for itself. This theme was so central that a statement to that effect was even included in the “Declaration by Congress” that opened the legislation: “it is the sense of Congress that the tax reduction provided by the bill, through stimulation of the economy, will, after a brief transitional period, raise (rather than lower) revenues and that such revenue increases should first be used to eliminate the deficits in the administrative budgets and then to reduce the public debt.”⁴⁷ Even the fiscally conservative Mills found himself arguing that “Congress is providing this tax reduction because through its stimulative effect on investment and the increase it will bring about in consumer spending, it will eventually lead to higher levels of economic activity and thereby increase, rather than decrease, revenues,” though he also emphasized the need to constrain expenditures.⁴⁸

Certainly there were critics of such claims during both debates. For example, in 1962, Thomas Curtis argued that the methods used to calculate the bill’s revenue effects were “fantastic. They say the imbalance there is supposed to be not more than \$300 million” because “this investment credit is going to stimulate the economy....That in turn is going to create a

psychological effect on the rest of the economy which is going to be stimulated....That, actually, is nonsense.”⁴⁹ Similar arguments about the revenue effects of tax cuts were made in 1964, for example by Louis Wyman (R-NH), who flatly stated, “This tax bill will not create more income from a reduction in revenues. This is a literal impossibility.”⁵⁰ Albert Watson of South Carolina, a Democrat who would switch parties in 1965, likewise argued that “[a] tax cut alone, in my opinion, cannot stimulate the economy sufficiently to offset resulting revenue losses at a time when a balanced budget is desperately needed.”⁵¹ What is unexpected, though, is not the sorts of arguments being made—on either side—but the political affiliations of the individuals making them. Less than two decades later Democrats would be arguing vociferously that tax cuts could not pay for themselves, while Republicans would be claiming just the opposite—and pointing to the Kennedy-Johnson cuts in support of their argument.

The Revenue Act of 1978 and the Economic Recovery Tax Act of 1981

The Kennedy-Johnson tax cuts were Keynesian, at least in their origins. But the tax cuts that began under Jimmy Carter with the Revenue Act of 1978 and came to fruition with Ronald Reagan’s Economic Recovery Tax Act of 1981 were significantly influenced by supply-side theories about economic growth. After a decade of high inflation and high unemployment, during which Keynesian theories seemed unable to explain economic reality, new economic ideas that emphasized the importance of capital formation and the effects of marginal tax rates on incentives to work and invest became influential in Washington. Like the Kennedy administration had done, the supply-siders prescribed tax cuts to get the economy back on track. But while in theory Keynesian tax cuts would target those most likely to spend the extra

money—lower-income groups—supply-side cuts would target businesses and upper-income taxpayers who would be likely to invest it.⁵²

The Revenue Act of 1978, however, did not itself have supply-side origins. Instead, it was initiated by the Carter administration. While Carter supported modest stimulative tax cuts, he was in general more interested in tax reform; that is, in simplifying the tax code and closing loopholes.⁵³ In January 1978, his administration proposed such a tax reform package, but a bipartisan coalition within the Ways and Means Committee opposed most of his proposals and for five months the administration's efforts went nowhere.⁵⁴ At the same time, supply-side ideas were circulating, though they had not yet become as politically influential as they soon would be. Jack Kemp (R-NY), a prominent champion of supply-side economics, had in April 1977 introduced his proposal to cut income tax rates by 30% across the board (H.R. 6201), with the goal of increasing incentives to work and invest. And William Steiger (R-WI), an up-and-coming young legislator, was proposing to reduce the maximum tax rate on capital gains from 49% to the 28% it had been as recently as 1969 (H.R. 11773). This, it was hoped, would stimulate capital formation.⁵⁵

Until the summer of 1978, proposals like Kemp's and Steiger's appeared fairly radical and unlikely to gain significant traction. Carter, in fact, was suggesting in his own tax package what was essentially an *increase* in the capital gains tax.⁵⁶ But in June 1978, California passed Proposition 13, the ballot measure that dramatically reduced and limited property taxes.⁵⁷ As Proposition 13 gained momentum, the words "tax revolt" were suddenly on every politician's tongue, and proposals that had seemed radical only a few months earlier began to be taken seriously. While Kemp-Roth (as Kemp's proposal was renamed once Senator William Roth [R-

DE] became a co-sponsor) did not become law in 1978, the capital gains tax, to the surprise even of its supporters, became “the hottest tax measure on Capitol Hill.”⁵⁸

The result of all this was that the Steiger amendment, which was basically antithetical to Carter’s principles, became the heart of the Revenue Act, and the capital gains tax was indeed dramatically slashed. Other taxes were reduced as well, including the top corporate income tax rate, which went from 48% to 46%, and individual tax rates, which were lowered by an average of 7%.⁵⁹ But high rates of inflation meant that households were being pushed into higher tax brackets without gains in real income, a phenomenon known as bracket creep.⁶⁰ This, along with the implementation of previously approved increases in Social Security payroll taxes, meant that despite the cuts, most households paid more in federal taxes in 1979 than in 1978.⁶¹

So on the one hand the Revenue Act of 1978, which reduced taxes by \$16 billion, appears on the surface to be a more significant tax cut than it actually was. But on the other, the capital gains portion of it *was* significant, even though it made up only \$2 billion of that \$16 billion total.⁶² The capital gains tax cut was the first fruit of the supply-side movement, and while it affected only one kind of tax, it was a large reduction. Furthermore, the capital gains tax was the focus of a disproportionate share of Congressional debate. As one member of the Ways and Means Committee noted with dismay, “Capital gains tax relief became the centerpiece of our committee’s work.”⁶³

It was also in discussion of the capital gains tax that economic claims were most in evidence. Much of the debate over individual income taxes focused on the perceived need for tax relief. Members of Congress read the success of Proposition 13 and other state measures as an indicator that taxpayers were tired of big government, inflation, and bracket creep, and that they were demanding rate cuts. The economic effects of those rate cuts were secondary to that

discussion. But debate over the capital gains tax cut emphasized the need to encourage capital formation so that businesses could invest and grow. And when the Revenue Act was signed into law in November 1978, that sharp reduction Steiger had hoped for became a reality.⁶⁴

The Kemp-Roth plan for large across-the-board tax cuts, on the other hand, would have to wait a few more years. It continued to influence the national discussion about taxes. But it was not until candidate Ronald Reagan made Kemp-Roth the core of his economic platform that the proposal was catapulted back into the spotlight.⁶⁵ Unlike the Kennedy tax cut proposals, which were heavily influenced by academic economists, Kemp-Roth-Reagan-style supply-side economics was developed by a group of journalists, policy entrepreneurs, and renegade professors who were not part of the academic mainstream.⁶⁶ Intellectually, this latter set of tax cuts had very different origins from the Kennedy-Johnson cuts.

Yet while ERTA, which Reagan signed into law in August 1981, retained the heart of the Kemp-Roth proposal, it did not look as dramatically different from the Kennedy-Johnson tax cuts as one might expect. Its central provision was indeed large cuts in individual income tax rates. All rates were reduced, over a three-year period, 23% from their base level, and were set to be indexed to inflation starting in 1985. For business, the highlight was accelerated depreciation, which was known by the shorthand of 10-5-3, for the period of years over which different kinds of investment could be written off. A third important component was a further reduction in the capital gains tax, with the maximum rate declining from 28% to 20%.⁶⁷ The widely popular bill passed the House by a margin of 282-95.⁶⁸

While ERTA was far from being a progressive set of tax cuts, its effects on income taxes were not clearly *less* progressive than those of the Kennedy-Johnson tax cuts (see Table One). Household earning half the median income did receive a smaller tax cut in percentage terms than

households earning the median or twice the median. But after the Revenue Act of 1964, households earning half the median income actually saw their average rate *increase*. This is obviously only one very simple indicator of the progressivity of these tax bills, and space precludes comparing the similarities and differences of the two pairs of tax cuts more fully. But it does demonstrate a larger point, which is simply that the two sets of cuts were not as clearly targeted at groups on opposite ends of the income spectrum as one might expect, given their very different intellectual origins.

On the floor of the House, the economic claims made by supporters of ERTA and the Revenue Act of 1978 were less surprising than those made in the early 1960s. They were, as one would expect, mostly concerned with supply-side effects. By 1978 almost no one thought (or at least was willing to argue) that the nation's economic problems would be solved by stimulating demand, whether through tax cuts or other measures. Instead, legislators made claims like those of William Steiger:

Four independent economic analyses of proposals to significantly reduce capital gains tax rates have all come to substantially the same conclusion....[L]ower tax rates on capital gains will stimulate investment, create more jobs, broaden the tax base and increase Federal revenues....Clearly, today's tax system discourages the formation of capital and there's little wonder that our economy is suffering from insufficient investment, inflation, and slow growth.⁶⁹

Similarly, David Stockman (R-MI), who soon would become the director of Reagan's Office of Management and Budget, argued that "Kemp-Roth and the capital gains changes are oriented toward increasing and stimulating the supply of those critical ingredients of economic growth in the economy, of savings and of risk capital, of entrepreneurship and of our productivity rate. I would suggest we are not going to solve our problems until we look to those issues."⁷⁰ So while there is some shift from the early 60s to the late 70s in the kinds of economic claims that are made about tax cuts, it is a relatively modest change—not from demand-side to supply-side

arguments, but from a mix of arguments leaning toward the supply side of the spectrum, to a clear dominance of supply-side claims.

Yet while there is more continuity in the kinds of economic claims than one might expect, there are also some noteworthy switches in the positions taken by different political groups. Democrats, who argued loudly in 1964 that short-term deficits were justifiable in pursuit of long-term growth, became much more critical of deficits. They now claimed that deficits were inflationary, that they would increase interest rates, and even that they were causing the dollar to collapse.⁷¹

Republicans, on the other hand, began to focus on the stimulative effects of tax cuts. They downplayed the importance of deficits, and many argued that tax cuts would pay for themselves. Bill Archer (R-TX), for example, pointed out that while revenue impact might be an argument against a capital gains tax cut, the Treasury had made “no allowance whatsoever for increased economic activity” and claimed that if inflation were controlled, “there will be absolutely zero revenue impact.”⁷² Kent Hance, a Texas Democrat who would change his party affiliation in 1985, reacted in 1981 to similar criticisms by responding, “I would point out we are dealing with static figures....[S]tatic figures for the future are just not going to hold up. We are going to see an increase in revenues and if we are ever going to balance the budget we have got to have a healthy economy to do it.”⁷³

Most interesting, perhaps, is that despite the image of Kennedy as a liberal, proponents of tax cuts during the Kemp-Roth-Reagan era repeatedly aligned their proposals with the popular Kennedy-Johnson tax cuts, downplaying their Keynesian origins and their arguably inflationary effects and emphasizing their stimulation of the economy and their ultimate revenue neutrality.

Nineteen of the 224 pages of debate we examined include a reference to the Kennedy-Johnson tax cuts, and 17 of these mention them in support of the current tax cut efforts.

The Kennedy-Johnson tax cuts are used rhetorically in several ways. First, they are pointed to as a historical example of success. Multiple times legislators cited a Chase Econometrics study which showed that tax revenues among individuals with income greater than \$100,000 increased as a result of the Revenue Act of 1964, and that while a five-year revenue loss of \$89 billion was predicted, a \$54 billion increase resulted.⁷⁴

Second, Republicans emphasized the continuity between the Kennedy-Johnson tax cuts and their own tax cut proposals. For example, one legislator quoted some of Kennedy's more conservative language: "The final and best means of strengthening demand among consumers and business is to reduce the burden on private income and the deterrents to private initiative which are imposed by our present tax system."⁷⁵ Republicans also noted the inconsistency of the Democratic leadership in supporting the Kennedy tax cuts but opposing the Kemp-Roth-Reagan proposals. It was pointed out that Speaker Tip O'Neill and Ways and Means Chair Dan Rostenkowski both supported the Kennedy cuts. Harold Daub (R-NE) asked, "Why was President Kennedy's plan so good then, yet the same individual [O'Neill] who supported that plan, says Reagan's tax plan is bad. They are similar plans; the only difference now it that it is a Republican who proposed it."⁷⁶ Jack Fields (R-TX) called such opposition "politically motivated" and "not based on any sound economic principles."⁷⁷ Robert Lagomarsino (R-CA) even argued that the Kennedy-Johnson tax cuts were "drafted by the same people who drafted Kemp-Roth."⁷⁸

Opponents of the supply-side tax cuts, on the other hand, did not try to argue that the Kennedy cuts were fundamentally different. For the most part, they did not respond directly to

the mentions of Kennedy. But when they occasionally did, they claimed not that the Kennedy tax cuts were different, but that they too had issues—for example, that they “started us on the inflationary cycle” (Robert Duncan, D-OR) or that they did not in fact increase revenues (Charles Vanik, D-OH).⁷⁹

Discussion

What we ultimately observed, then, were two pairs of tax debates that demonstrated some surprising differences from our initial expectations, which were based on the conventional story about the rise of supply-side economics culminating with the Reagan Revolution. Knowing that the Kennedy-Johnson tax cuts were heavily influenced by academic economists at a time when Keynesian thought dominated, we expected the Kennedy-Johnson tax cuts to be, overall, more clearly targeted at lower- and moderate-income consumers. We also expected that the Kennedy-Johnson tax cuts would be defended specifically on the grounds that they would help the economy by stimulating demand, while opponents would argue either that they wouldn't stimulate demand or that stimulating demand wasn't desirable. And we thought that arguments in favor of the Kennedy-Johnson tax cuts would look clearly different from arguments in favor of the supply-side tax cuts.

Instead, however, the debates pointed toward something different: two pairs of tax cuts that did indeed have different intellectual origins and which were supported by people on opposite ends of the political spectrum, as expected, but which 1) looked surprisingly similar in terms of their substance, and 2) were defended in relatively similar terms, though by different groups of people. While this may be more surprising to run-of-the-mill political sociologists or

political scientists than to economic historians, it nevertheless complicates a narrative about the “rise of neoliberalism” that is sometimes taken for granted.⁸⁰

How can these observations be explained? The rest of this section considers, but rejects, two possible explanations, before proposing a third that seems best to fit the evidence. The paper concludes by considering what this might tell us about the role of ideas in the political process and how to study that role.

First, one might suppose that the similarities of these tax cuts simply reflect the power of business interests in U.S. politics. Substantial components of all four tax cuts went to business or the capitalist class. It could be argued, then, that either political party, when in power, will make the arguments necessary to enact policies that are in the interest of influential supporters in the business community. If pro-business tax cuts can only be justified by a relatively limited set of economic arguments, this could explain why the bills look similar and are defended in similar terms despite their different intellectual origins and the different political affiliations of their proponents.

The political story behind the 1962 investment tax credit, however, tends to undermine this argument. Kennedy’s economic commitments evolved from the period of his campaign to the end of his administration. He began with an outspoken commitment to balanced budgets. But over time he shifted toward his economic advisers’ position that the stimulative benefits of tax cuts outweighed the benefits of short-term budget balancing, even when the economy was not actively in recession.⁸¹ Throughout this period, however, both he and his advisers shared a deep commitment to economic growth as the *sine qua non* of other political goals from winning the Cold War to lifting millions of Americans out of poverty.⁸²

It was this commitment to growth that motivated the investment tax credit, rather than the interests of business. While the investment tax credit clearly targeted business, it was primarily intended to shift demand from consumption to investment, something Kennedy's economic advisers saw as necessary to increasing productivity and thus growth in the long run.⁸³ It was not a concession to business or a second-best way of increasing demand, but had an economic logic of its own.

Moreover, business groups, far from being the driving force behind the investment tax credit, actually (and surprisingly) almost universally opposed it, despite the economic benefit it would provide.⁸⁴ The Chamber of Commerce called it “a subsidy which general taxpayers should resent,” and the National Association of Manufacturers argued that “[t]he chief result... would be to distort the patterns of capital formation, rather than to increase them in amount.”⁸⁵ Some of this opposition stemmed from the divergent interests of different segments of the business community. For example, the Chamber of Commerce, which partly reflected small business interests, disliked it because many small firms, lacking money to invest, would gain no benefit.⁸⁶ But even the manufacturing sector, at which it was targeted, opposed it, preferring more-flexible accelerated depreciation provisions.⁸⁷ Kennedy himself was baffled by the opposition, seeing it as “clearly in conflict with [the business community's] own self-interest.”⁸⁸ So business influence does not seem to be a good explanation for these political developments.

A second possibility is that these observations can be explained in terms of interests alone, and that ideas don't matter—politicians make whatever arguments are convenient. If the bills look similar, it must be because they helped Kennedy, Mills, or the Democrats more generally to fulfill their interests, or the interests of groups they represented. The economic

claims were chosen because they supported policies that were desired for material reasons, not because policymakers were intellectually committed to them or motivated by them.

Certainly we would not argue with the claim that politicians make arguments because they are convenient. Nor would we deny that Congressional debates have a staged quality to them: legislators make arguments because they are politically opportune.⁸⁹ They may not actually believe the arguments they make, and their arguments are not necessarily intended to convince others to adopt a position.

But the argument that the outcomes were purely interest-driven does not fit the historical evidence. As outlined earlier, the tax cuts of 1962 and 1964 did have clearly ideological origins. They were inspired and initiated by economic and legal experts whose primary motivation does not appear to have been political. If Kennedy or Mills had wanted tax cuts for instrumental reasons and had simply found experts to justify their preexisting positions, one still might argue that the ideas themselves were not significant. But both Kennedy and Mills were, by nature, economically conservative and opposed to deficits. Deficit-inducing tax cuts, whether supply-side or Keynesian, were not a natural or comfortable policy choice for either of them. Nor were tax cuts an easy political sell at the time, as they would be in later decades. Many liberals didn't see the need for them, and many conservatives rejected them because of a fear of budget deficits.

Instead, by all appearances both Kennedy and Mills were genuinely convinced by academic experts that tax cuts were desirable on economic grounds and were led to champion them, despite initially high levels of discomfort, on those grounds.⁹⁰ While it is impossible to definitively attribute motivations to people based on their actions, there is no obvious explanation for Kennedy and Mills' support for the 1962 and 1964 bills without taking into account the influence of the ideas of economic experts.

We propose a third explanation for what we observed in these tax debates by suggesting that the role played by ideas may vary at different points in the political process. At the outset, a policy proposal may be inspired or strongly shaped by ideology. As it moves through the political process, however, interests will tend to take over and play a dominant role. As political negotiations proceed, ideologically-inspired proposals will tend to be pushed toward the center as coalitions of support are built. And by the time bills are actually debated on the floor of Congress, arguments are made primarily because they are politically appropriate justifications for positions that legislators have decided to take for a variety of reasons, among which ideology is secondary at best.

This could explain the apparent contradictions of these two pairs of tax debates. The tax proposals did have ideological origins, and those origins were substantially different from one another. The Kennedy-Johnson tax cuts were motivated by a commercial Keynesian view of the economy, and the 1978 and 1981 tax cuts by supply-side ideas. But the process through which ideologically-inspired proposals were shaped into politically feasible legislation meant that the original proposals evolved in directions that made them look more similar. The Kennedy-Johnson tax cuts were not nearly as progressive as many liberals would have liked, and the Kemp-Roth-Reagan cuts were made across the board, and not tilted toward the investing classes.

In this process of negotiation, moderation, and compromise, each of these bills acquired a relatively broad coalition of supporters. While some supporters were doubtless attracted to the ideas behind each bill, many of them are likely to have signed on because of obligations to constituents, interest groups, political parties, or other legislators. Such supporters would make arguments on the floor of Congress based on political suitability, which would not necessarily be the same arguments that motivated the bill's initiators.

This could explain why the “wrong” groups took certain positions at times, or why politically opposed groups took the same position at different moments in time. For example, in 1964 conservative Republicans opposed the proposed tax cuts for a variety of reasons, including aversion to deficits and fear of inflation. In general, these Republicans disapproved of Keynesianism, which in other contexts they tended to equate with socialism and even Communism.⁹¹ But here, there was a political opening to argue that the problem was that the bill went beyond conventionally-accepted Keynesianism by not limiting deficit-spending to times of recession—that it did not follow orthodox Keynesian prescriptions closely *enough*—and Republicans took it, despite their own distaste for Keynesian economics.⁹² Similarly, this choosing of the most politically appropriate arguments, rather than taking a consistent position (or even less, staking out a position on purely ideological grounds), explains why in 1962 and 1964 Democrats could be found arguing that tax cuts would pay for themselves, while in 1978 and 1981 they were arguing just as forcefully that similar Republican claims were nonsense.

But while this opportunism meant that the relationship between broader political affiliation and the specific economic claims made in a particular debate is quite fluid, the range of apparently acceptable economic claims changed much less over time. While there was a real ideological difference between the Keynesian economists who inspired the Kennedy-Johnson tax cuts and the supply-siders behind Kemp-Roth-Reagan, there was no equally dramatic shift in the kinds of economic arguments members of Congress chose to make.

Conclusions

Does this mean, then, that the arguments made on the floor of Congress are essentially meaningless? If legislators take a variety of sometimes-inconsistent positions in an effort to

justify policy preferences that are mostly interest-driven, is the content of Congressional debate just so much noise? We would argue that it is not. Instead, it is the relative *lack* of change in politically acceptable arguments—a lack of change that occurs during a period that sees both a dramatic shift in expert debate and a shift in the political influence of groups representing different economic worldviews—that may tell us something about the political process. While members of Congress may make economic claims for political, more than ideological, reasons, the range of politically acceptable claims they can make is not infinite. If that range evolves more slowly than the claims of experts or the ideological preferences of policy entrepreneurs, the rhetorical opportunities available to legislators may shape or constrain the development of ideologically-inspired bills by providing openings for some arguments but not others.

Thus the enormous political success of a supply-side tax bill in 1981 may be less surprising, for example, if one sees that it can be justified in terms very consistent with successful arguments made (even if by opponents) in past political debates. And supporters of tax cuts in 1978 and 1981 clearly do justify their bill in terms that are continuous with the past, not only by making similar claims to those made in 1962 and 1964, but also by explicitly drawing on the legacy of those tax cuts. While there is obviously a story of interest group politics to be told about the Reagan Revolution, the “discursive opportunity structure” of Congress may play a relatively unexplored role in explaining why both interests and ideas were channeled down particular paths.⁹³ Such an argument would be compatible with historical institutionalism, but here the institutions creating path-dependencies would be ideas about how the economy works, not rules about how to behave.

We would also suggest that even if interests *do* take over from ideas as the most important motivator for action once the legislative process is well underway, interests themselves

cannot be understood without taking ideas—or more specifically, beliefs—into account.

Sometimes the relationship between a group's interests and a policy choice is relatively clear-cut. So, for example, it would be surprising if labor did *not* prefer tax cuts aimed at low-to-moderate income households to the investment tax credit proposed in 1962.

But other times—and these times are more frequent than one might think—it is less clear what policy is in a group's interest. Many times a group must take a position on a policy proposal which is obviously important, but which will affect the group indirectly or in a non-obvious way. In such cases, self-interest cannot be determined outside of a set of beliefs about what the effects of the policy will be, which in turn depends on spoken or unspoken theories about how the world works.

So, for example, the banking industry, which did not need to build factories, did not anticipate much in the way of direct benefits from Kennedy's investment tax credit. Yet because of their overwhelming concern with the balance-of-payments issue, bankers feared demand stimulation as a potential source of inflation, which would tend to worsen the balance-of-payments problem. Because of this, bankers strongly supported the investment tax credit as a noninflationary form of stimulus, even though the businesses that were intended to benefit from it (particularly manufacturing) opposed it.⁹⁴ This stance was an expression of the industry's interests. But it resulted from a chain of logic that was more complex than the one that led labor to its position (that is, we want tax cuts for the groups we represent). From the position of the banking industry, where effects of a bill would likely be significant but indirect, it was not obvious what the self-interested position even was outside the context of particular ideas about how the economy works.

We hope, then, in future research to continue to develop an approach to understanding the role of ideas in the political process that combines constructivist elements with the insights of institutionalism. Mark Blyth's work suggests that ideas channel interests at moment of Knightian uncertainty—when interests are unclear.⁹⁵ We certainly support this contention, and it is true that during moments of crisis it may be particularly unclear what a group's interests actually are. But ideas come into play even during ordinary political moments, when the interests themselves are, in a general sense, clear enough. Without theories of how the economic, political, and social world works—theories that vary across groups and over time—it will not often be clear what policy options will help advance one's interests, and thus what actions one should take. These theories, moreover, are not absolute truths, but can be contingent, evolving, and the product of larger worldviews. Exploring the way in which such ideas underpin interest-driven political action seems, then, a fruitful way to extend our understanding of how the political process works.

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Table One

Average Income Tax Rates for a Family of Four⁹⁶

		Revenue Act of 1964	Economic Recovery Tax Act of 1981
One-half median income	Before	2.0%	6.8%
	After	2.2%	6.5%
	% change	+11%	-5%
Median income	Before	8.7%	12%
	After	7.1%	10%
	% change	-18%	-13%
Two times median income	Before	13%	19%
	After	11%	17%
	% change	-13%	-12%

¹ See, for example, Sarah Babb, *Managing Mexico: Economists from Nationalism to Neoliberalism* (Princeton, NJ: Princeton University Press, 2001); John L. Campbell and Ove K. Pedersen, eds. *The Rise of Neoliberalism and Institutional Analysis* (Princeton, NJ: Princeton University Press, 2001); Marion Fourcade, *Economists and Societies: Discipline and Profession in the United States, Britain, and France, 1890s to 1990s* (Princeton, NJ: Princeton University Press, 2009); Stephanie Lee Mudge, "What Is Neoliberalism?" *Socio-Economic Review* 6 (2008): 703-31; Margaret R. Somers and Fred Block, "From Poverty to Perversity: Ideas, Markets, and Institutions over 200 Years of Welfare Debate," *American Sociological Review* 70 (2005): 260-87.

² See, for example, Daniel Béland, "Ideas and Social Policy: An Institutional Perspective," *Social Policy and Administration* 39 (2005): 1-18; Sheri Berman, *The Social Democratic Moment: Ideas and Politics in the Making of Interwar Europe* (Cambridge, MA: Harvard University Press, 1998); Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge, UK: Cambridge University Press, 2002).

³ On ideas and interests, see particularly John L. Campbell, "Ideas, Politics, and Public Policy," *Annual Review of Sociology* 28 (2002): 21-38. On the role of discourse, see Mitchel Y. Abolafia, "Framing Moves: Interpretive Politics at the Federal Reserve," *Journal of Public Administration Research and Theory* 14, no. 3 (2004): 349-70; Vivien Schmidt, "Discursive Institutionalism: The Explanatory Power of Ideas and Discourse," *Annual Review of Political Science* 11 (2008): 303-26.

⁴ See Isaac William Martin, *The Permanent Tax Revolt: How the Property Tax Transformed American Politics* (Stanford, CA: Stanford University Press, 2008), on the tax revolt; see Monica Prasad, *The Politics of Free Markets: The Rise of Neoliberal Economic Policies in Britain, France, Germany, and the United States* (Chicago: University of Chicago Press, 2006), on Reagan's tax policies.

⁵ U.S. Congress, Congressional Budget Office, *How Capital Gains Tax Rates Affect Revenues: The Historical Evidence* (Washington, DC: U.S. Government Printing Office, 1988). Available at <http://www.cbo.gov/ftpdocs/84xx/doc8449/88-CBO-007.pdf> (accessed 29 December 2009).

⁶ Congressional Quarterly, "Congress Enacts President Reagan's Tax Plan," in *CQ Almanac 1981* (Washington, DC: Congressional Quarterly, 1982).

⁷ For the 1962 and 1964 bills, see U.S. House of Representatives, Committee on Ways and Means, *Legislative History of H.R. 10650, 87th Congress, The Revenue Act of 1962, Public Law 87-834* (Washington, DC: U.S. Government Printing Office, 1967); U.S. House of Representatives, Committee on Ways and Means, *Legislative History of H.R. 8363, 88th Congress, The Revenue Act of 1964* (Washington, DC: U.S. Government Printing Office, 1966).

⁸ Julian Zelizer, *Taxing America: Wilbur D. Mills, Congress, and the State, 1945-1975* (Cambridge, UK: Cambridge University Press, 1998).

⁹ Congressional Quarterly, "Congress Enacts Major Tax Law Revisions," in *CQ Almanac 1962* (Washington, DC: Congressional Quarterly, 1963).

¹⁰ Congressional Quarterly, "Tax Reductions and Reforms Enacted," in *CQ Almanac 1964* (Washington, DC: Congressional Quarterly, 1965).

¹¹ For a contemporary example of this interpretation, see John K. Jessup, "Choices Ahead for New Prosperity," *Life*, 24 August 1962, 72-8.

¹² See "The Economy: We Are All Keynesians Now," *Time*, 31 December 1965. Friedman himself later suggested the quote was misleading, saying, "In one sense, we are all Keynesians now; in another, no one is a Keynesian any longer. We all use the Keynesian language and apparatus; none of us any longer accepts the initial Keynesian conclusions." See Milton Friedman, *Dollars and Deficits: Living with America's Economic Problems* (New York: Prentice Hall, 1968), 15.

¹³ See particularly Michael A. Bernstein, *A Perilous Progress: Economists and Public Purpose in Twentieth-Century America* (Princeton, NJ: Princeton University Press, 2001); Robert M. Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford, UK: Oxford University Press, 2000).

¹⁴ See Collins, *The Business Response to Keynes, 1929-1964* (New York: Columbia University Press, 1981); Robert Lekachman, *The Age of Keynes* (New York: Random House, 1966); Cathie Jo Martin, *Shifting the Burden: The Struggle over Growth and Corporate Taxation* (Chicago: University of Chicago Press, 1991). Robert M. Solow, a member of Kennedy's Council of Economic Advisers, later said that the CEA was "Keynesian in the short run and neoclassical in the long run." See Solow, "The Kennedy Council and the Long Run," in *Economic Events, Ideas, and Policies: The 1960s and After*, ed. George L. Perry and James Tobin (Washington, DC: Brookings Institution Press, 2000), 122.

¹⁵ See Amy Elisabeth Davis, “Politics of Prosperity: The Kennedy Presidency and Economic Policy,” (Ph.D. diss., Columbia University, 1988); David J. Stern, “Congress, Politics, and Taxes: A Case Study,” (Ph.D. diss., Claremont Graduate School, 1965) for detailed accounts of the politics behind the economic policy of the Kennedy administration.

¹⁶ Quoted in Kyle Crichton, “Walter Heller: Presidential Persuader,” *New York Times*, 21 June 1987.

¹⁷ See Herbert Stein, *The Fiscal Revolution in American* (Washington, DC: AEI Press, 1991), 391-5; as well as Davis, “Politics of Prosperity”; and Stern, “Congress, Politics, and Taxes.”

¹⁸ See Stein, *The Fiscal Revolution in America*, 410.

¹⁹ Congressional Quarterly, “Tax Reductions and Reforms Enacted,” in *CQ Almanac 1964* (Washington, DC: Congressional Quarterly, 1965).

²⁰ Tax Policy Center, “Historical Federal Income Tax Rates for a Family of Four” (Washington, DC: Tax Policy Center, 2009), <http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=226> (accessed 29 December 2009).

²¹ Representative Steed of Oklahoma, 87th Cong., 2nd sess., *Cong. Rec.* 108 (1962): 5419-20.

²² Representative Watts of Kentucky, 87th Cong., 2nd sess., *Cong. Rec.* 108 (1962): 5341.

²³ For statements by these representatives, see 87th Cong., 2nd sess., *Cong. Rec.* 108 (1962): 5301, 5413, 5388, 5344, 5310, 5401, 5304, 5318.

²⁴ Representative Denton of Indiana, 87th Cong., 2nd sess., *Cong. Rec.* 108 (1962): 5318.

²⁵ Representative Mason of Illinois, 87th Cong., 2nd sess., *Cong. Rec.* 108 (1962): 5307; Representative Alger of Texas, 87th Cong., 2nd sess., *Cong. Rec.* 108 (1962): 5339.

²⁶ Representative Harsha of Ohio, 87th Cong., 2nd sess., *Cong. Rec.* 108 (1962): 5326.

²⁷ See, for example, Davis, “Politics of Prosperity”; Stern, “Congress, Politics, and Taxes”; and Zelizer, *Taxing America*, 180-2 on the pre-Presidential task forces on economic policy and tax policy that made these recommendations.

²⁸ Davis, “Politics of Prosperity.”

²⁹ The American Presidency Project, “John F. Kennedy: Address and Question and Answer Period at the Economic Club of New York, December 14, 1962” (Santa Barbara, CA: The American Presidency Project, n.d.), <http://www.presidency.ucsb.edu/ws/index.php?pid=9057> (accessed 30 December 2009).

³⁰ Walter W. Heller, *New Dimensions of Political Economy* (Cambridge, MA: Harvard University Press, 1966), 35; Theodore C. Sorensen, *Kennedy* (New York: Harper and Row, 1965), 430. See also Stein, *The Fiscal Revolution in America* and Davis, “Politics of Prosperity,” on this speech and reactions to it.

³¹ Davis, “Politics of Prosperity,” 284.

³² Congressional Quarterly, “Tax Bill May Lead to New Government Economic Role,” in *CQ Almanac 1963* (Washington, DC: Congressional Quarterly, 1964); Congressional Quarterly, “Tax Reductions and Reforms Enacted.” See also U.S. House, Committee on Ways and Means, *President’s 1963 Tax Message, Along with Principal Statement, Technical Explanation, and Supporting Exhibits and Documents Submitted by Secretary of the Treasury Douglas Dillon in Connection with the President’s Recommendations* (Washington, DC: U.S. Government Printing Office, 1963) for the full administration proposal.

³³ Davis, “Politics of Prosperity,” 429-46; Zelizer, *Taxing America*, 193-202; John P. Witte, *The Politics and Development of the Federal Income Tax* (Madison, WI: The University of Wisconsin Press, 1985): 160-1.

³⁴ Congressional Quarterly, “Tax Reductions and Reforms Enacted.”

³⁵ Congressional Quarterly, “Tax Reductions and Reforms Enacted.”

³⁶ Representative Mills of Arkansas, 88th Cong., 1st sess., *Cong. Rec.* 109 (1963): 17906.

³⁷ Representative Mills of Arkansas, 88th Cong., 1st sess., *Cong. Rec.* 109 (1963): 17906, 17907.

³⁸ Representative Ullman of Oregon, 88th Cong., 1st sess., *Cong. Rec.* 109 (1963): 17929.

³⁹ Representative Boland of Massachusetts, 88th Cong., 1st sess., *Cong. Rec.* 109 (1963): 17935.

⁴⁰ Representative Fino of New York, 88th Cong., 2nd sess., *Cong. Rec.* 110 (1964): 3579.

⁴¹ Representative Griffiths of Michigan, 88th Cong., 1st sess., *Cong. Rec.* 109 (1963): 17918.

⁴² For these statements, see 88th Cong., 1st sess., *Cong. Rec.* 109 (1963): 17933, 18097; 88th Cong., 2nd sess., *Cong. Rec.* 110 (1964): 3557, 3581.

⁴³ For inflation data, see U.S. Department of Labor, Bureau of Labor Statistics, “Consumer Price Index (CPI): Historical Data” (Washington, DC: Bureau of Labor Statistics, n.d.), <http://www.bls.gov> (accessed 30 December 2009).

⁴⁴ Representative Curtis of Missouri, 88th Cong., 2nd sess., *Cong. Rec.* 110 (1964): 3572.

⁴⁵ Most notably in Andrew Mellon, *Taxation: The People’s Business* (New York: Ayer Company Publishers, 1924).

⁴⁶ Representative Mills of Arkansas, 88th Cong., 2nd sess., *Cong. Rec.* 110 (1964): 5295.

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- ⁴⁷ For this “Declaration,” see 88th Cong., 2nd sess., *Cong. Rec.*, 110 (1964): 3545.
- ⁴⁸ Representative Mills of Arkansas, 88th Cong., 2nd sess., *Cong. Rec.* 110 (1964): 3559.
- ⁴⁹ Representative Curtis of Missouri, 88th Cong., 2nd sess., *Cong. Rec.* 110 (1964): 5314.
- ⁵⁰ Representative Wyman of New Hampshire, 88th Cong., 2nd sess., *Cong. Rec.* 110 (1964): 3576.
- ⁵¹ Representative Watson of South Carolina, 88th Cong., 1st sess., *Cong. Rec.* 109 (1963): 18072.
- ⁵² Many accounts outlining the rise of supply-side economics have been written. See Patrick J. Akard, “The Return of the Market: Corporate Mobilization and the Transformation of U.S. Economic Policy,” (Ph.D. diss., University of Kansas, 1989); Mark Blyth, *Great Transformations*; Collins, *More*; Martin, *Shifting the Burden*; and Prasad, *The Politics of Free Markets*, among others, for scholarly versions. For good popular versions, see Paul Krugman, *Peddling Prosperity: Economic Sense and Nonsense in the Age of Diminished Expectations* (New York: W. W. Norton & Company, 1994) and Herbert Stein, *The Fiscal Revolution in America* (Washington, DC: AEI Press, 1994). For firsthand accounts, see Paul Craig Roberts, *The Supply-Side Revolution: An Insider’s Account of Policymaking in Washington* (Cambridge, MA: Harvard University Press, 1984) and David Stockman, *The Triumph of Politics: How the Reagan Revolution Failed* (New York: Harper & Row, Publishers, 1986).
- ⁵³ W. Carl Biven, *Jimmy Carter’s Economy: Policy in an Age of Limits* (Chapel Hill, NC: University of North Carolina Press, 2002); Witte, *The Politics and Development of the Federal Income Tax*.
- ⁵⁴ Witte, *The Politics and Development of the Federal Income Tax*, 204-8.
- ⁵⁵ Few taxpayers were actually subject to this 49% rate, however; see U.S. Congress, *How Capital Gains Tax Rates Affect Revenues*, 34. See Robert Wolcott Johnson, “The Passage of the Investment Incentive Act of 1978: A Case Study of Business Influencing Public Policy” (Ph.D. diss., Harvard University, 1980) for a comprehensive treatment of the politics behind the 1978 capital gains tax cut.
- ⁵⁶ For Carter’s introduction of his tax proposals, see The American Presidency Project, “Jimmy Carter: Tax Reduction and Reform Message to the Congress, January 20, 1978” (Santa Barbara, CA: The American Presidency Project, n.d.), <http://www.presidency.ucsb.edu/ws/index.php?pid=31055> (accessed 30 December 2009).
- ⁵⁷ Martin, *The Permanent Tax Revolt*.
- ⁵⁸ Art Pine, “A Tax Break for the Rich in Election Year?,” *Washington Post*, 21 May 1978.
- ⁵⁹ Witte, *The Politics and Development of the Federal Income Tax*, 211-15.
- ⁶⁰ Income tax rates were not indexed to inflation before the passage of ERTA in 1981.

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- ⁶¹ Congressional Quarterly, “Tax Cut Bill, 1978 Legislative Chronology,” in *Congress and the Nation, 1977-1980* (Vol. 5) (Washington, DC: Congressional Quarterly, 1981).
- ⁶² See 95th Cong., 2nd sess., *Cong. Rec.* 124 (1978): 25423.
- ⁶³ See 95th Cong., 2nd sess., *Cong. Rec.* 124 (1978): 25425.
- ⁶⁴ William Steiger, who was only 40 years old, died unexpectedly the following month of a heart attack. For an obituary, see J. Y. Smith, “Rep. W. A. Steiger Dies,” *Washington Post*, 5 December 1978, C8.
- ⁶⁵ Akard, “The Return of the Market.”
- ⁶⁶ Krugman, *Peddling Prosperity*; Roberts, *The Supply-Side Revolution*; Stockman, *The Triumph of Politics*.
- ⁶⁷ Congressional Quarterly, “Congress Enacts President Reagan’s Tax Plan.”
- ⁶⁸ See 97th Cong., 1st sess., *Cong. Rec.* 127 (1981): 19538.
- ⁶⁹ Representative Steiger of Wisconsin, 95th Cong., 2nd sess., *Cong. Rec.* 124 (1978): 25427.
- ⁷⁰ Representative Stockman of Michigan, 95th Cong., 2nd sess., *Cong. Rec.* 124 (1978): 25439.
- ⁷¹ For claims that deficits would worsen inflation, see 95th Cong., 2nd sess., *Cong. Rec.* 124 (1978): 25421, 25478, 25479; 97th Cong., 1st sess., *Cong. Rec.* 127 (1981): 18047, 18858. For claims that deficits would increase interest rates, see 97th Cong., 1st sess., *Cong. Rec.* 127 (1981): 18047, 18053, 18858. For a claim that deficits were causing the dollar to collapse, see 95th Cong., 2nd sess., *Cong. Rec.* 124 (1978): 25477.
- ⁷² Representative Archer of Texas, 95th Cong., 2nd sess., *Cong. Rec.* 124 (1978): 25431.
- ⁷³ Representative Hance of Texas, 97th Cong., 1st sess., *Cong. Rec.* 127 (1981): 18051. See also 95th Cong., 2nd sess., *Cong. Rec.* 124 (1978): 25425, 25427, 25431, 25437 and 25442, among others, for similar claims.
- ⁷⁴ For mentions of the increase in tax revenues from high-income individuals, see 95th Cong., 2nd sess., *Cong. Rec.* 124 (1978): 25427, 25502. For mentions of the five-year revenue increase, see 95th Cong., 2nd sess., *Cong. Rec.* 124 (1978): 25442; 97th Cong., 1st sess., *Cong. Rec.* 127 (1981): 18051, 18241, 19534.
- ⁷⁵ See 97th Cong., 1st sess., *Cong. Rec.* 127 (1981): 18259.
- ⁷⁶ Representative Daub of Nebraska, 97th Cong., 1st sess., *Cong. Rec.* 127 (1981): 18083; see also 18259.
- ⁷⁷ Representative Fields of Texas, 97th Cong., 1st sess., *Cong. Rec.* 127 (1981): 18259.
- ⁷⁸ Representative Lagomarsino of California, 95th Cong., 2nd sess., *Cong. Rec.* 124 (1978): 25436. Lagomarsino is most likely referring to Norman Ture here, who served on Kennedy’s pre-Presidential Taxation Task Force and as Reagan’s undersecretary of the Treasury for Tax and Economic Affairs was also a “key architect” of ERTA; see

Zelizer, *Taxing America*, 180, 367. On Ture, see also Roberts, *The Supply-Side Revolution*; Stern, “Congress, Politics, and Taxes”; and Stockman, *The Triumph of Politics*, as well as 95th Cong., 2nd sess., *Cong. Rec.* 124 (1978): 5252, 21053, 21819; 97th Cong., 1st sess., *Cong. Rec.* 126 (1980): 5798.

⁷⁹ Representative Duncan of Oregon, 95th Cong., 2nd sess., *Cong. Rec.* 124 (1978): 25481; Representative Vanik of Ohio, 95th Cong., 2nd sess., *Cong. Rec.* 124 (1978): 25503. Vanik argues that while government revenues did increase by \$54 billion between 1963 and 1968, this was due not to the Kennedy tax cuts but to a combination of increases in Social Security taxes and the economic stimulus of Vietnam War spending.

⁸⁰ For example, these observations are consistent with the narratives of American economic policy provided by Bernstein in *A Perilous Progress* and Collins in *More*.

⁸¹ Davis, “Politics of Prosperity.”

⁸² Collins notes in *More*, 52, that during the early days of the Kennedy administration, the offices of the Commerce Department were labeled with signs saying, “What have you done for Growth today?”

⁸³ Collins, *More*; see also Solow, “The Kennedy Council and the Long Run.”

⁸⁴ Davis, “The Politics of Prosperity”; Stern, “Congress, Politics, and Taxes.”

⁸⁵ See 87th Cong., 2nd sess., *Cong. Rec.* 108 (1962): 5340.

⁸⁶ Martin, *Shifting the Burden*, 60.

⁸⁷ See, for example, 87th Cong., 2nd sess., *Cong. Rec.* 108 (1962): 5314, 5333, 5346.

⁸⁸ Davis, “Politics of Prosperity,” 293. Davis also recounts a story, told to her by James Tobin, about a conversation Treasury undersecretary Henry Fowler had with a businessman as they traveled by train between New York and Washington. The businessman asked what the tax credit would mean for him, and Fowler, doing some quick calculations, told him it would save him about \$200,000. “The man thanked him and then, after studying the numbers for a few minutes, turned back to Fowler. ‘Well say,’ he wondered, ‘Could I ask you another question? If this would save me \$200,000, then why am I against it?’” See Davis, “Politics of Prosperity,” 172.

⁸⁹ We thank Fred Block for reminding us of this point.

⁹⁰ Collins, *More*; Davis, “Politics of Prosperity,” Zelizer, *Taxing America*.

⁹¹ For example, in January 1963 Bruce Alger (R-TX) said of the recent Economic Report of the President, “It is a sick document...and the cure proposed is more of the same sickness, more Federal control and more Federal aid.

Yes, it is Keynesianism part and parcel or less camouflaged by name, known as socialism or collectivism, as contrasted to capitalism, the private enterprise system.” See 88th Cong., 1st sess., *Cong. Rec.* 109 (1963): 718.

⁹² For an example of such an argument, see 88th Cong., 2nd sess., *Cong. Rec.* 110 (1964): 3572. As House Speaker John McCormack (D-MA) noted during debate over the Revenue Act of 1964, “I also never thought I would see the day when our friends on the Republican side would quote Lord Keynes as an authority.” See 88th Cong., 1st sess., *Cong. Rec.* 109 (1963): 18112.

⁹³ On “discursive opportunity structure,” see Myra Marx Ferree and others, *Shaping Abortion Discourse: Democracy and the Public Sphere in Germany and the United States* (Cambridge, UK: Cambridge University Press, 2002); Ruud Koopmans and Paul Statham, “Ethnic and Civic Conceptions of Nationhood and the Differential Success of the Extreme Right in Germany and Italy,” in *How Social Movements Matter*, ed. Marco Giugni, Doug McAdam, and Charles Tilly (Minneapolis, MN: University of Minnesota Press, 1999), 225-251.

⁹⁴ Martin, *Shifting the Burden*, 59; see also Stern, “Congress, Politics, and Taxes.”

⁹⁵ Blyth, *Great Transformations*.

⁹⁶ Adapted from Tax Policy Center, “Historical Federal Income Tax Rates for a Family of Four” (Washington, DC: Tax Policy Center, 2009), <http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=226> (accessed 29 December 2009). Data are based on median income for a four-person married-couple family with one earner. Numbers assume the family has itemized deductions of 23% of income and takes either that deduction or the standard deduction, whichever is higher.