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INTRODUCTION

Fiscal and Monetary Counterrevolution

Could things have turned out differently? Looking back on the free market counterrevolution of the last half century, it is hard to avoid a sense of historical fatalism. There can be little doubt that Keynesian capitalism in the 1970s was overwhelmed by a series of problems that eluded its usual methods of crisis management. With increasing strain on its fiscal and monetary limits, the Keynesian welfare state was forced to fight on all fronts against a perfect storm of threats, from foreign trade competition to third-world nationalism, oil price shocks, and rising wage and social demands at home. To observers on both the left and right, it seemed obvious that the fiscal and monetary crisis of the postwar state could not be resolved without a self-administered euthanasia of Keynesianism itself.[1] But what was to follow?

The shock therapy unleashed by Ronald Reagan and Margaret Thatcher in the early 1980s followed the hardline script of market deregulation, welfare retrenchment, and monetary deflation advocated by neoliberal thinkers of the Mont Pelerin Society. Yet social democratic governments around the world, from Australia to France, pursued their own softer versions of neoliberal transition and thus paved the way to a new consensus. By the 1990s the debate was seemingly over. While the political right and left fought over the precise form of free market transition, the neoliberal solution to the crisis of Keynesianism was embraced by all. With the collapse of the Soviet Union, only the most utopian of leftists would cling to the belief that things could have turned out otherwise.

This sense of inevitability has become so engrained on both the left and right that it comes as a shock to realize that the neoliberal resolution to the capitalist crisis of the 1970s was by no means self-evident to those we now consider the victors. For many of the major characters in this book, the real

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story of the 1970s was a fight to the death between labor and capital, the outcome of which was far from preordained. As much as they steeled themselves for battle, their overwhelming mood was melancholic—even apocalyptic—rather than triumphant.

The Virginia school economist James M. Buchanan blamed the fiscal and monetary pathologies of the decade on a wider "behavioral revolution."[2] The same zeitgeist that had produced runaway inflation was also responsible, he thought, for a "generalized erosion in public and private manners, increasingly liberalized attitudes toward sexual activities, a declining vitality of the Puritan work ethic, deterioration in product quality, explosion of the welfare rolls, widespread corruption in both the private and the governmental sector, and, finally, observed increases in the alienation of voters from the political process."[3] Buchanan had witnessed the first stirrings of this revolution on campus, when student activists and Black militants took aim at the nexus between the university, the petrochemical industry, and U.S. imperialism. He "had sensed an urge to stand and fight, to do battle in the quads," as he "saw rules and conventions that embodied capital value fall undefended before the new barbarians."[4] Instead, he purchased a farmhouse in the Appalachian foothills, where he could retreat whenever the "wider disruption of social order"[5] became too much.

For Arthur Laffer, the Chicago school economics graduate who was then working in Gerald Ford's Department of Treasury, the parlous state of financial markets at mid-decade evoked the doomsday prophecies of the first millennium, when traders in church indulgences came face to face with the prospect of eternal damnation. "As we stand poised on the verge of the dawning of the third millennium after the birth of Christ," he told a gathering of financial analysts in New York, "I feel it is far more than just interesting—perhaps even imperative—to analyze the behavior of our current markets in the perspective of the historical precedents set during the twilight of the first millennium."[6] Dwindling returns on financial assets and ever-expanding social budgets convinced Laffer that the future of capitalism was relentlessly bleak. The expansion of social insurance programs buffering wage earners from the market had destroyed the work ethic and would soon condemn financial asset holders to an eternity of extortionate taxes, interest rates, and inflation. There was, he thought, no easy way out. "Perhaps the solution to our doomsday problem is

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the exact opposite of the solution found at the end of the first millennium," Laffer concluded; "We need the appearance of God."

For all their hyperbole, these dispatches from the 1970s are a helpful reminder of the despair that gripped right-wing economists at the time. In their eyes, at least, the battle was still in progress and victory by no means assured.

On the left, by contrast, we are just as likely to find a guarded sense of optimism. The Marxist economist James O'Connor fully appreciated the promise and perils of the moment. Writing at the beginning of the decade, O'Connor understood that the burgeoning "fiscal crisis of the state" reflected an intensified struggle between wage workers, industrialists, and asset holders on the one hand and different sectors of the working and "surplus" classes on the other.[7] The struggle resulted from the fact that growing portions of the private industrial sector had been de facto socialized as a result of permanent government contracts and soaring public investment, while the corporations that benefited from this arrangement jealously guarded their profits from social redistribution. The conflict had been containable as long as the New Deal social compact was reserved for the white, male, industrial worker. But the expanding welfare state had itself created new classes of public-sector workers (disproportionately female and African American) and state dependents (students, welfare recipients, patients, and detainees) who no longer accepted their status as social surplus. The resulting conflict pitted not only private-sector workers against industrialists but also public-sector workers and state dependents against the paternalist administration of social services by the state.[8] Yet the fiscal and monetary methods of the Keynesian social consensus were premised on the fact that redistribution was limited to a small portion of the wage-earning class. Any challenge to these limits would result in a fiscal (and monetary) crisis of the Keynesian state. Without in any way downplaying the internal divisions of the left, O'Connor saw a very different future from the one that history has bequeathed us. The conflict, he claimed, could be resolved only by socialism, that is, by the suppression of private profit, the full redistribution of social wealth, and a participatory administration of welfare, health care, and education by its beneficiaries.[9]

With this provocation, O'Connor was popping a thought bubble first blown by the Austrian economist Joseph Alois Schumpeter at a time when welfare state capitalism was still in its infancy. In an essay published in 1918,

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Schumpeter suggested that the rising importance of the fiscal state—a state armed with historically unprecedented powers to tax, spend, create money, and issue debt—had fundamentally shifted the terrain on which class struggle was played out.[10] Written in response to postwar fears of overhanging debt and rising tax burdens, the essay offered a novel perspective on the question of fiscal crisis. While others warned of intractable budgetary problems thrown up by the costs of war, Schumpeter dismissed the idea that the state was in any real danger of becoming insolvent or going bankrupt. Much more ominous than the economic burden of rising war debt, he countered, was the political threat of "rising social expenditures"—for it was "from that side" that the capitalist state might "be conquered."[11]

In other words, what the capitalist state had run up against were political limits to its own modus operandi, not absolute economic limits to fiscal and monetary policy. The rise of the modern fiscal state—by which Schumpeter meant the nascent social state of the early twentieth century—placed elected legislators in a quandary when it came to the management of private wealth. Capitalist states had long resorted to debt finance and taxation to fund their imperial and commercial pursuits. But the expansion of the democratic franchise had placed qualitatively new demands on the state that threatened its capacity to maintain social order. The growing portion of spending, actuarial, and redistributive functions foisted on government by an increasingly enfranchised polity had brought class struggle into the heart of the state and turned its budget into a ledger of conflict. As advocates of the gold standard well knew, working-class insurgency could be defeated from above by the imposition of sound finance and balanced budgets. But fiscal crisis could also be resolved in another fashion. If the poor continued to extract resources from the state, then the private economy might eventually be overwhelmed from below by the clamor of democratic demands.[12] At some point, Schumpeter warned, fiscal and monetary *redistribution* would tilt into fiscal and monetary *revolution*—a complete takeover of the state's powers to create money, issue debt, and distribute wealth.

What Schumpeter was contemplating here was a very different style of revolution to the one we commonly associate with classical Marxism.[13] Yet it was Schumpeter who correctly foresaw the kinds of struggle that would emerge in the 1960s and 1970s as welfare state capitalism entered another period of

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fiscal and monetary crisis. The "hour has not yet struck" for fiscal revolt, he wrote in the conclusion to his 1918 essay.[14] Yet the hour would come some five decades later. And when it did, Schumpeter's articulation of elite fears proved uncannily clairvoyant.

For much of the twentieth century, the Keynesian consensus between labor unions, industrialists, and the state provided an answer to Schumpeter's fears. As political theorist Geoff Mann has argued, Keynesianism is best understood as a project of Hegelian mediation applied to the social sphere and enacted as a bulwark against communism.[15] By fostering a constant growth in national income, welfare-state capitalism found a way to divide the spoils between capitalists and workers while containing redistribution within tolerable limits. Yet while this may have forestalled the danger of fiscal and monetary revolution, it did not eliminate it. The Polish economist Michał Kalecki was one of the first to offer an unflinching appraisal of the political limits of Keynesianism as a project of mediation. As early as the 1940s, at a time when large corporations were settling into a working relationship with organized labor and the big spending state, Kalecki sought to understand why business leaders were still so suspicious of the prospect of full employment.[16] If the activist use of the deficit and monetary policy could deliver a reliable workforce and steadily rising profits while simultaneously tempering the volatilities of the business cycle, why were so many corporate leaders still so loath to see a full implementation of the Keynesian social state?

Like Schumpeter, Kalecki understood that the limits of the Keynesian consensus were political, not technical. Efforts by government to subsidize public services, welfare, and the wage might be beneficial in stimulating profits in the short term. But by releasing workers from the fear of unemployment and welfare dependents from poverty, they threatened the raison d'être of capitalism itself. Absent the discipline of the market, there was nothing to stop workers from pushing up wages or politicians from redistributing wealth to win their votes. If pushed too far, it was possible that the institutions of the social state—from public schools and hospitals to health care, old age, and unemployment insurance—would be seized from below, turning state dependents into agents of a new kind of social revolution. It was for this reason, Kalecki foresaw, that business elites would allow only limited and temporary implementation of Keynesian policies: spending on physical infrastructure

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or defense would be favored over long-term investments in education, health care, and welfare, while boom-bust cycles would be tolerated as an economically disruptive but politically safe alternative to permanent deficit spending. Instinctively, industrialists and asset holders understood that labor discipline was more important to the survival of capitalism than nominal profit rates or the stability of economic growth. After all, any sustained rollout of Keynesian social investment policies would inevitably lead to chronic wage and consumer price inflation—with a corresponding erosion of real profits and the ever-present risk of a wage-price spiral. As soon as asset holders in particular were threatened by rising wages and prices, Kalecki warned, a "powerful block is likely to be formed between big business and the rentier interests, and they would probably find more than one economist to declare that the situation was manifestly unsound."[17]

This was a remarkably prescient account of the political turmoil of the 1970s, when wages effectively outran the power of corporations to collect profits and the resulting consumer price inflation eroded the wealth of financial asset holders. Even Kalecki, however, did not envisage the full scope of the social revolt of the 1970s, which brought into question the racial and gendered foundations of the Keynesian social contract as much as its class order. The era's spirit of insurgency extended well beyond the ranks of unionized, industrial workers. It also mobilized those who had been excluded from the New Deal contract: African American factory and domestic workers, public-sector employees, migrant farm laborers, welfare mothers, students, and dependents of the family wage. A resurgent feminism challenged the very structure of the male breadwinner family that undergirded the Keynesian social order and thus provoked the ire of social conservatives as much as free market liberals. If this was not quite a revolution, it came close enough to trigger a monumental backlash.

What we have experienced since then is one long counterrevolution.

EXTRAVAGANCE AND AUSTERITY

By counterrevolution, I do not mean a return to the world of honest money and limited government dreamed of by the purest of free market radicals. The libertarian credo that calls for the abolition of the Federal Reserve, an end to fiat

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money, and the repeal of the income tax continues to play an important role in U.S. politics, but it has had little impact on the reshaping of institutions. Indeed, as libertarians themselves lament, state budgets are bigger than ever, public debt grows beyond all measure, and the Federal Reserve has assumed powers of money creation unimaginable in earlier decades.[18] If institutional size and firepower are anything to go by, we are very far from the reign of sound finance that libertarian gold bugs would like to see. Why then do so many of us live in a world of unremitting fiscal and monetary austerity, as if ruled over by the hard money constraint of gold?

To make sense of this paradox, we need to understand how the neoliberal counterrevolution assigned an unofficial dual mandate to fiscal and monetary authorities, on the one hand setting them free from the traditional constraints on public money and debt creation while on the other instructing them to use these powers for the narrowest of ends.[19] We do not lack the means to collectivize public debt issuance, to monetize that debt, to channel that money into collective spending on education, health care, welfare, and the transition to renewable energy, or to redistribute the ensuing social wealth. What we lack is the political will. The challenge for neoliberal technocrats has been to turn these institutional possibilities into political dead ends while doing all in their power to accommodate the interests of private asset holders.

The challenge first presented itself in 1971, when President Nixon made the fateful decision to close the gold window that allowed currency traders to exchange their U.S. dollars for hard money. The decision bought precious time. Its immediate effect was to release the United States from the blackmail of foreign trade partners, who could always force the country to put its fiscal and monetary house in order by threatening to withdraw their dollars for gold. As non-fiat money in limited supply, gold was an enforcer of monetary and fiscal austerity. It was the hard monetary medium that limited the ability of the United States to run budget deficits or lower interest rates. The suspension of the gold window released the U.S. government from this discipline, allowing it to deal with its growing trade deficit and rising domestic inflation on its own terms.[20] But in so doing, it also removed a convenient external constraint on U.S. domestic politics. In the absence of a hard technical limit to budget deficits and inflation, could elected legislators be trusted to enforce social spending austerity of their own accord?

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To business leaders and financial investors alike, the transition to floating exchange rates appeared like a mixed blessing that could ease balance-of-payment pressures in the short term while throwing up worse problems down the road. Uppermost in their mind was the growing power of trade unions, which in the early 1970s were regularly winning wage settlements in excess of the consumer price level. The specter of "wage push inflation"—a general inflation of consumer prices that was catalyzed by oil price shocks but driven forward by the bargaining power of organized labor—haunted the business and political elites of the period.[21] Economists invoked the threat of "hyperinflation": without the discipline of fixed exchange rates, they warned, there was a real danger that weak-willed legislators would keep expanding the social budget and prevail on the Federal Reserve to accommodate their spending with wanton "money printing." For many, the fact that the Federal Reserve had the power to directly purchase Treasury debt (a process known variously as debt monetization, monetary finance, or more pejoratively "money printing") and thus allow the government to spend at zero or low cost was a fatal institutional weakness. Because of this they thought that any solution to the conundrum of floating exchange rates would have to include a radical overhaul of the central bank's charter and sphere of influence.

The scope of the problem was clearly appreciated by Chicago school neoliberal Milton Friedman, who repeated Irving Fisher's warning that "irredeemable money had almost invariably proved a curse to the country employing it."[22] While Friedman was personally in favor of floating exchange rates, the success of the regime, he averred, would depend on whether "we find a substitute for convertibility into specie that will serve the same function: maintaining pressure on the government to refrain from its resort to inflation as a source of revenue."[23] The Federal Reserve could not be allowed to accommodate rising wage settlements and social demands by monetizing (and thus inflating away) government debt. It was imperative that it "find a nominal anchor for the price level to replace the physical limit on a monetary commodity."[24] In the absence of gold, an alternative form of monetary discipline would have to be found.

While Friedman had set out the terms of the challenge, it fell to Paul Volcker, President Carter's appointee as chair of the Federal Reserve in 1979, to find a workable solution. By refusing to accommodate incoming President

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Reagan's big-spending military and tax cut budget of 1981 and letting interest rates soar, Volcker established the new expectation of central bank impassivity in the face of government desperation. The stance—soon to be formalized in the norm of "central bank independence"—established a strict institutional separation between the Treasury and the central bank and forbade the latter from accommodating government spending by resorting to "money printing." [25] Between 1980 and 2008 central banks around the world massively offloaded their public bond holdings, determined to wean governments off the drug of cheap money and rein in their spending.[26] Henceforth, treasuries would be forced to issue tradable securities and finance their spending in the bond markets, where they would be subject to the unsentimental appraisal of bond vigilantes. Bruised by the trauma of the 1970s, bond traders were phobic of any form of government spending that might empower labor or push up the social wage: as such, they could be expected to punish weak-willed governments with exorbitant interest rates.

By the early 1980s, then, the U.S. government's release from the monetary discipline of gold was replaced by a new kind of institutional constraint. In the words of his biographer William Silber, Volcker showed that a "determined central banker could act like a surrogate for gold" and thus "rescued the experiment in fiat currency from failure."[27] Neoliberal monetary orthodoxy would transmute Volcker's personal determination into a steely institutional animus against (wage-push) inflation. The U.S., and world, economy would henceforth operate on an institutional ersatz for gold—"a gold standard without gold."[28]

The advantage of this arrangement was that it allowed the Federal Reserve to deploy monetary austerity in the most targeted of ways, while at the same time holding all its powers of monetary accommodation in reserve for special occasions. There was good reason why a youthful gold bug such as Alan Greenspan did not hesitate to enter the temple of fiat money in the wake of Paul Volcker.[29] Greenspan understood much earlier than most that if the Federal Reserve could be disciplined to suppress the slightest hint of wage inflation, its powers of money creation could nevertheless be selectively unleashed to foster the inflation of asset-based wealth.[30] Neoliberal monetary orthodoxy could do everything that gold was meant to do—and more. The key variable here was government fiscal policy, which had to be austere enough to keep the

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(social) wage in check yet simultaneously generous enough to reward investment in financial assets.

The most obvious feature of neoliberal fiscal policy has been its fierce will to retrenchment. With the neoliberal turn of the 1980s, the fiscal crisis of the state was resolved in favor of social spending cuts as opposed to tax increases (at least of the visible or direct kind), and welfare states since then have operated under a regime of permanent fiscal austerity.[31] Social spending decisions, we are told, must bend to the constraints of demographic aging, declining growth rates, and the international bond market. There is only so much money to go around, and since almost everyone agrees that defense outlays are off the table, what we are left with is a competition between different items in the social welfare budget.

We should not underestimate the political endgame here: Republicans have never hidden their desire to fully privatize Social Security and Medicare. In the meantime, however, the timeline of retrenchment has followed the reverse order of priorities laid out in the New Deal welfare state, winning its first outright victories with stigmatized public assistance programs associated with impoverished African American and Latina women, and proceeding from here to the more secure entitlement programs that were designed to protect the male breadwinner wage.

The will to retrenchment, moreover, goes far beyond the sphere of social insurance to encompass the whole gamut of social spending programs associated with the postwar emancipation of women and racial minorities. Just as decisive as the fiscal conservative rationale behind these attacks was the social conservative agenda to "defund the left."[32] Following the student revolts of the 1960s and 1970s, higher education was a prime target for retrenchment: the slow attrition of federal funding from the Reagan administration onward shifted its fortunes to the states, where it had to compete with a rapidly growing prison and corrections budget.[33] Public schools too came under fire in the 1970s not only as hotbeds of left-wing teacher unionism but also as purveyors of state-subsidized sex education and racial tolerance. They remain on the front line of the culture wars to this day, as conservatives call for a reassertion of parental rights in the face of rampant gender and racial indoctrination.[34] Perhaps the most enduring alliance between fiscal and religious conservatives, however, was the long campaign to defund Planned Parenthood, to intro-

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duce religious exemptions in public hospital settings, and to make abortion unaffordable to poor women. Long before the judicial counterrevolution of the Trump era made it possible to overturn *Roe v. Wade* outright, the religious right did all in its power to outlaw abortion by fiscal means. In this and other cases, fiscal austerity and moral discipline went hand in hand.

Yet we misunderstand the scope of neoliberal fiscal policy if we assume austerity to be its sole setting. Beyond the zero-sum game of competing claims on direct expenditure lies a whole realm of *indirect* government spending that escapes the naked eye. To grasp the complexity of neoliberal fiscalism fully, we need to look at the large and growing portion of government outlays that takes the paradoxical form of indirect spending through the tax code.[35] Tax deductions, exclusions, preferences, exemptions, deferrals, and credits are all deliberate departures from a baseline rate of income taxation that are designed to facilitate certain kinds of investment choice in the private economy. There is general recognition among public finance economists that tax provisions of this kind are functionally equivalent to traditional public spending. For this reason, they are referred to as "tax expenditures" and counted as such in annual reports issued by the Treasury Department and Joint Committee on Taxation.[36]

As functional subtractions from the federal budget, tax expenditures have the same effect on Treasury accounts as direct government spending. Yet they are commonly perceived as both tax *and* spending cuts by the public and are rarely singled out as contributions to the budget deficit.[37] Social tax expenditures such as the Earned Income Tax Credit (EITC) have proven useful to New Democrats, who want to pursue a minimal social spending agenda while avoiding the charge of fiscal profligacy. But it is Republicans who have made the most extravagant use of the tax expenditure option to enact massive spending programs on behalf of the well-off, in the process creating a shadow welfare state that should be unaffordable by their own metrics.[38] Tax expenditures are one reason why Republicans in power regularly leave massive budget deficits and debt burdens in their wake while seemingly pursuing the most austere of social spending agendas.

As a ratio of government spending, tax expenditures have grown dramatically over the past four decades. At last estimate, the U.S. Treasury currently foregoes $1.5 trillion in annual revenue through its income-related tax

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expenditures—higher than the Social Security budget or more than one-third of direct government spending.[39] Their overall impact is highly regressive. At the same time that Republican legislators in particular resist any increase in direct social spending, they actively reward citizens for channeling their savings into "private" alternatives to "public" welfare, thus offering a permanent subsidy to asset-based wealth accumulation.[40] This is most obviously the case when it comes to the suite of tax expenditures relating to dividends and capital gains, which overwhelmingly benefit households in the top 1 percent of the income distribution. But it also applies to tax expenditures on private housing, which in a low-interest-rate environment have contributed to the transformation of the home into a financial asset and sharpened the class divisions between the homeowner and the renter. As tax expenditures have grown with respect to direct social spending, the United States is left with a divided welfare state of threadbare income transfers and outrageously generous subsidies to private wealth. Fiscal austerity, then, is only one side of the neoliberal tax and spending agenda.

The same dynamic is at work in industrial and urban policy, which relies increasingly on tax incentives to would-be private investors rather than direct public investment.[41] The dwindling of federal support for lower levels of government has forced cash-strapped state and local governments to lavish resources on private investors, corporations, and real estate developers in the hope that some of the resulting gains will come trickling back down at some point in the future. The municipal debt market that holds legislators in its grip demands that public outlays reward private investors before all others.[42] Thus, while cities and states outdo each other in indirect spending on private asset holders, their direct commitment to public services grows hopelessly thin.

The increasingly regressive profile of fiscal policy explains why the inveterate monetary hawk Alan Greenspan turned dovish in the late 1990s and why his Federal Reserve successors felt free to break that last taboo of central bank independence—the prohibition against monetizing the federal debt—in the wake of two global financial crises. It helps us to understand, also, why the massive exercise in debt monetization pursued under the guise of quantitative easing (QE) led to asset price (not wage) inflation, in apparent defiance of orthodox monetary logic.[43] It turns out that monetary and fiscal policy cannot be understood independently: one monetary action can produce vastly

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different effects depending on the fiscal environment it is operating in. Thus, while central bank "money printing" may have looked like a slippery slope to the hyperinflation of wages in the early 1970s, at a time when a Republican President Nixon was expanding the social budget and the trade union movement still had clout, it no longer presented the same threat in the 2000s, when so much of government social spending was sustaining the wealth of private asset holders. During the past four decades, the steady buildup of tax expenditures serving to subsidize the value of financial assets—from capital gains preferences to estate tax deductions—has created a situation in which low interest rates and cheap debt will automatically feed into asset price inflation and a further concentration of wealth in the hands of the already rich. These fiscal buffers work on the downside as well as the upside, helping to explain why at least some asset classes remain surprisingly resilient to any reversal in the Federal Reserve's low-interest-rate policy. When financial asset holders begin to suffer real losses, they have recourse to special tax provisions not available to the average wage earner that allow them to write off income taxes into the far future. For those with enough money to qualify, failure is never absolute.

At this point it should be clear why "neofeudalism" is not an adequate descriptor of our current conjuncture.[44] What we have witnessed during the last four decades of counterrevolution is not a dismantling of the modern Treasury or central bank much less the self-abolition of capitalism, but an extraordinary intensification of fiscal and monetary capacities in the service of a dual mandate. For all its airs of haughty asceticism, the Federal Reserve has relinquished none of its powers to create money or sustain wealth. Indeed, in the last few decades, it has acquired extraordinary new powers to deal with the threat of asset price deflation, extending its lender-of-last-resort function from government-chartered to shadow banks and from U.S. to world capital markets.[45] Yet it has jealously guarded these powers from democratic or redistributive intent, deploying them only when it was sure that financial asset holders would be the primary beneficiaries. The fiscal state, too, has lost none of its powers of debt issuance and redistribution, despite the oft-repeated diagnoses of terminal impotence. Even while it vaunts its commitment to spending restraint, the neoliberal state indulges in orgies of tax expenditure that reliably violate its own rules of budget balance. The combined effect has been to

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re-create the austere conditions of classical sound finance for mere wage earners and welfare beneficiaries while furnishing a world of unimaginable abundance for asset holders.

PUBLIC CHOICE AUSTERITY AND SUPPLY-SIDE EXTRAVAGANCE

This book investigates the key moments and actors in this long counterrevolution, focusing in particular on the role of Virginia school public choice theory and supply-side economics in reshaping the budgetary politics of American government. As members of the wider "neoliberal thought collective," these movements produced distinct but ultimately complementary responses to the capitalist crisis of the 1970s.[46]

With its intellectual roots in the conservative southern Democratic tradition, Virginia school public choice theory calls for constitutional limits to the tax and spending powers of the state at every level of government. Its policy agenda of tax cuts and balanced budgets is a recipe for austerity, much more severe than the balanced budget regime of the postwar Republican mainstream. This agenda originated in the Solid South of one-party Democratic states, which practiced an extreme form of public spending austerity as a way of disciplining Black agricultural and domestic workers and the poorest of whites. It was upheld as budgetary gospel by the conservative southern Democrats who ruled the Senate until the civil rights era and was subsequently transmuted into an elaborate philosophy of constitutional economics by the father of Virginia school neoliberalism, James M. Buchanan. As southern Democrats passed the baton of budget austerity to Sunbelt Republicans in the 1970s, Buchanan's prescriptions for budgetary restraint would be embraced wholesale by the ascendant right wing of the Republican Party.

With its blueprints for tax and spending limits, supermajority voting rules, and a federal balanced budget amendment, the political legacy of Virginia school neoliberalism is much more significant than is commonly assumed. It was the intellectual driving force behind the long wave of tax and expenditure limitations that forced austerity on state and local government in the late 1970s and 1980s. It continues to fuel the interminable campaign for a federal balanced budget amendment. And it has left its imprint in the now familiar spectacles of Republican debt ceiling showdowns, the routine abuse of the

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Senate filibuster, and threatened defaults on U.S. sovereign debt. The Virginia school style of zealous austerity has become so entrenched in Republican Party politics that it is difficult to appreciate how drastically it departed from the Republican mainstream of the postwar period. The so-called Eisenhower Republicans of this era were certainly committed to the principle of balanced budgets. Yet they had also made their peace with the expanded government budget bequeathed by the New Deal, World War II, and America's role as an emerging imperial power. Hence, they were prepared to increase taxes if extra revenue was needed to cover public spending. As children of the anti–New Deal South, Virginia school neoliberals espoused a much bleaker fiscal politics that insisted on balanced budgets while ruling out the possibility of direct tax increases. With all other options off the table, the tightening of the fiscal screw could only ever lead to spending cuts.

The supply-side movement, by contrast, advocated tax cuts without spending restraint or debt limits, in an apparent repudiation of fiscal austerity. With their close ties to the U.S. Treasury Department, itself intimately enmeshed in the world of Wall Street bond traders, supply-side economists had a more sophisticated analysis of the realities of government finance. In the immediate aftermath of Nixon's floating of the dollar, they were quick to recognize the newly pivotal role played by U.S. Treasury debt in global financial markets and sought to consolidate its hegemony to the advantage of U.S. asset holders. The Columbia University economist and future Nobel Prize winner Robert Mundell was among the first to understand how the United States, in a new environment of floating exchange rates, could leverage its position as issuer of the world's reserve currency to escape the zero-sum constraints binding other economies. As long as the government maintained the right domestic budgetary priorities, he argued, the global demand for U.S. Treasury debt and other dollar-denominated assets would ensure a constant inflow of cheap credit to the United States, thus freeing its government from spending constraints and allowing it to finance an extravaganza of tax cuts.[47]

At first blush, supply-side economists seemed to be preaching the exact opposite to public choice theory. Tax cuts need not be balanced by spending restraint, they counseled, as long as investors could be found to purchase the resulting government debt at low cost. Where Virginia school economists intoned the mantra of balanced budgets and fiscal austerity, supply-side

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economists celebrated a non-Keynesian version of the "free lunch." They, too, proclaimed their difference from Eisenhower Republicans. But where Virginia school neoliberals wanted to salvage balanced budgets with spending cuts, supply-siders at their most populist dismissed the logic of austerity altogether. In their frequent media tirades, prominent movement figures such as Jude Wanniski lambasted public choice theorists for their outdated allegiance to the "household budget" theory of public finance, with its phobia of government deficits and naive perspective on the workings of public debt.[48] The GOP, they argued, could reinvent itself as the party of abundance.[49]

Yet the supply-siders, too, recognized that fiscal and monetary abundance had its own constraints. It was obvious, for example, that U.S. Treasury debt would remain attractive to investors only as long as the dollar's value was protected from the threat of (wage and consumer price) inflation. The 1978 flight from the dollar demonstrated how easily the United States could lose its newly hegemonic position if the government failed to rein in the power of trade unions and radical social movements. For supply-siders, fiscal extravagance was possible then, but only in one direction. Tax incentives to private wealth creation could be pushed without remorse because they posed no risk of inflating wages or consumer prices. By contrast, any public spending that might empower labor or lift the social wage would repel global investors and thus compromise the hegemonic role of the dollar. The upshot was that the United States could free itself from the normal constraints of balanced budgets only if it enacted a selective form of austerity.

Thus, public choice and supply-side economists found an uneasy point of convergence around the need to contain *certain kinds* of public spending. While they might never agree on the fundamentals, representatives of both schools found common ground in a shared animosity toward Eisenhower Republicanism. As is so often the case, moreover, political actors barely paused to contemplate the logical conflict. Thus, Newt Gingrich and almost all his followers on the insurgent Republican right embraced a syncretic faith of balanced budget piousness and supply-side indulgence. At the same time that Virginia school balanced budget rules demanded continuous assaults on "unaffordable" social services, supply-side tax expenditures (dubbed "incentives") authorized a guilt-free transfer of public money into the coffers of personal wealth holders, real estate developers, and corporations. The logical

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contradictions could never be perfectly resolved, of course, since supply-side tax expenditures would always violate the Virginia school prohibition against budget deficits. Yet this itself imparted a self-reinforcing momentum to the whole cycle, allowing legislators to invoke the soaring federal debt as proof of fiscal sinfulness each time they inflicted a new round of cutbacks.

What we are left with is the paradox of increasingly austere social spending budgets alongside ever-expanding volumes of federal debt. As public finance economists have long noted, even when constitutionally enforced, tax and spending limits or balanced budget rules rarely if ever end up reducing the volume of public debt issuance. Instead, as the recent history of state and local government has made clear, they remove public-debt finance from the realm of democratic decision making and revenue collection from the general tax fund, favoring the use of so-called revenue bonds that support private infrastructure investment and nakedly regressive types of collateral such as user fees. At the federal level, it hardly needs pointing out that the national debt has surpassed the worst fears of debt millenarians, even while the profile of public spending and taxation has grown increasingly mean and regressive. The combined message of public choice and supply-side fiscalism was clear. Public debt (municipal, state, and federal) could be issued ad infinitum, as long as it channeled most of its benefits toward the private accumulation of wealth. The government spending spigot could keep flowing, as long as the resulting social wealth was distributed upward. What the alliance between supply-side and public choice economics delivered in practice was the precise mixture of fiscal austerity and extravagance demanded by neoliberal monetary orthodoxy.

DYNASTIC CAPITALISM

The counterrevolution in public finance has brought with it levels of wealth concentration not seen since the Gilded Age and has profoundly reshaped the organizational form of capitalism itself. The publicly traded, vertically integrated corporation that dominated the landscape of mid-twentieth-century capitalism and drew ever greater numbers of workers into its orbit of long-term secure employment is no longer the institution it once was.[50] Private, family-owned corporations have assumed a new prominence in American

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and global capitalism. New businesses are avoiding the lure of public markets for as long as they can, growing to massive size before they launch an IPO. And even when they go public, they are finding ingenious ways to install new forms of elite, patrimonial control behind the façade of the shareholder-owned corporations. The organizational priorities of corporations are increasingly dictated by private, unincorporated entities such as private equity firms, hedge funds, and venture capitalists, with their ruthless disregard for anything but capital gains in share prices. These alternative investment funds are playing an ever more important role in the direct provision of finance to new companies that wish to avoid the public share markets for as long as possible. Among the most aggressive of the new alternative investment funds are so-called family offices—kin-based wealth investment funds that have multiplied as a result of the decade-long surge in wealth concentration.

As historian Steve Fraser observes, "family capitalism has experienced a renaissance."[51] Few would have predicted this outcome in the 1970s heyday of business revanchism. The tax and regulatory reforms that were meant to revive investment in fixed capital assets, expand employment, and reinvigorate industrial profits instead incentivized firms to divest from their internal workforces and to outsource fixed capital costs. The governance reforms that were meant to realign the incentives of the corporation in favor of the mass shareholder public simply exchanged the old managerial elite for a new owner-investor elite that ruthlessly concentrated power in its own hands. And instead of reviving the profit and growth rates of Fordism's glory days, the shareholder revolution changed the profit form itself, reorienting corporations away from industrial profits (derived from retained earnings) toward capital gains (asset price appreciation) and dividends (income from assets).[52]

While it would be easy to conclude that we have regressed to a state of feudalism, the fact is that the family dynasts of our time enjoy a level of organized public support that medieval lords could only dream of. We live in an age of paradoxes where nominally private, non-state-chartered (or shadow) money is permanently backstopped by the world's most powerful central bank and private family wealth soars in value with the full collusion of fiscal and monetary authorities. In the meantime, the same state institutions see wage inflation as a mortal threat to the value of financial assets and demand that consumers pay for nominally public services in the form of crippling personal debt.

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It might be objected of course that private wealth has always been subsidized to some degree by the modern fiscal state. The distributive remit of central banks and treasuries has been a matter of fierce contestation since at least the early twentieth century. But while there have been moments when fiscal and monetary policy shifted in favor of wage workers (during the New Deal and more ambiguously, in the late 1960s and early 1970s) and others where it flipped back in favor of asset holders (the 1980s and beyond), what we have experienced since the Global Financial Crisis of 2008 is without precedent. By taking whole chunks of the private and public debt market onto its books and assuming a preemptive role in the defense of asset prices, the Federal Reserve has socialized the risks of private wealth as never before, while exposing mere wage earners to the full violence of the free market. It is significant, in this regard, that the only situation in which the Federal Reserve is prepared to change course is when it believes (wrongly or rightly) that its asset-stimulating policies may have inadvertently triggered an inflation in wages. It was the fear of wage rises among the lowest-paid service workers, not the vertiginous wealth gains of the 1 percent or coordinated profit hikes by large corporations, that prompted Fed chairman Jerome Powell to begin unwinding QE in mid-2022.[53] Yet even for would-be monetary hawks, there can be no easy exit from the central bank regime of asset price accommodation. As long as fiscal incentives continue to channel wealth into financial assets, and as long as capital gains outperform industrial profits as a return on investment, the Federal Reserve appears locked into a pledge of permanent crisis response, where it has little choice but to come to the rescue when asset markets fail. Interest rate rises create policy space for central banks to act in the future, but by themselves they cannot release it from its role in validating a fiscal regime that overwhelmingly promotes the value of financial assets.

If there is any virtue in this regime, it lies in the fact that the powers of public finance to create wealth and socialize risk are visible as never before, even as they are deployed in the most unequal of ways. We know that fiscal and monetary extravagance is technically possible. We have yet to fully embrace this knowledge as the starting point for a more expansive vision of revolutionary change. If pseudoscientific laws of price stability and balanced budgets can be transgressed at will to socialize the risks of the wealthiest asset holders, why would we not deploy the same powers in service of the many? If

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wage inflation is the biggest threat to asset price and profit-driven inflation, why would we not pursue this insight as a pathway to radical wealth redistribution from below? To be sure, such propositions are bound to appear utopian in a context where the left is very far from possessing the organizational power to act on them in any systematic way. Yet merely to articulate them as the horizon of communist politics can concentrate the mind and clarify strategic priorities. The notion that social redistribution might be pursued beyond the limits tolerable to the capitalist state has long haunted the most perceptive observers of capitalist class politics. During the 1970s, the strategy was embraced by elements of the anarcho-communist left who consciously worked "in and against the state" to release the social wage from the conditionalities of the Keynesian welfare apparatus.[54] Today, left-wing Keynesians (or so-called post-Keynesians) are the most lucid analysts of the hidden possibilities of public finance and central bank money creation.[55] Yet as advocates of class consensus, exponents of Modern Monetary Theory (MMT) are duty bound to pull back from the edge when redistribution is pushed too far.

Are we prepared to go over the edge in pursuit of revolutionary extravagance?

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CHAPTER ONE

Capital Gains: Supply-Side Economics and the Return of Dynastic Capitalism

How do we explain the election of Donald Trump, the Republican outsider whose fortunes were built on the vertiginous appreciation of asset prices and esoteric tax dodges? Why did so many small business owners choose to vote for a candidate who consolidated his inherited wealth with the help of tax-free capital gains while systematically defrauding his many business partners and contractors? And lest we focus too exclusively on Trump's populist appeal, why have so many in the financial and political world bailed him out each time he spectacularly failed? Trump played to multiple audiences during his presidential campaign, sometimes presenting as a champion of the blue-collar worker and drainer of swamps, other times as the consummate dealmaker. Yet any doubts about his real political colors were dispelled upon his arrival in office, where one of his first moves was to push through a shamelessly plutocratic tax cut.

The 2017 Tax Cuts and Jobs Act was designed by five veteran supply-siders, all fellow travelers of the Tea Party movement and alumni of the Reagan administration.[1] Their names were Arthur Laffer, for many the mascot of supply-side economics; Stephen Moore, Heritage Foundation fellow and founding president of the Club for Growth; Steve Forbes, editor-in-chief of *Forbes* business magazine and board member of FreedomWorks; Lawrence Kudlow, financial news services host at CNBC and Fox; and David Malpass, former chief economist at Bear Stearns in the years leading up to its collapse. This close-knit group of advisors enjoyed remarkable staying power within the president's high-turnover inner circle, outlasting many of his more celebrated mentors, despite their continuing reservations with regard to his

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trade protectionist tendencies. In the last year of Trump's tenure, they were still there, urging the president to avoid lockdowns in the face of the coronavirus pandemic.[2] They had been by Trump's side from the earliest days of his presidential campaign, when he first invited them to devise a tax plan that was "bigger and more beautiful" than Reagan's supply-side tax cuts of 1981.[3]

Trump's nostalgia for Reagan's Economic Recovery Tax Act (ERTA) of 1981 makes sense when we look back at his early career. Drafted by a group of supply-side economists installed in the Department of Treasury, Reagan's first-year tax cuts set commercial real estate values on fire for much of the decade, luring investor funds into newly tax-protected assets in midtown New York and business districts across the country. As a young real estate developer, Trump had been among the chief beneficiaries of these cuts. Now that he was installed in the Oval Office, he had good reason to expect "bigger and more beautiful" rewards from the same school of economists who had served him so well in the past.

As it turns out, Trump's supply-side advisors delivered him a $1.5 trillion tax cut that was outrageously advantageous to the joint family interests of the clans of Trump and his son-in-law Jared Kushner. The 2017 Tax Cuts and Jobs Act doubled the individual estate tax exemption to $11.2 million and introduced a record-breaking cut to the marginal corporate tax rate, triggering another of the many rounds of share buybacks, stock price surges, and windfall capital gains that have followed the Global Financial Crisis.[4] But while most businesses had to give up industry-specific breaks in exchange for these cuts, the commercial real estate sector received fortified protections for its existing tax shelters, including more generous depreciation allowances and a reduction in the tax rate on rental and mortgage-interest income.[5] Shareholders in real estate investment trusts, or REITs—among them Trump and Kushner—were granted a further reduction in the marginal tax rate owed on their income. Trump's tax reform also revived the old idea of the enterprise zone—once championed by the supply-side populist Jack Kemp—to incentivize private capital investment in impoverished communities. A forerunner to the cross-sector tax cut on capital gains that Trump postponed until his hoped-for second term, the rebaptized "opportunity zone" program allowed real estate developers to defer and potentially avoid the capital gains tax altogether,

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as long as they invested their money in designated census tracts. Among its first beneficiaries were several Trump family members and associates.

The supply-side movement in economics was (and continues to be) a powerful player in the reshaping of American and global capitalism. It counts among the several currents of neoliberal economics that came into their own in the 1970s, as a self-conscious weaponization of classical free market ideals against the big spending liberal state.[6] The widespread use of the term "supply-side economics" to refer to this specific current in anti-Keynesian thought is somewhat misleading. It sets up a false dichotomy between supply-side interventions focused on investment and production and demand-side policies focused on consumption, as if neoliberals favored the former and Keynesians the latter. Keynes was always attentive to both: what distinguishes the supply-side movement from Keynesian or supply-side liberalism is its foundational opposition to progressive taxation.[7] Tax incentives are an instrument utilized by Keynesians and neoliberals alike. Yet only neoliberal supply-siders see the progressive tax system as an outright disincentive to growth.

Roused into action by the crisis conditions of the 1970s, a first generation of supply-siders identified inflation and an increasingly progressive tax system as twin threats to the interests of capital. As industrialists fought to protect their profit margins and investors struggled to make good on flagging financial assets, the supply-side movement called for the reduction of taxes on capital gains, preferential treatment for investor income, and the introduction of accelerated depreciation allowances on fixed capital assets. At a time when most assumed that monetary restraint implied a scarcity of credit, the supply-side economist Robert Mundell correctly predicted that the suppression of wage and price inflation would pivot investors back into U.S. financial markets, freeing up an abundance of credit for leveraged investment in dollar-denominated assets.[8] The supply-siders never abandoned their dream of a pure gold standard but settled for the anti-inflationary activism introduced by Federal Reserve Chairman Paul Volcker in the late 1970s.[9] When brought into force by President Reagan's first-year tax legislation, the supply-side formula for economic recovery oversaw the precipitous rise of an urban real estate sector joined at the hip with Wall Street and built on the back of increasingly precarious construction labor. Donald Trump was truly a child of the supply-side revolution.

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Yet supply-siders themselves have often misunderstood (or misrepresented) the nature of their project. Tracing a direct line of descent from President Kennedy, who advocated tax cuts as an instrument of economic stimulus during the 1960s recession, supply-siders sometimes present themselves as non-Keynesian growth economists, intent on expanding the pie by pressing on the supply-side levers of production and investment rather than the demand side of consumption.[10] With each round of tax cuts they have promised a return to the elusive growth rates of the Fordist era, where workers and owners could share in an expanding national product without setting off inflation. Except for a brief period during the Clinton administration, none of this has materialized.[11]

But if the supply-siders have failed by their own account, by another set of metrics they have been singularly triumphant. With the help of an ever-vigilant Federal Reserve, always ready to pounce on the slightest sign of wage and consumer price inflation, the supply-siders who populated the Reagan administration helped usher in a new organization of economic life in which asset price appreciation through debt leverage came to replace growth in the national product as the catalyst of wealth creation. Although this is sometimes adduced as evidence of a long slowdown (a thesis advanced most famously by Robert Brenner), it would be better understood as a shift in the operational logic of capitalism, rendering growth rates and industrial profits a weak measure of dominant economic trends.[12]

In confirmation of this thesis, the economist Jacob A. Robbins observes that since the 1980s, the bulk of wealth creation has arisen from appreciating asset prices rather than investment from savings.[13] Working with a comprehensive measure of income, which includes both realized (hence, taxed) and unrealized returns on investment, Robbins calculates that between 1980 and 2017 capital gains comprised a third of total capital income, even when volatility across specific asset classes was taken into account.[14] This stands in stark contrast to the period between the end of World War II and 1980, when asset price fluctuations were relatively subdued and capital gains represented a negligible component of capital income. As Greta Krippner has shown, the historical shift that occurred around 1981 saw returns on financial investment—in the form of rents, interest, yield, royalties, and capital gains—overtake profits, defined as retained earnings from investment in capital stock. Crucially, this

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shift was not confined to the financial services, insurance, and real estate sectors but extended to manufacturing too, where financial returns for the first time became more important than industrial profits.[15] The transition that is perhaps too crudely referred to as "financialization" is one that turned asset price movements into the chief determinant of income and wealth shares across the economy.

Yet this shift in the operating logic of capital remains stubbornly illegible to our current system of national accounts, which focuses on income deriving from the production of goods and services to the exclusion of capital gains. The mid-twentieth-century econometrician Simon Kuznets, perhaps the foremost influence on our current system of accounts, saw asset price movements as peripheral to the real work of economic production. Capital gains and losses, he reasoned, "are not increments to or drafts upon the heap of good produced by the economic system for consumption or for stock destined for future use," and for this reason they should be "excluded from measures of real income and output."[16] While this made a certain sense within the regulatory structure of New Deal capitalism, which was designed to rein in the stock market excesses of the 1920s, the continuing exclusion of capital gains renders us blind to the most consequential economic trends of our times. In the absence of a more comprehensive set of indicators, statisticians can only tell us how woefully our current economic outcomes fall short by the standards of mid-twentieth-century econometrics. Average rates of growth, capital stock investment, and industrial profits have all performed dismally since 1973, as Robert Brenner reminds us.[17] But what if the real action were happening elsewhere, invisible to these metrics?

Perhaps the best illustration of this dilemma can be found in Thomas Piketty's landmark *Capital in the Twenty-First Century*, which ultimately attributes increasing wealth concentration to a declining growth rate combined with the tendency of inherited wealth to accumulate value over time.[18] But even in those studies where Piketty and his colleagues do measure the effect of asset prices, the tax records they rely upon only register the capital gains that are made when an asset is sold or realized—an always limited segment of overall gains, much of which is never realized within the lifetime of the asset holder.[19] This is no small oversight, since appreciating asset prices, even if never realized or subject to sale, add value to collateral and can therefore be

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used to leverage greater volumes of credit at lower interest rates than would otherwise be possible. If sustained by the right combination of tax shelters and accommodative monetary policy, the wealth generated through asset price appreciation is liable to become self-reinforcing, all the while remaining completely invisible to the IRS and national income accounts. Drawing on a much wider array of sources than those available in the tax records, Jacob Robbins comes to the sobering conclusion that Piketty and his colleagues have in fact underestimated the true extent of inequality in our times, by overlooking the place of unrealized capital gains in the wealth portfolios of the ultrarich.[20]

With prevailing economic winds pointing to asset price inflation, on the one hand, and wage disinflation, on the other, it was inexorable that the family would acquire a new and formidable salience in the reproduction of elite power. It has always been the case, of course, that financial assets and their associated income flows can be transmitted from generation to generation in a way that a stream of wages cannot.[21] But when income from financial assets is climbing much faster than income from labor, the family becomes an all-important conduit in the process of class stratification, ensuring as it does that wealth is reserved for kin into the foreseeable future. Both tax and inheritance law consolidate this role, endowing the legal institution of the family with unique powers to shield capital gains from taxation. It is no coincidence that supply-side economists have always seen estate tax reform and cuts to the capital gains tax as working hand in hand toward the revival of entrepreneurial spirits. There is no better instrument for the long-term hoarding of wealth than the legal haven of the family.

Four decades of supply-side common sense have created the conditions under which dynastic wealth has flourished. With the Trump presidency behind us, we now know what this means for the American political system. As the son of a real estate developer with close ties to the New York Democratic machine, Donald Trump always moved in a world where the boundaries between business, family, and political patronage were difficult to discern. The supply-side revolution of the 1970s elevated the Trump family business model to a new level, allowing the young Donald Trump to transcend his provincial origins in Queens and emerge as a global real estate impresario. If Trump's father was his first enabler, supply-side economics was his second and more enduring one. Few, however, could have imagined that several decades after his New York

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debut, Trump as president would end up annexing the supply-side movement within his own family retinue, forcing it to serve his interests in particular. In a supremely ironic turn of events, the movement that did so much to elevate dynastic wealth became a servant to one of its more monstrous creations.

SUPPLY-SIDE ECONOMICS, ELITE AND POPULAR

Few of the anti-Keynesian movements spawned in the 1970s have exerted a more enduring influence on American political life than supply-side economics. Embraced by Republican presidents from Ronald Reagan to Donald Trump, with ever-diminishing resistance from party moderates, the supply-side prescription of marginal tax cuts on everything from corporate profits to personal and investment income has established itself as the party's default economic doctrine. It is now axiomatic among Republicans that the road to economic prosperity is paved with tax cuts. Yet the critical literature rarely accords supply-side economics the same intellectual coherence as the other economic movements that evolved alongside it. As if still bearing the taint of "voodoo economics"—a charge laid by George H.W. Bush—supply-side economics is typically dismissed as a media-created movement whose fortunes petered out some time in the late 1980s.[22] According to this narrative, the key players in the supply-side movement were Arthur Laffer, author of the infamous "Laffer Curve" predicting ever-increasing budget receipts from ever-decreasing taxes; Robert Bartley, the *Wall Street Journal* editor who turned the paper into a tabloid for this message; Jude Wanniski, the journal's associate editor; the Republican congressman Jack Kemp; the economist Paul Craig Roberts, who advised Jack Kemp on his first tax cut bills and succeeded Wanniski as associate editor at the *Journal*; and Bruce Bartlett, another staff economist to Jack Kemp. Robert Mundell, a professor in economics at Columbia University and future recipient of the Nobel Memorial Prize, was the one respectable academic among them.

The durability of this popular image owes everything to the representations of the actors involved.[23] Under the editorial influence of Robert Bartley, the *Wall Street Journal* of the late 1970s became the unlikely venue for a brand of tax cut populism designed to lure working-class Democrats into the arms of the Republican Party. Muting any reference to public spending austerity,

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estate tax repeal, and upward redistribution, populist supply-siders such as Jude Wanniski, Jack Kemp, and Arthur Laffer peddled across-the-board cuts to personal income as a Republican riposte to the Democrats' promises of full employment. The idea that tax cuts would "pay for themselves" was an essential ingredient in their message. All too conscious of the Republican Party's reputation as bearer of economic pain, the Lafferite supply-siders of the *Wall Street Journal* needed to assure the public that tax cuts could be enacted without any corresponding loss in popular social programs. It is these actors who have most openly claimed the "supply-side" appellation as their own. Accordingly, it is their very partial account of the movement that has come to serve as official history.

Yet it is unlikely that the populist supply-side movement would have made much legislative headway had it not shared key assumptions with a handful of elite economists closely associated with the Treasury Department under Presidents Nixon and Ford. More cautious in their rhetoric than Laffer and friends, this group of political insiders worried that American "capital formation" was coming under threat from the inflationary wage demands of organized labor and openly advocated the use of regressive tax cuts to counteract this trend.[24] The elite supply-siders—among them the economists Martin Feldstein and Michael J. Boskin, the tax consultant Norman B. Ture, and Treasury official William E. Simon—enjoyed a level of insider credibility that was never extended to the likes of Arthur Laffer.[25]

In a candid reflection on his relationship to the wider movement, published in the wake of the Reagan experiment, Martin Feldstein made a point of distinguishing between "traditional supply-siders" such as himself and the "new supply-siders" with their "extravagant claims."[26] Although he was clearly at pains to distance himself from less respectable economists such as Arthur Laffer, Feldstein nevertheless observed that what differentiated the "new from the traditional supply-siders" was not the economic assumptions they mobilized nor the policy changes they advocated "but the claims that they made" on their behalf. All exponents of supply-side economics subscribed to the view that progressive taxation was a drag on investment and marginal tax cuts a necessary spur to economic renewal. Feldstein, however, did not believe that supply-side prescriptions could be enacted without fiscal pain. Nor did he anticipate that supply-side tax cuts would pay for themselves. Elite

(continued...)

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