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A Republican Renaissance: Jack Kemp and the Supply-Side Revolution, 1974-1981

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An abstract of
a thesis submitted to the Faculty of Emory College of Arts and Sciences
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of the requirements of the degree of
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Abstract

While the modern Republican Party is associated with supporting tax cuts, this has not always been the case. In the immediate post-New Deal era, Republicans often eschewed tax cuts because they viewed them as leading to budget deficits. Beginning in the 1970s, a conservative vanguard of economists worked to change the Republican Party's aversion to tax cuts. These economists advocated supply-side economics, an unconventional theory that stated among many things that if the government lowered tax rates, it would paradoxically raise tax revenues as it would stimulate the economy. The public face of this movement was Jack Kemp, a young and rising congressman from eastern New York. I will argue that Jack Kemp was able to rebrand the Republican Party by changing its economic ideology and through courting unconventional constituencies.

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Introduction

For the Republican Party today, no public policy position more clearly defines its orthodoxy than support for tax cuts, yet this advocacy has only been a relatively recent phenomenon. During the 1950s and 1960s, the Republican Party repeatedly emphasized balanced budgets over tax cuts in its economic policy. From 1947 to 1968, it was not uncommon for the Federal Government to have budget surpluses with high income tax rates. The majority of Republicans, including Barry Goldwater and Robert Dole, voted against the Revenue Act of 1964, which reduced the top marginal income tax rate from 91 percent to 70 percent, on the grounds that it would increase the budget deficit. Historian Julian Zelizer best noted the Republican Party's emphasis on balanced budgets: "Although many fiscal conservatives accepted the need for substantial government expenditures and occasional budget deficits, they still dedicated themselves to restraining the long-term growth of the government through the power of the purse…Fiscal conservatives expressed ongoing concern about the detrimental effect of deficits on consumer prices, national savings, and the international stability of the dollar."[1]

In the 1970s, a conservative vanguard of politicians and economists emerged to contest not only the Democratic but also the Republican solutions for the United States' economic problems. This group whose ideas were labeled as supply-side economics called for tighter monetary policy and lower taxes to increase economic growth. This policy prescription was viewed as controversial since many economists viewed tax cuts as inflationary. This view was prevalent among Democratic and Republican economists, including President Nixon's Chair of the Council of Economic Advisors and *Wall Street Journal* contributor Herbert Stein who in

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[1] Zelizer, Julian E. *Taxing America: Wilbur D. Mills, Congress, and the State, 1945-1975*. (Cambridge, UK: Cambridge University Press, 1998), 17.

November 1976 cautioned, "There is a danger that tax reduction early in 1977 will speed up the inflation…"[2] The supply side economists, by contrast, saw taxes as having an insignificant effect on inflation, which they attributed to lax monetary policy from the Federal Reserve, and thus saw tax cuts as a means to spur private sector investment. Furthermore, many Republicans were hesitant to advocate large tax cuts due to their potential effect on the budget deficit. While campaigning for the Republican presidential nomination in 1980, George Bush called Ronald Regan's economic plan "voodoo economic policy" largely because it would cut taxes and increase defense spending, thus contributing heavily to the budget deficit.[3]

Historians and scholars have come up with a multitude of explanations as to why the modern Republican Party and fiscal conservatives came to embrace tax cuts. One common interpretation is that it was populist-driven. Historian Robert Self in *American Babylon: Race and Struggle for Postwar Oakland* and sociologist Isaac Martin in *The Permanent Tax Revolt: How the Property Tax Transformed American Politics* both advance this interpretation. These authors argue that it was property tax increases in the early 1970s that created a widespread conservative backlash against taxes, which would manifest in property tax capping referendums later in the decade. Both authors go on to argue that savvy politicians such as Ronald Reagan acquired an anti-tax message in order to court these voters. There are two problems with this interpretation, however. First, state property taxes are different in nature than federal income taxes. The property tax revolt was mainly due to states providing stricter property valuations leading to higher ad valorem property taxes, an issue not as applicable to income taxes. Second, this interpretation fails to provide a comprehensive justification for tax reduction. Even if this

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[2] Herbert Stein, "All Out For Tax Reduction," Wall Street Journal, November 15, 1976. http://search.proquest.com/docview/134027290?accountid=10747 (accessed January 25, 2012).
[3] Robert Shogan, "Bush Accuses Reagan of 'Economic Madness'," Los Angeles Times, April 11, 1980. http://search.proquest.com/docview/162821448?accountid=10747 (accessed January 25, 2012).

interpretation provides evidence of discontent amongst voters over taxation, it still fails to address how these conservative and Republican voters were able to put aside concerns over running deficits and support tax cuts.

In 2009, historian Brian Domitrovic published *Econoclasts: The Rebels Who Sparked the Supply-Side Revolution and Restored American Prosperity* in which he argued that Republican opposition to tax cuts originated from a conservative intellectual vanguard of supply-side economists. According to Domitrovic, "…supply-side economics was…a renegade, maverick movement driven largely by figures removed from or hostile to the economic establishments in academia, Washington, journalism, and business."[4] Having framed this promotion of tax-cuts as originating outside the Republican Party, Domitrovic contends that this vanguard and their views "attended the greatest domestic political realignment of recent history: the reestablishment of the Republican Party as a national, indeed populist, political force in all branches and levels of government."[5] Domitrovic asserts that support for tax cuts led the Republican Party to become populist, but in fact, it was the other way around: Republican's support for populist issues led them to support tax cuts.

The best explanation for why the Republican Party embraced tax cuts arises from studying the role of Representative Jack Kemp of New York in his advocacy of tax cut legislation during the 1970s. The former Buffalo Bills quarterback was first elected to Congress in 1970 and quickly established himself as an economic expert in the Republican Party. In 1974, Kemp came across research from economist Robert Mundell of Columbia University regarding the detrimental effect that high tax rates had on economic growth. This research along with additional writings from economist Arthur Laffer led him to inquire about the effects tax cuts

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[4] Domitrovic, Brian, *Econoclasts: The Rebels Who Sparked the Supply-Side Revolution and Restored American Prosperity* (Wilmington, DE: Intercollegiate Studies Institute, 2009), 6.
[5] Ibid, 24.

might have on economic growth.[6] Kemp was eager to learn about potential means to achieve economic growth as his congressional district was heavily blue-collar and situated in a Rustbelt city suffering from deindustrialization. As Kemp became more interested in supply side economics, he began to challenge the Republican Party dogma on taxes. In his 1979 book *An American Renaissance*, Kemp said of the Republican Party's views, "They insist on cutting spending first and taxes second. But they have been saying this for decades, and the result is that spending and taxes have soared."[7] In the late 1970s, Kemp introduced legislation along with Delaware Senator William Roth to reduce marginal tax rates, but the legislation could not proceed due to President Carter's opposition.

Jack Kemp ushered in a Republican Renaissance by changing the demographics and economic policy of the Party. By working with supply-siders such as Mundell and Laffer, Kemp was able to frame tax cuts as a tool for economic growth as opposed to a political luxury. By adopting the views of Kemp and the supply-side economists, the Republican Party was able to advocate a politically popular position without having to give as much worry to deficits. Moreover, Kemp's key contribution to the supply-side movement was framing tax policy that had until then been thought to only affect the rich as affecting middle and lower class voters. Kemp was able to conduct a populist campaign on tax cuts in his largely blue-collar congressional district, and making inroads with these voters, Kemp helped create what would come to be known as "Reagan Democrats," blue-collar voters who came to support Ronald Reagan in the 1980s.

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[6] Kemp, Jack. *An American Renaissance: A Strategy for the 1980's*. (New York: Harper & Row, 1979), 80.
[7] Ibid, 90.

Chapter 1: The GOP and the Balanced Budget Ideal

Throughout the New Deal and post-New Deal era, the Republican Party prioritized balanced budgets in crafting economic policy. Republican stalwarts such as Senators Robert Taft of Ohio and Barry Goldwater of Arizona eschewed tax cuts and spending increases, which they argued were inflationary and ran up the national debt. "No nation ever has continued indefinitely an unbalanced budget without ultimate collapse," Taft wrote to Herbert Hoover in 1939.[8] After the United States entered World War II, Taft complained that Congress did not raise taxes enough to fund the ensuing war.[9] Goldwater exhibited similar concerns, openly lambasting Democrat Adlai Stevenson's 1956 presidential campaign promise to reduce taxes as unrealistic.[10] In *The Conscience of a Conservative*, his 1960 book, Goldwater defended balanced budgets: "If we reduce taxes before firm, principled decisions are made about expenditures we will court deficit spending and the inflationary effects that will invariably follow."[11]

In 1961, when President Kennedy proposed a series of tax reductions intended to stimulate the economy, Republicans vehemently objected. Kennedy was the first president of the post-World War II era to challenge the balanced-budget ideal that dominated economic thought at the time. In a June 1962 speech at Yale University, Kennedy stated, "The myth persists that federal deficits create inflation and budget surpluses prevent it...what we need is not labels and cliches but more basic discussion of the sophisticated and technical questions involved in

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[8] James T. Patterson, *Mr. Republican: a Biography of Robert A. Taft* (Boston: Houghton Mifflin Company, 1972), 190.
[9] Ibid, 236.
[10] Attacked by Goldwater, *New York Times*, September 18, 1956. http://search.proquest.com/docview/113610219?accountid=10747. (accessed February 24, 2012).
[11] Barry Goldwater, *The Conscience of a Conservative* (Shepherdsville, Kentucky: Victor Publishing Company, INC., 1960), 62-63.

keeping a great economic machine moving."[12] Kennedy's campaign resulted in the passage of the Revenue Act of 1962, which included a costly investment tax credit for businesses to incentivize improvements to production facilities.[13]

Republicans and conservatives at the time strongly objected to the bill, arguing that it violated "the concepts of sound tax policy and fiscal responsibility" through "conscious creation of a deficit."[14] House Republican Leader Charles Halleck lambasted the bill's tax reductions along with its lack of spending cuts, arguing that this would reduce market confidence and increase the national debt.[15] Fear of deficits made the bill politically unfavorable to conservative Democrats and Republicans alike. The *Wall Street Journal* reported in July 1962 that Democrats and Republicans in swing districts wanted to put off the vote for the election cycle because a vote either way could have substantial repercussions.[16] Additionally, many Republicans objected to the multitude of tax reductions, which they argued distorted the free market and constituted payoffs to the administration's political allies. The *National Review* quipped, "The President's tax plan is best understood as a means to maximize federal revenues with the least hurt to the most numerous blocs of voters."[17]

Following the passage of the Revenue Act of 1962, President Kennedy wanted to reduce additional taxes to stimulate the economy. Though Kennedy would be assassinated before Congress passed his desired tax cuts, they eventually were enacted into law in the Revenue Act

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[12] Zelizer, Taxing America, 193.
[13] *CQ Almanac 1962*, 18th ed. (Washington, DC: Congressional Quarterly, 1963), s.v. "Congress Enacts Major Tax Law Revisions," http://library.cqpress.com/cqalmanac/cqal62-1324836 (accessed April 5, 2012).
[14] Ibid.
[15] Robert Albright, "Gop Leaders Call Kennedys Policies Bad For Economy," Washington Post, June 12, 1962. http://search.proquest.com/docview/141598387?accountid=10747 (accessed February 7, 2012).
[16] Robert Novak, "Tax-Cut Apathy," *Wall Street Journal*, July 20, 1962. http://search.proquest.com/docview/132785477?accountid=10747 (accessed February 14, 2012).
[17] *National Review*, The Tax Plan, May 6, 1961, 272-73 https://login.proxy.library.emory.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=nch&AN=17002113&site=ehost-live (accessed April 5, 2012).

of 1964. The legislation provided an across-the-board tax cut reducing the top marginal income tax rate from 90 percent to 70 percent and the bottom marginal income tax rate from 20 percent to 14 percent.[18]

While Republican opposition was not as unified as in1964 as it was in 1962, Republicans continued with their preference for balanced budgets. House Republicans claimed that it was "morally and fiscally wrong" to reduce taxes during a period of heightened federal expenditures.[19] They labeled the bill a "time bomb for inflation" and claimed that the meager tax relief it would give wage earners was equivalent to "cigarette money."[20] Prior to the bill's final vote, a Republican alternative bill in the House of Representatives requiring the tax cuts be contingent on federal spending cuts received all but one Republican vote and 26 mostly southern Democratic votes.[21] The proposal ultimately failed by a 24-vote margin. When the bill eventually did pass the House, a third of House Republicans and 20 mostly southern Democrats opposed it.[22]

Furthermore, that year's Republican Presidential nominee, Barry Goldwater, campaigned against the tax cuts on various occasions. Goldwater explained his fears that tax cuts would increase the budge deficit in a speech to the Economic Club of New York, "I have no disagreement with the statement that our economy demands a tax reduction…My point is that this needed tax reduction should be earned by the real kind of economizing in Federal spending

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[18] Ibid, 204.
[19] GOP Launches Drive to Defeat Tax-Cut Bill, *Washington Post*, September 14, 1963. http://search.proquest.com/docview/142002086?accountid=10747 (accessed February 10, 2012).
[20] Ibid
[21] Arlen Large, "House Passes Administration Tax-Cut Bill," Wall Street Journal, September 26, 1963. http://search.proquest.com/docview/132821250?accountid=10747 (accessed February 7, 2012).
[22] Arlen Large, "Tax Bill Voted by House, 326 to 83; Final Congress Approval Set Today," Wall Street Journal, February 26, 1964. http://search.proquest.com/docview/132966547?accountid=10747 (accessed February 7, 2012).

that would be possible if the effort were sincere."[23] Later, during his presidential campaign, Goldwater criticized tax cuts as "reckless" and "designed to drug the economy into an artificial boom."[24]

Congress passed the next major tax bill, the Tax Reform Act of 1969, during the first year of the Nixon Administration. Unlike the Revenue Acts of 1962 and 1964, which were designed to stimulate the economy, the goal of this tax bill was to close tax loopholes used by wealthy Americans. The bill was not intended to affect the total revenue collected by the Treasury Department. In an April 21, 1969 speech to Congress, Nixon proposed this tax reform with the central tenets being a "minimum income tax" for wealthy individuals to prevent them from paying little or no income tax through excessive legal deductions and the enactment of a "low income allowance" to ensure that the poorest Americans would not pay any income taxes.[25] In developing the bill, Nixon experienced the rare support of House Ways and Means Committee Chairman Wilbur Mills and Ranking Member John Byrnes.[26] The general tone throughout the bill's legislative process was fairly bipartisan. When President Nixon signed the bill into law on December 1969, the bill had been passed by a vote of 391 to 2 in the House and 71 to 6 in the Senate.[27] The final bill created an alternative minimum income tax for high-income individuals to guard against excessive deductions and reduced the highest marginal income tax rate to 50 percent for earned income (taxable income and wages that one gets from working). Additionally,

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[23] Excerpts from Address Here by Senator Goldwater, *New York Times*, January 16, 1964. http://search.proquest.com/docview/115643800?accountid=10747 (accessed February 22, 2012).

[24] Charles Mohr, "Goldwater Calls Tax Cut 'cynical': Decries 1964 Bill -- Senator Is Booed in San Diego," New York Times, September 9, 1964. http://search.proquest.com/docview/115621820?accountid=10747 (accessed February 7, 2012).

[25] Nixon on Tax:'Reform of Out...System Is Long Overdue', *Washington Post*, April 22, 1969. http://search.proquest.com/docview/147672664?accountid=10747 (accessed February 12, 2012).

[26] Rowland Evans and Robert Novak, "Nixon Is Gingerly Pushing Passage of a Tax Reform Measure in 1969," *Washington Post*, February 6, 1969. http://search.proquest.com/docview/147712476?accountid=10747 (accessed February 14, 2012).

[27] Frank Porter, "Possibility of Veto Still up in Air: Tax Reform Measure Is Passed by Congress Impact On Individual of New Tax Measure," *Washington Post*, December 23, 1969. http://search.proquest.com/docview/143672762?accountid=10747 (accessed February 14, 2012).

the bill provided various forms of tax relief to low-income individuals including an increase in the personal income tax exemption from $600 to $750.[28]

Jack Kemp and the Origins of Supply-Side Economics

The economic turbulence of the 1970s was unprecedented for the post-World War II era and fundamentally altered how economists and politicians approached economic policy. In 1973, the Organization of Petroleum Exporting Countries (OPEC) placed an oil embargo on the United States that had the effect of drastically raising domestic energy prices. Deindustrialization also began to affect unemployment and economic growth in the United States as foreign manufacturers began to compete with the United States. At the heart of these challenges was the emergence of stagflation, an economic condition consisting of high unemployment, high inflation, and low or stagnant economic growth. Stagflation contradicted the Phillips Curve, a prevalent economic theory of the time that inversely correlated inflation with unemployment. The Phillips Curve stated that higher unemployment could reduce inflation and vice versa. However, the presence of both high unemployment and high inflation showed that an increase in inflation or unemployment did not necessitate a decrease in the other. To measure stagflation, former chair of the Council of Economic Advisors Arthur Okun created the misery index to act as an economic indicator. The misery index was the sum of the unemployment rate and the inflation rate as measured by the change in the consumer price index. When Okun originally devised the misery index, it usually fluctuated within the single digits.[29] However, during the

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[28] *CQ Almanac 1969*, 25th ed. (Washington, DC: Congressional Quarterly, 1970), s.v. "Congressionally Initiated Tax Reform Bill Enacted," http://library.cqpress.com/cqalmanac/cqal69-1248607 (accessed April 5, 2012).
[29] Domitrovic, Econoclasts, 105.

1970s, the misery index climbed into the double digits, peaking at 21.98 under President Carter.[30]

New leaders were emerging in the Republican Party who would challenge the balanced budget ideal. None was more important than eastern New York Congressman Jack Kemp. Elected to the House of Representatives from a Buffalo, New York-area district. Kemp's ascendency to public office was as unconventional as the positions with which he would later be associated. In 1935, Jack French Kemp was born in Los Angeles, California. He played quarterback at Occidental College and later, professional football in the National, Canadian, and American Football Leagues.[31] Kemp had his greatest success with the Buffalo Bills, winning American Football League (AFL) championships in 1964 and in 1965, when he was named the AFL's most valuable player.[32] During his football career Kemp showed a strong interest in politics, working for California Governor Ronald Reagan in the 1967 offseason and having campaigned for Richard Nixon in 1968.[33] His political interest and popularity in Buffalo caught the attention of many Republican Party elites, including Secretary of Health, Education, and Welfare Robert Finch and Nixon Director of Communications Herb Klein, who courted Kemp to run for Congress during the 1970 Super Bowl.[34] On June 20, 1970, Kemp officially announced his candidacy and was elected that November.[35]

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[30] Ron Nessen, "The Brookings Institution's Arthur Okun – Father of the "Misery Index"," The Brookings Institution, http://www.brookings.edu/opinions/2008/1217_misery_index_nessen.aspx (accessed January 25, 2012).
[31] Kemp, Ex-Player For Bills, Making a Run at Congress, *New York Times*, June 21, 1971. http://search.proquest.com/docview/118819565?accountid=10747 (accessed February 14, 2012).
[32] Ibid.
[33] Dave Brady, "Things Fall Into Place at 34 For Politician-Player Kemp," *Washington Post*, April 24, 1969. http://search.proquest.com/docview/147700566?accountid=10747 (accessed February 14, 2012).
[34] Dave Brady, "Kemp May Run to New Goal," *Washington Post*, March 6, 1970. http://search.proquest.com/docview/147896206?accountid=10747 (accessed February 14, 2012).
[35] Kemp, Ex-Player For Bills, Making a Run at Congress, *New York Times*, June 21, 1971. http://search.proquest.com/docview/118819565?accountid=10747 (accessed February 14, 2012).

By the time Kemp assumed his seat in the House of Representatives, a Canadian-born economist named Robert Mundell was beginning to make an impact in the economics field. Born in Ontario, Canada in 1932, Mundell studied economics at various universities, including the University of British Columbia at Vancouver, the University of Washington at Seattle, the London School of Economics, and the Massachusetts Institute of Technology (MIT), where he received his PhD in 1957.[36] At MIT, he studied under two of the most preeminent economists of the day, Charles Kindleberger and Paul Samuelson. Following teaching stints at Stanford and Johns Hopkins, Mundell went to work for the International Monetary Fund (IMF) where he challenged the conventional economic wisdom regarding inflation in his 1961 article "The Appropriate Use of Monetary and Fiscal Policy for Internal and External Stability."

In this article, Mundell argued that fiscal policy (government policy regarding taxing and spending) should be used to achieve economic growth because compared with monetary policy (government policy regarding control of the money supply), it was an inadequate tool in managing inflation.[37] In the United States, the Federal Reserve sets monetary policy through controlling the rate at which banks can borrow from one another. If the Federal Reserve sets interest rates low, banks can lend much more easily but this can lead to inflation as banks may overextend their capital. Higher rates will make lending more difficult, which reduces the likelihood of inflation. Higher interests rates also attract foreign investment as they act as a hedge against inflation. Mundell argued that by having a high fixed interest rate, the U.S. could sustain foreign demand for the dollar, which could protect against inflation. Furthermore, Mundell thought that this was a more effective strategy for combating inflation compared to spending freezes and raising taxes because this could stop inflation at its source. Thus, Mundell

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[36] Domitrovic, *Econoclasts*, 64-5.
[37] Ibid, 68-9.

concluded that given high fixed interest rates, the U.S. Government could pursue stimulative fiscal policies such as tax cuts or spending increases without fear of inflation.[38]

The implications of Mundell's arguments were heavily debated by economists and contained longstanding implications for debates regarding tax reductions. Some people argued against Mundell's views on practical grounds stating that they were United States' current economic policy, which was seen to be working at the time. These critics worried that by changing policy, it may negatively influence developing countries that were following the United States' example. Others argued that Mundell's views were fundamentally flawed stating that no difference existed between monetary and fiscal policy and that the use of monetary and fiscal policy for different objectives would cancel each other out. In other words, the high interest rates that would arrest inflation would be canceled out by tax cuts and spending increases, which would pump more money into the general economy causing inflation.[39] The reason for the contentious debate surrounding Mundell's paper was its unprecedented prescriptions and implications. The conventional wisdom of this period was that tax cuts caused inflation because they left too much money in the hands of consumers. However, Mundell argued against the conventional wisdom in stating that monetary policy was primarily responsible for inflation as opposed to tax cuts. This argument would thus make tax cuts less scary to politicians for two reasons. First, the excess money supply in the economy due to lower taxes would not be considered a problem under Mundell's interpretation, thus allowing for tax cuts. Second, under this explanation, budget deficits would have little effect on inflation, thus voiding their concerns in tax reduction debates. It was this economic scholarship that later established the intellectual foundation for supply-side economics.

[38] Ibid.
[39] Robert Mundell, "On the History of the Mundell-Fleming Model" (lecture, First IMF Annual Conference on International Macroeconomics)

Arthur Laffer and Jude Wanniski were other key figures in the formation of supply-side economics. Born in 1940 in Youngstown, Ohio, Laffer received his undergraduate degree in economics from Yale and his PhD in international economics from Stanford. While working towards his PhD, Laffer worked as the chief economist for the Office of Management and Budget (OMB) from 1970 to 1972.[40] In this capacity, he became famous in the economic community for predicting that the 1971 U.S. Gross National Product would be $1.065 trillion, about $20 billion higher than expected.[41] In covering this story, then-*National Observer* reporter Jude Wanniski interviewed Laffer and the two men quickly became friends. Wanniski was a veteran reporter who had just moved to Washington, DC to cover politics. He was eager to learn economics from Laffer and was a tabula rasa regarding the subject. In 1974, Wanniski, then working as the Associate Editor for the *Wall Street Journal* was covering an economic conference at the American Enterprise Institute featuring the top Republican and conservative economists of the day. It was at this conference that Wanniski first met Mundell, whom he subsequently introduced to Laffer. There was instant intellectual and personal rapport among the three men who all agreed to meet up again after the conference.[42]

Kemp first became acquainted with Mundell and Laffer's economic ideas through the press in 1974.[43] That December, Wanniski profiled in the *Wall Street Journal* Mundell and Laffer's novel economic theory, which at that time had been well known amongst academics but little known among the general public. Wanniski provided a general overview of Mundell and Laffer's economic solutions, which consisted of tax cuts and stabilizing the monetary supply.[44]

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[40] *Encyclopædia Britannica Online*, s.v. "Arthur B. Laffer," http://www.britannica.com/EBchecked/topic/327710/Arthur-B-Laffer (accessed March 11, 2012).
[41] Domitrovic, *Econoclasts*, 103
[42] Ibid, 109-110.
[43] Kemp, Jack. *An American Renaissance: A Strategy for the 1980's*. (New York: Harper & Row, 1979), 37.
[44] Jude Wanniski, "It's Time to Cut Taxes," *Wall Street Journal*, December 11, 1974. http://search.proquest.com/docview/133918621?accountid=10747 (accessed February 29, 2012).

From the article, Kemp was attracted to Mundell's view that high rates of inflation had effectively increased the tax burden resulting in a stifling of productivity.[45] Based on Mundell's argument, Kemp proposed the Jobs Creation Act in the 94th Congress to cut tax rates on businesses to spur productivity. Kemp stared consulting on economic issues with Wanniski, Mundell, and Laffer. These economic advisors went on to broaden Kemp's advocacy of tax cuts to personal tax cuts in addition to business tax cuts.[46]

The merging of Representative Kemp's political appeal along with Mundell's economic policy prescriptions formed a robust political coalition of intellectuals and blue-collar voters in support of supply-side economists. Kemp's district was situated in a rust-belt city in the midst of a national trend of deindustrialization. Kemp confronted a political environment not of prosperity but of economic uncertainty. The economic solutions of most mainstream economists of the time were based on the Phillips Curve, an economic concept where inflation and unemployment were inversely related. Kemp framed this economic advice in his 1979 book, *An American Renaissance*. "… [Most professional economists] were asking me to choose among my constituents," he wrote. "Fight inflation to help this family, or get that father back to work at the cost of more inflation."[47]

From the supply-siders, Kemp had learned a more positive economic message. Mundell's novel concept that taxes could be lowered with no effect on inflation appealed to Kemp's political and economic instincts. Mundell's economic theory gave Kemp a popular and seemingly painless way to help employers and employees alike. Kemp proved to be an excellent communicator for Mundell's economic views. He was a young, well-known Congressman whose background as a football star gave him extensive support and credibility amongst labor interests

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45 Kemp, *An American* Renaissance, 37.
46 Ibid, 38.
47 Ibid, 37.

and blue-collar voters. Kemp's nascent political career also made him impressionable to Mundell's teachings with a potentially long political career ahead of him. Hence, the supply-side economics political coalition took its unlikely form based on the men who formed it.

The Political Establishment's Initial Dismissal of Supply-Side Economics

From its inception supply-side economics was composed of political outsiders who attracted little interest from Republicans leaders. The most famous instance of this was what would come to be known as the "napkin story."[48] While a variety of sources differ on what exactly happened, the basic facts of the story are as follows. Sometime after "It's Time to Cut Taxes" appeared in the *Wall Street Journal*, Laffer and Wanniski met with then-White House Chief of Staff Donald Rumsfeld and his Deputy Richard Cheney at a Washington, DC restaurant.[49] The Ford Administration at the time was considering some form of a tax cut but was afraid about the loss of revenues. Laffer then sketched on a cocktail napkin a graph, which would later become known as the "Laffer curve." The curve was a sideways parabola on an x-y axis. The x-axis represented revenue while the y-axis represented the marginal tax rate. His argument was that taxation at zero percent and at 100 percent of income would result in the same amount of tax revenue – if all of a person's income went to the government, there would be no incentive

[48] Domitrovic, *Econoclasts*, 111.
[49] While Wanniski claims that the meeting occurred in December 1974, Rumsfeld stated in his memoir that according to his personal calendar, the meeting took place on September 15, 1975. Cheney stated in his memoir that thee meeting occurred in the wake of the 1974 midterm elections loss for Republicans. Cheney and Wanniski were probably correct in their accounts based on the subsequent legislative history. Furthermore, historian Brian Domitrovic claimed that Rumsfeld was to busy to attend this meeting but most other accounts place Rumsfeld at this meeting.

to work. Thus, Laffer argued that one could paradoxically collect more tax revenues by reducing marginal income tax rates.[50]

Despite displaying personal interest toward the Laffer curve, Rumsfeld and Cheney largely disregarded Laffer's argument in their professional capacities. In his memoir, Rumsfeld wrote, "As chief of staff I tried to keep my personal views on the substance of policy issues out of my advice to the President unless asked."[51] Thus, while Rumsfeld went on to state that he was privately partial to supply-side economics, he did not publicly endorse or support the theory until after he had left the Ford Administration. Following the meeting, the Ford Administration largely ignored Laffer's advice. Rather than cut marginal tax rates, on March 29, 1975, President Ford signed into law a tax bill, which among several things provided a 10 percent rebate on 1974 income taxes up to a maximum and temporarily increased tax credits to businesses.[52]

The theory's chief critic was Herbert Stein, chairman of the White House Council of Economic Advisors in the Nixon and Ford Administrations as well as a resident at the American Enterprise Institute and a member of the *Wall Street Journal*'s board of contributors. Stein frequently took to the *Journal*'s editorial page to critique the theory as demonstrated in a November 1976 editorial in which he warned of the reflex of "supply-side fiscalists" to always cut taxes, even if it might lead to inflation.[53] Stein continued this criticism in a February 1977 editorial arguing that then-calls for a tax cut to stimulate the economy was hastily developed and added to the deficit.[54] President Ford himself seemed to ignore supply-side economists. In his second 1976 Presidential debate, while Ford advocated a tax cut, he did so after noting that the

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[50] Domitrovic, *Econoclasts*, 111.
[51] Donald Rumsfeld, *Known and Unknown: A Memoir* (New York: Sentinel HC, 2011), 183.
[52] *CQ Almanac 1975*, 31th ed. (Washington, DC: Congressional Quarterly, 1976), s.v. "Congress Votes Largest Tax Cut in History," http://library.cqpress.com/cqalmanac/cqal75-1213141 (accessed April 5, 2012).
[53] Herbert Stein, "All Out For Tax Reduction," *Wall Street Journal*, November 15, 1976. http://search.proquest.com/docview/134027290?accountid=10747 (accessed January 25, 2012).
[54] Herbert Stein, "Let Them Burn Money," *Wall Street Journal*, February 10, 1977. http://search.proquest.com/docview/134146937?accountid=10747 (accessed February 29, 2012).

cut would be based on a projected budget surplus. He neglected to justify his answer based on the stimulative effects of tax cuts, which any good supply-sider would do.[55]

The very phrase --"supply-side economics"-- originated as a jibe against the theory from establishment Republicans. Herbert Stein coined the phrase at a 1976 economics symposium in Virginia, describing what he saw as an intellectual trend promulgated by "supply-side fiscalists."[56] Stein went on to quip that the number of economists who actually believed the theory was in the low single digits. The term was based on the idea that while many economists had previously advocated tax cuts to spur increases in the demand for goods, these economists sought to utilize tax cuts to encourage production and increases in supply. Jude Wanniski, then an associate editor at the *Wall Street Journal*, suggested they adopt this moniker to describe their movement. Even this revised label was an incomplete description however because it failed to address the monetary policy that Mundell and his followers advocated.[57]

The fact that a critic coined the phrase "supply-side economics" explains why it incompletely depicts the economic theory. While other prominent conservative and libertarian economists such as Milton Friedman were sympathetic or agreed with the supply-side economists regarding the necessity and benefits of cutting taxes, they adamantly disagreed with the supply-side supporters about monetary policy. Friedman, the founder and chief proponent of an economic theory known as Monetarism, argued for flexible currency exchange rate as opposed to the supply-siders who wanted a fixed exchange rate. In other words, the Monetarists thought that rather than have the government set the price for how much a dollar should trade,

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[55] Transcript of First Campaign Debate Between Ford and Carter, *New York Times*, September 24, 1976. http://search.proquest.com/docview/123034125?accountid=10747 (accessed February 29, 2012).
[56] Domitrovic, *Econoclasts*, 125-26.
[57] Ibid, 126-27.

markets would be more efficient in setting the price.[58] The Supply-Side economists thought that without a fixed exchange rate, there would be high inflation.

This tension between the supply-siders and the Monetarists was significant because it demonstrates important ideological differences. The Monetarists were libertarian in their ideology viewing government intervention as the main threat to freedom and prosperity. Monetarists such as Milton Friedman advocated lower taxes not as means to stimulate the economy but rather as a way to limit government spending through depriving the government of revenue.[59] This was also evident in their monetary policy as they saw markets as being the most efficient in setting Federal Reserve rates. The supply-siders however sought to use government to foster social mobility. The supply-siders did not view tax cuts as an issue of freedom but rather as a means to encourage economic growth. The supply-siders believed that government could play a positive role in economic matters, whether by crafting an anti-inflationary monetary policy or by cutting taxes in a way to encourage private sector growth. During the late 1970s and early 1980s, the supply-siders and Monetarists worked largely in tandem, as their main shared concern was tax cuts. However, the tension between the supply-side economists and the Monetarists would come to a head after the passage of the Economist Recovery Tax Act of 1981, when both groups shifted their focus to influencing the Federal Reserve.

In explaining why Kemp positioned himself as a different Republican compared with the Party's establishment and libertarian wings, the composition of his congressional district provides several answers. During the 1970s, Kemp represented New York's 38th Congressional District, an entirely suburban Buffalo district. While a slight majority of the district were

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[58] Ibid, 88.

[59] Lindley Clark, "Monetary Maverick: Milton Friedman, Man of Many Roles, Now Is a Tax Revolutionary," *Wall Street Journal*, July 17, 1978. http://search.proquest.com/docview/134311742?accountid=10747 (accessed March 31, 2012).

considered white collar, 36 percent of the district was considered blue collar.[60] This sizeable bloc of blue-collar voters thus made Kemp susceptible to the concerns of unions. At his speech at the 1980 Republican National Convention in Detroit, Kemp noted the concerns of blue-collar workers in his district. "Detroit and Bufalo have a lot in common," said Kemp. "They both depend heavily on the steel and auto industries. And they are both places where the pain of a contracting economy is felt first and most sharply."[61] Furthermore, the district was not reliably Republican. According to *The American Almanac of Politics 1978*, Kemp's district "…is probably as politically marginal as any district in New York state," though the almanac goes on to say that incumbents have a great advantage in this district.[62]

Democrats initially appeared more sympathetic to supply-side economic arguments than their Republican counterparts. Walter Heller, chairman of the White House Council of Economic Advisors under President Kennedy supported tax cuts using similar arguments to the one's supply-siders employed. Regarding his supported tax cuts effect on the deficit, Heller contended, "The immediate loss of revenue would enlarge the fiscal 1977 deficit. But the stimulative effect would generate higher revenues to reduce the fiscal 1978 deficit."[63] Heller went on to argue that such tax cuts would not have a significant effect on inflation due to its recent subsiding and the fact that idle capacity and unemployed labor would absorb most of the tax cuts stimulating effects.[64] However, two years later, Heller took to the pages of the *Wall Street Journal* to criticize the first truly supply-side legislation, the Kemp-Roth bill of 1978. In the editorial, Heller

[60] Michael Barone, Grant Ujifusa, and Douglas Matthews, *The Almanac of American Politics 1978 - The Senators, the Representatives, the Governors* (New York: E. P. Dutton, 1977), 619-20.
[61] Jack Kemp Republican National Convention Address, Speech, July 15, 1980, Box 473, 1980 Campaign Papers, Ronald Reagan Presidential Library, Ventura, CA.
[62] Ibid, 619.
[63] Walter Heller, "Tax Cut: Rx For an Ailing Economy," *Wall Street Journal*, November 24, 1976. http://search.proquest.com/docview/134035975?accountid=10747 (accessed February 29, 2012).
[64] Ibid.

performed an about-face regarding his previous views on the effects of tax reduction by ridiculing the bill's promise to increase tax revenues through cutting tax rates.[65]

[65] Walter Heller, "The Kemp-Roth-Laffer Free Lunch," *Wall Street Journal*, July 12, 1978. http://search.proquest.com/docview/134264646?accountid=10747 (accessed February 29, 2012).

Chapter 2: Jack Kemp: Political Entrepreneur

During the 94th Congress, Representative Kemp introduced the Jobs Creation Act, which was the first legislative application of supply-side economics and a forerunner to the Economic Recovery Tax Act of 1981. Kemp initially proposed the Act in the 93rd Congress as the Capital Formation Act but it failed to gain much traction. Kemp reintroduced the Act in the 94th Congress as the Job Creation Act where it slowly but steadily built support among conservative members of Congress. By April 1976, the bill had attracted 103 House and Senate cosponsors.[66] Unlike Kemp's future tax bills that reduced all types of taxes, this Act focused chiefly on stimulating businesses, which Kemp reasoned would subsequently benefit workers and the broader economy. The proposed Act would have doubled the existing tax deduction for investments, eliminated taxes on dividends that domestic corporations pay to shareholders, and excluded $1000 from capital gains (profit from sale of property or from an investment) tax for each capital gains transaction.[67]

In campaigning for the Jobs Creation Act's passage, Kemp geared aspects of his political message towards the labor community. In a May 1975 letter to President Gerald Ford, Kemp explained his decision to change the bill's name from the Capital Formation Act to the Jobs Creation Act. "...[R]ecognizing a general lack of understanding as to how capital formation constitutes the basis for our productive and prosperous society," he wrote, "I changed the name and have subsequently introduced...a revised bill entitled the Jobs Creation Act."[68] While the bill's tax reductions mainly affected investors and business owners, the new name projected the

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[66] Jack Kemp to Colleagues, Letter, April 7, 1976, Box 88, Folder 2, Jack Kemp Papers, Library of Congress, Washington, DC.
[67] Jack Kemp Press Release, May 21, Box 88, Folder 2, Jack Kemp Papers, Library of Congress, Washington, DC.
[68] Jack Kemp to Gerald Ford, Letter, May 6, 1975, Box 88, Folder 2, Jack Kemp Papers, Library of Congress, Washington, DC.

bill's expected benefits for the larger economy. By changing the name to focus on the bill's benefits, Kemp was able to appeal to a labor constituency that might otherwise be apathetic due to the bill's narrow focus. Furthermore, in campaigning for the bill, Kemp worked to appear evenhanded in his dealings with the business and labor communities. In the same letter to President Ford, Kemp discussed how he equally consulted with business and labor in formulating the Jobs Creation Act.[69] Likewise, in a May 1975 *Human Events* editorial advocating for the Jobs Creation Act, Kemp proclaimed, "This program is no more pro-business as it is pro-labor. It is simply pro-jobs."[70]

Despite the Jobs Creation Act's ultimate failure to pass during the 94th Congress, the process served as a positive learning experience for Kemp. The Ford Administration proved to be unreceptive to Kemp's proposals, instead opting for smaller tax reductions and extensions of the 1975 tax reforms.[71] Yet this outcome ultimately benefited Kemp for several reasons. Kemp's legislative effort boosted his public profile with regards to taxation issues. Kemp received favorable coverage from his congressional district newspapers along with national conservative publications such as the *Wall Street Journal* and *National Review*.[72] Additionally, the Act caught the attention of former Governor Ronald Reagan who endorsed it in an October 1976 syndicated column.[73] Though Kemp had a preexisting relationship with Reagan having worked for him during the summer of 1967, Kemp would later consult with Reagan on taxation issues, especially

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[69] Ibid.
[70] Kemp, Jack. "Why Corporate Taxes Should Be Slashed." *Human Events*, May 17, 1975.
[71] *CQ Almanac 1976*, 32th ed. (Washington, DC: Congressional Quarterly, 1977), s.v. "Tax Bill Cleared: A 'legislative Miracle'," http://library.cqpress.com/cqalmanac/cqal76-1188720 (accessed March 17, 2012).
[72] Lloyd Graham, "Kemp Says Tax Cuts as Way to Put Unemployed to Work," *Buffalo Courier-Express*, November 16, 1975.
The Kemp Counter, *Wall Street Journal*, August 4, 1976.
http://search.proquest.com/docview/134026544?accountid=10747 (accessed April 1, 2012).
National Review, The Week, November 11, 1977, 1277
https://login.proxy.library.emory.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=nch&AN=6056097&site=ehost-live (accessed March 17, 2012).
[73] Ronald Reagan, "Why Not Cut the Income Tax?" *Washington Post*, October 12, 1976.
http://search.proquest.com/docview/146467295?accountid=10747 (accessed March 17, 2012).

during his successful 1980 presidential campaign. Furthermore, Kemp later reflected in his 1979 book *An American Renaissance* that the Jobs Creation Act was based on his misunderstanding of supply-side economics. Kemp stated that he had failed to recognize that people, or labor in economic terms, were not merely consumers but also could produce goods. Kemp wrote that he should have proposed tax cuts on capital and labor instead of just capital.[74]

Jack Kemp's Profile Rises

Despite the failure of the Jobs Creation Act, Kemp established himself as the standard-bearer for Republican tax policy during the Carter administration. In February 1977, Kemp persuaded all of the Republicans on the House Budget Committee to advocate for tax cuts as an alternative to Jimmy Carter's stimulus program of tax rebates and public works.[75] That July, Kemp collaborated with Delaware Republican Senator William Roth to propose more expansive tax cuts. While this tax cut was primarily proposed for its economically stimulating effects, it was also intended to subdue the phenomenon known as bracket creep, an economic condition in which high inflation causes taxpayers to pay higher tax bracket rates even if their real income remains stagnant.[76] Unlike the Jobs Creation Act, which focused mainly on cutting business taxes, the Kemp-Roth proposal cut business and individual taxes by 10 percent for three years starting with the 1977 income tax year.[77] Though the bill ultimately failed to pass in the 95th Congress, it was another forerunner to the Economic Recovery Tax Act of 1981. The bill also

[74] Kemp, *An American* Renaissance, 38.
[75] JFK Strikes Again, *Wall Street Journal*, February 23, 1977. http://search.proquest.com/docview/134100449?accountid=10747 (accessed March 17, 2012).
[76] Domitrovic, *Econoclasts*, 145.
[77] G.O.P. Leaders Ask Carter to Support 30% Tax Cut, *New York Times*, October 6, 1977. http://search.proquest.com/docview/123274209?accountid=10747 (accessed March 17, 2012).

established Kemp's leadership on the issue of taxes, which led the *National Review* that November to call him "one of the point-men in the Republican Party."[78]

During this time period, Kemp also received several comparisons to President Kennedy, a seemingly superficial comparison that actually had some substance to it. Both Kemp and Kennedy were youthful and handsome politicians who received national attention due to their charisma and charm. Kemp was often referred to in the press as JFK, an intentional allusion to President Kennedy and, coincidently, Kemp's initials. On a substantive level, both politicians advocated for tax cuts to stimulate the economy. The *Wall Street Journal* pointed out this similarity in a February 23, 1977 editorial entitled "JFK Strikes Again," in which they argued that since Kemp's tax cuts were crafted in the same mold as Kennedy's tax cuts, Kemp's tax cuts were not too right-wing and Democrats should endorse them.[79] This comparison was levied again by CBS News's *60 Minutes*, which entitled their April 15, 1979 profile of Kemp, "JFK."[80]

Kemp often evoked Kennedy to further his political message. By constantly referencing Kennedy, Kemp made his views appear moderate and less partisan than they otherwise might appear. One way in which Kemp did this was through consistent praise of Kennedy. In a May 1978 *New York Times* article, Kemp stated that he had "reluctantly" concluded that Kennedy had "the best economic record of any Government in the past 26 years."[81] During the *60 Minutes* segment, Kemp evoked the Kennedy tax cuts to defend his tax cut proposals stating, "John Kennedy cut the tax rates by 30 percent in a year and a half in 1963. I know that conditions are

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[78] *National Review*, The Week, November 11, 1977, 1277 https://login.proxy.library.emory.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=nch&AN=6056097&site=ehost-live (accessed March 17, 2012).
[79] JFK Strikes Again, *Wall Street Journal*, February 23, 1977. http://search.proquest.com/docview/134100449?accountid=10747 (accessed March 17, 2012).
[80] 60 Minutes "JFK," Transcript, April 15, 1979, Box 84, Folder 11, Jack Kemp Papers, Library of Congress, Washington, DC.
[81] Edward Burks, "Rep. Kemp's Play Can Make Old No. 15 Taxpayers' No. 1," *New York Times*, May 23, 1978. http://search.proquest.com/docview/123695570?accountid=10747 (accessed March 18, 2012).

different today, but I don't think anyone can challenge the fact that the last time we really had a full-employment economy without inflation in the United States without inflation was in the early 1960's." [82]

Kemp's numerous evocations of Kennedy were endemic of his larger political strategy of positioning himself outside the Republican establishment. Describing Kemp in March 1978, *National Review* wrote, "He is not a 'country club' or 'chamber of commerce' Republican, and his main thrust differs a good deal from what has come to be perceived as conventional Republicanism."[83] Kemp later quipped on *60 Minutes*, "I've had a lot of fun challenging some of the conventional wisdom of the Republican Party."[84] Rowland Evans and Robert Novak noted Kemp's rebellious streak at an August 24, 1978 breakfast speech in Columbia, South Carolina. They wrote, "…while shocked Republicans gaped over breakfast, [Kemp] committed heresy: declaring that 'the cause of inflation is not unions'; praising John F. Kennedy's tax cuts and criticizing Herbert Hoover's tax increases; attacking the 'meat ax' $100 billion federal-spending cut of Howard Jarvis and preferring something 'more humane, more compassionate, more positive.'"[85]

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[82] 60 Minutes "JFK," Transcript, April 15, 1979, Box 84, Folder 11, Jack Kemp Papers, Library of Congress, Washington, DC.
[83] *National Review*, Rise of Kemp, March 3, 1978, 260 https://login.proxy.library.emory.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=nch&AN=6078328&site=ehost-live (accessed March 18, 2012).
[84] 60 Minutes "JFK," Transcript, April 15, 1979, Box 84, Folder 11, Jack Kemp Papers, Library of Congress, Washington, DC.
[85] Rowland Evans and Robert Novak, "Kemp's Message of Hope," *Washington Post*, August 30, 1978. http://search.proquest.com/docview/146942757?accountid=10747 (accessed March 18, 2012).

Chapter 3: Building the Supply-Side Coalition

By the late 1970s, Kemp's campaign for tax cuts was being manifested in popular books and grass roots politics. In 1978, Jude Wanniski released his book *The Way the World Works*, which was an overview of politics and economics for a general audience and first popularized the Laffer curve.[86] The book was part revisionist history and part social science in its attempts to explain the economic origins of contemporary problems and how to fix them, largely using the tenants of supply-side economics. Both Laffer and Mundells' work heavily influenced the book's material. Among its novel claims, the book attributed the Great Depression to President Hoover's signing of the Smoot-Hawley Tariff Act, which Wanniski claimed discouraged foreign investment.[87] Additionally, the book attributed the outbreak of global inflation to the breakdown of the Bretton Woods system in the early 1970s.[88] While some reviewers critiqued Wanniski's analysis at times as sophomoric and full of generalizations, the book was generally well received mainly for its originality and quality of writing. The book would go on to have a profound influence on the public discourse and conservatism, acting as a supply-side economics manifesto. *National Review* later named the book the 94th best non-fiction book of the 20th century.[89] In1979, newly appointed Federal Reserve Chairman Paul Volker claimed in correspondence with Wanniski that he was reading *The Way the World Works*.[90]

The anti-tax frustrations that Wanniski wrote about culminated that summer with California's passage of Proposition 13. Beginning in the 1970s, more frequent property

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[86] Domitrovic, *Econoclasts*, 156.
[87] Jude Wanniski, *The Way the World Works* (New York: Simon and Schuster, 1978), 139-42.
[88] Ibid, 235.
[89] *National Review*, The 100 Best Non-Fiction Books of the Century, May 3, 1999, 46-47 https://login.proxy.library.emory.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=nch&AN=1784876&site=ehost-live (accessed March 18, 2012).
[90] Domitrovic, *Econoclasts*, 189.

assessments coupled with high inflation led to rising property taxes in California, which in turn led to widespread discontent among many California homeowners. Authored by California businessman Howard Jarvis, Proposition 13 sought to cap property tax values at one percent of their 1975-76 assessed values. Additionally, the proposition contained a provision that required a two-thirds vote of the state legislature to raise taxes if they wanted to make up for these lost tax revenues.[91] In campaigning for Proposition 13's passage, Jarvis enlisted the help of Arthur Laffer, then working as a professor at the University of Southern California, to educate voters on the merits of the proposition.[92] On June 6, 1978, California voters approved Proposition 13 overwhelmingly with 67 percent of the vote.[93] Following Proposition 13's passage, several other states followed in campaigning for property tax cuts with mixed results. The state movements would later come to be known as the "tax revolts."

Despite this swelling of populist support for tax cuts in 1978, it is inaccurate to think that Proposition 13 was the impetus behind Reagan's eventual support for tax cuts and the Economic Recovery Tax Act of 1981. While scholars like sociologist Isaac Martin claim that Proposition 13 was the origin of Reagan's acquired support of tax cuts, Reagan's longstanding relationship with Kemp along with his previously mentioned public support for the Job Creations Act demonstrated that his partiality towards tax cuts was being established before Proposition 13. In addition, while Proposition 13's passage showed the populist sentiment in favor of tax cuts, one of its main causes -- changes in tax assessment policies -- was an issue largely unique to California. In 1966, the California legislature passed a law heavily regulating tax assessments, which included provisions requiring more yearly property assessments and isolating the

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[91] Lou Cannon, "Calif. Tax Cut Is Voted," *Washington Post*, June 7, 1978. http://search.proquest.com/docview/146910704?accountid=10747 (accessed March 18, 2012).
[92] Domitrovic, *Econoclasts*, 158.
[93] Wallace Turner, "California Voters Approve a Plan to Cut Property Tax $7 Billion," *New York Times*, June 8, 1978. http://search.proquest.com/docview/123681452?accountid=10747 (accessed March 18, 2012).

assessors from political pressures.[94] Hence, the California situation was sui generis and it was this new tax collecting procedure that may have caused this anti-tax sentiment.

Lastly, the property tax is fundamentally different from income and capital gains taxes. Aside from being collected on the state level, property taxes apply to a large demographic of people (homeowners) while income and capital gains taxes can apply to different people in multiple different ways. The most interesting aspect of Kemp's political career and supply-side economics was how he convinced working class voters to care about taxes that may not ultimately affect them. Rather than look at Proposition 13 as the impetus for Kemp's later tax cuts, a more illustrative explanation would be the New Jersey Senate Primary victory of Jeff Bell and the later passage of the Steiger Amendment.

Jeffrey Bell was a young conservative politician challenging four-term Republican incumbent Clifford Case in the 1978 Republican primary for the U.S. Senate. Bell's candidacy was considered a long shot due to his youth and his opponent's support from the Republican establishment. The race attracted national attention when Bell started rising in the polls after announcing his support for the Kemp-Roth bill, which Case had opposed.[95] On June 6, 1978, the same day as Proposition 13's passage, Bell went on to upset Case in the primary. He was later handedly defeated in the general election however by liberal political newcomer Bill Bradley.

This race would have national implications for supply-side economics. It was seen as a microcosm for the ideological and compositional shifts then taking place within the Republican Party. In April 1978, *New York Times* columnist William Safire remarked on the race's implications, "What we see in New Jersey…is not the old liberal-versus-conservative Republican

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[94] Isaac Martin, *The Permanent Tax Revolt: How the Property Tax Transformed American Politics* (Stanford, Calif.: Stanford University Press, 2008), 45-6.

[95] T.R. Reid, "Bell's Victory: Tax Cut Idea Very Popular," *Washington Post*, June 8, 1978. http://search.proquest.com/docview/146910903?accountid=10747 (accessed March 22, 2012).

bloodletting, but a generational contest between Republicans (Case-Rockefeller-Kissinger-Ford) who concentrate on foreign policy, and the Kemps and Bells who will be talking 'supply side' economics to voters angry about incentive-sapping taxation. The past is expected to win, but the future is waving."[96] Safire correctly diagnosed the Party's dichotomy as these election results showed the narrow but growing reluctance of Republican voters to embrace supply-side economics. Additionally, this race would end Jude Wanniski's tenure at the *Wall Street Journal*. When Wanniski was caught at a New Jersey railroad depot campaigning for Bell, action that violated his journalistic obligation to stay out of political campaigns, his bosses forced his resignation.[97] This scandal thus diminished Wanniski's public influence once he left his well-respected forum. He subsequently became an economic consultant and advised Governor Reagan on tax policy during his 1980 presidential campaign.

The Steiger Amendment

In 1978, Wisconsin Republican Representative William Steiger successfully attached an amendment to the Revenue Act of 1978 lowering the capital gains tax rate from 49 percent to 28 percent.[98] Originally attached as an obscure provision to the tax bill while in the House Ways and Means committee, the amendment, to the surprise of its author, attracted a great deal of support from Democrats.[99] Despite the amendment attracting 13 out of the 25 Democratic votes to report the bill out of committee (in addition to all 12 Republican votes), the amendment faced

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[96] William Safire, "Republican Proxy War," *New York Times*, April 10, 1978. http://search.proquest.com/docview/123759577?accountid=10747 (accessed March 22, 2012).
[97] George Gilder, "Laffing Gas," *National Review*, September 1, 1978, https://login.proxy.library.emory.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=nch&AN=6045777&site=ehost-live (accessed March 22, 2012).
[98] *CQ Almanac 1978*, 34th ed. (Washington, DC: Congressional Quarterly, 1979), s.v. "Congress Approves $18.7 Billion Tax Cut," http://library.cqpress.com/cqalmanac/cqal78-1238214 (accessed March 23, 2012).
[99] Domitrovic, *Econoclasts*, 161.

a formidable foe, President Carter, who threatened it with a veto.[100] The provision proved too popular among members of both parties however and Carter eventually signed a modified version of it into law that October.

In campaigning for the Amendment's passage, Steiger directed his political message towards the labor and middle class constituents. Like Kemp, Steiger's congressional district was heavily blue collar with a strong union presence. According to the *1976 Almanac of American Politics*, blue-collar voters comprised a plurality in his district at 43 percent.[101] Thus, from a political standpoint, it stands to reason that Steiger would need to court this constituency to maintain his political career. It was Steiger's effective messaging to labor and the middle-class that led to the amendment's widespread support. In the summer of 1978, a lobbyist was quoted in *Time* remarking, "Support for Steiger is coming not from the fat cats but from middle-income people yelling 'I want to make it!' The fat cat can protect his income. But the middle-income guy who still has dreams of making it wants to know he can do it big."[102]

Steiger may have become the Republican standard-bearer on taxes had it not been for his untimely death. Steiger was three years younger than Kemp and had four additional years of political experience having been elected first in 1966. Unlike Kemp, Steiger sat on the House Ways and Means Committee, which made him better positioned to propose tax legislation. Steiger also had garnered influence within the Republican Party establishment having been asked to chair its national Rule 29 Committee, which was supposed to reform the delegate selection rules for the Party's convention.[103] By late 1978, many Wall Street bankers and venture

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[100] *CQ Almanac 1978*, 34th ed. (Washington, DC: Congressional Quarterly, 1979), s.v. "Congress Approves $18.7 Billion Tax Cut," http://library.cqpress.com/cqalmanac/cqal78-1238214 (accessed March 23, 2012).
[101] Michael Barone, Grand Ujifusa, and Douglas Matthews, *The Almanac of American Politics 1976* (New York: E. P. Dutton and Co, 1975), 935.
[102] Domitrovic, *Econoclasts*, 162.
[103] Michael Barone, Grand Ujifusa, and Douglas Matthews, *The Almanac of American Politics 1976* (New York: E. P. Dutton and Co, 1975), 934.

capitalists were hoping for Steiger to seek the presidency in 1980. However, on December 4, 1978, Steiger unexpectedly died of a heart attack only weeks after having successfully sought reelection.[104]

Kemp Finds Common Ground with Labor

In spring 1979, in an effort to combat inflation, the Carter Administration began to deny federal contracts to companies that increased the wages of their workers by over 7 percent a year. That spring, the United Rubber Workers (URW) and the AFL-CIO went to court to seek a temporary restraining order against these requirements as many of their members had large wage increases in their contracts. The wage regulations also had caused the URW to go without a contract since April 20, which increased the chances of a future strike.[105] On May 31, a federal judge held that the President could not deny federal contracts to those who failed to follow his guidelines.[106] However, a United States Appeals Court overturned the trial court's ruling in less than a month later, noting that the President had the authority to impose this regulation to relieve economic turbulence cause by " a cruel period of inflation."[107]

Kemp seized the court case as a means to appeal to union voters. Kemp led a coalition of 22 mostly conservative Republicans to file an amicus curiae brief in support of the AFL-CIO and URW position.[108] Kemp's supply side economic views had rendered him wary of the notion that

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[104] Domitrovic, *Econoclasts*, 175.
[105] Helen Dewar, "Carter's Guideline Facing Critical Test in Court Case Today," *Washington Post*, May 4, 1979. http://search.proquest.com/docview/147014479?accountid=10747 (accessed March 23, 2012).
[106] Helen Dewar, "Guidelines Dealt Severe Blow; Appeal Planned," *Washington Post*, June 1, 1979. http://search.proquest.com/docview/147096469?accountid=10747 (accessed March 23, 2012).
[107] Philip Shabecoff, "U.s. Court Decides Carter Can Impose Wage-Price Policy," *New York Times*, June 23, 1979. http://search.proquest.com/docview/120786332?accountid=10747 (accessed March 23, 2012).
[108] Helen Dewar, "Carter's Guideline Facing Critical Test in Court Case Today," *Washington Post*, May 4, 1979. http://search.proquest.com/docview/147014479?accountid=10747 (accessed March 23, 2012).

wage controls could make a significant impact on inflation. Kemp feared that any minute dent that these controls would have on inflation would be heavily outweighed by large increases in unemployment. Additionally, Kemp thought that these controls would diminish the incentive of laborers to produce. In a July 1979 speech to the International Longshoremen's Association in Miami, Kemp explained this decision stating, "Telling workers to settle for 8 percent while the government devalues the currency at 13 percent is robbery. Republicans are quick to defend the profit incentive, but the wage incentive is no different. Take away either incentive, and you ruin people's hopes and lives as you ruin the economy."[109] Thus, in this instance, Kemp was able to reconcile his views as to what actually caused inflation with the interests of labor unions providing an additional opportunity to forge a political coalition with labor.

Neoconservatism and Supply-Side Economics

In his public advocacy of supply-side economics as a cure to the United States' economic trouble, Jack Kemp received considerable support from neoconservative public intellectual Irving Kristol. Kristol was born in Brooklyn, New York in 1920 and was raised in a socialist milieu. While attending City College of New York, Kristol was an avid Trotskyite and member of the Young People's Socialist League.[110] In 1965, along with sociologist Daniel Bell, Kristol founded the national affairs magazine *The Public Interest* that served as a preeminent neoconservative publication for following four decades. The magazine served as a public outlet for the first generation of neoconservatives including Daniel Patrick Moynihan, Nathan Galzer,

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[109] Jack Kemp Remarks to 44th Annual Convention of International Longshoreman's Association (ILA), Speech, July 16, 1979, Box 133, Folder 3, Jack Kemp Papers, Library of Congress, Washington, DC.
[110] *Encyclopædia Britannica Online*, s.v. "Irving Kristol," http://www.britannica.com/EBchecked/topic/1565722/Irving-Kristol (accessed April 2, 2012).

and James Q. Wilson.[111] Kristol began to become disillusioned with the political left during President Lyndon Johnson's Great Society programs and gradually shifted ideologically to the political right. In 1973, founder of the Democratic Socialists of America and noted scholar Michael Harrington quipped that Kristol's political views had drifted so far from their ideological starting point that he was no longer a liberal. Harrington despairingly named Kristol's new ideology as "neoconservatism."[112]

Much like supply-side economics, neoconservatism was not entirely laissez-faire in its view on the proper role of government. The neoconservatives did not eschew the welfare state and New Deal-era government programs such as Social Security as many libertarians and Goldwater Republicans had. Rather, neoconservaitsm was a reaction against President Johnson's Great Society, which it perceived as being overly bureaucratic and idealistic. In explaining this qualified endorsement of the welfare state, Kristol wrote in 1976, "…while being for the welfare state, [neoconservatism] is opposed to the paternalistic state."[113] In the same 1976 article, Kristol explained the neoconservative view on the proper role of government in economic regulation. "Though willing to interfere with the market for overriding social purposes, [neoconservatism] prefers to do so by 'rigging' the market, or even creating new markets, rather than by direct bureaucratic controls. Thus [neoconservatism] is more likely to favor housing vouchers for the poor than government-built low income projects."[114] This view was mirrored by the supply-siders who sought to promote economic growth through rigging the tax structure to implement

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[111] Irving Kristol, *Neoconservatism: the Autobiography of an Idea*, 1st Elephant Paperback ed. (Chicago: Ivan R Dee, 1999), 29.
[112] *Encyclopædia Britannica Online*, s.v. "Irving Kristol," http://www.britannica.com/EBchecked/topic/1565722/Irving-Kristol (accessed April 2, 2012).
[113] Irving Kristol, *The Neoconservative Persuasion: Selected Essays, 1942-2009* (New York: Basic Books, 2011), 149.
[114] Ibid.

the proper incentives. Both groups saw a positive role for government to play but it was through encouraging a market alternative rather than through bureaucracy.

It was these similarities in ideology that made Irving Kristol a public supporter of supply-side economics and Jack Kemp. Much like Kemp, Kristol viewed himself as a political insurgent within the Republican Party trying to rebrand its message. Kristol manifested this reformer zeal in a May 1980 *Wall Street Journal* editorial entitled "The Battle for Reagan's Soul," in which Kristol called for Reagan and the Republican Party to embrace Jack Kemp's economic views. Kristol framed what he viewed were the stakes of the debate: "The political dimension revolves around the following question: Should the Republican Party remain the traditional conservative party or should it become a neo-conservative party, a new kind of conservative party? …Should the Republican Party present itself as the balanced-budget, sound finance pro-'free enterprise' party or as a low-tax, pro-growth, or anti-bureaucracy party?"[115] In writing this editorial, Kristol manifested his previously stated principles into supply-side economics. By labeling supply-side economics as "pro-growth" and "anti-bureaucracy," Kristol reconciled supply-side economics with neoconservatism as a way for the government to foster economic prosperity without bureaucracy.

Much like Kemp, Kristol viewed the prevalent Keynesian economic prescriptions of the day to be inadequate to solve stagflation. Unlike Kemp however, Kristol was skeptical regarding the ability of economists and economics to fix these problems. He viewed supply-side economics as "a kind of humanistic' rebellion against the mathematical-mechanical type of economic analysis."[116] Kristol doubted the potential of mathematical models in economics because they were based on human behavior, which he claimed was impossible to truly comprehend. Kristol

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[115] Irving Kristol, "The Battle For Reagan's Soul," *Wall Street Journal*, May 26, 1980. http://search.proquest.com/docview/134462729?accountid=10747 (accessed April 3, 2012).
[116] Kristol, *The Neoconservative Persuasion*, 164.

thus stated that the best work on economics was Adam Smith's *The Wealth of Nations* because it relied on worldly experience to make its arguments.[117] He also appreciated Smith because while Smith was a strong advocate for a laissez-faire system, he also acknowledged the need for some government protections.

Kristol's support of supply-side economics support was important as he helped popularize the theory to the intelligentsia and provide intellectual credibility for Kemp. While the *Wall Street Journal* rightly gets credit as the first public advocate of supply-side economics, Kristol's *The Public Interest* published an expanded version of Jude Wanniski's "It's Time to Cut Taxes" in 1975 entitled "The Mundell-Laffer Hypothesis" bringing supply-side economics to the attention of a more intellectual crowd.[118] Furthermore, Kristol was able to provide the supply-siders with intellectual fortitude that had not existed outside the realm of economics. Historian Peter Steinfels noted that neoconservatism was not anti-intellectual but rather counter-intellectual and as a movement was skeptical of scholars who lacked practical expertise in an area.[119] Thus, when Kristol easily dismissed claims that supply-side economics was too simple to be a valid theory, he provided an intellectual standing to make that argument go unchallenged. [120] Thus, Kristol's advocacy of supply-side economics helped the movement attract the support of an elite conservative vanguard.

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[117] Ibid.
[118] Domitrovic, *Econoclasts*, 114.
[119] Justin Vaïsse, *Neoconservatism: The Biography of a Movement* (Cambridge: Belknap Press of Harvard University Press, 2010), 76-77.
[120] Kristol, *The Neoconservative Persuasion*, 159.

Chapter 4: Supply-Side Economics and the Reagan Revolution

As early as 1978, many Republicans were hoping for and encouraging Kemp to seek the presidency or the vice-presidency in the upcoming presidential contest. At a July 1978 Republican National Committee meeting in Detroit, *Washington Post* columnists Roland Evans and Robert Novak reported that the general consensus among the meeting's attendees was a desire for Kemp to be the party's presidential nominee in lieu of Reagan or Ford.[121] Kemp received a great deal of encouragement from Jude Wanniski, Jeffrey Bell, and Irving Kristol, who had apparently established a campaign infrastructure that was ready to go with Kemp's approval.[122] Despite all this support, Kemp decided not to run, and he endorsed Regan for the party nomination. Kemp played a large role within Reagan's campaign being named its Chairman of Policy Development and advising Reagan on tax policy.[123] This close involvement with the campaign led many to speculate that Kemp would become Reagan's running mate.

Despite his appeal to both conservatives and union voters, Reagan decided to pass over Kemp as his running mate for several reasons. While Kemp may have been popular to conservatives, Reagan sought to unify the party by choosing a moderate. At the convention, Reagan sought to name his 1976 opponent, former President Ford, but Ford wanted a much higher status than was usually afforded vice presidents. When this deal failed, Reagan named

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[121] Rowland Evans and Robert Novak, "GOP's New Face: Kemp," *Washington Post*, July 24, 1978. http://search.proquest.com/docview/146827285?accountid=10747 (accessed March 23, 2012).

[122] Domitrovic, *Econoclasts*, 203.

[123] Senator Laxalt Annouces Policy Development Chairman, Press Release, November 14, 1979, Box 86, 1980 Campaign Papers, Ronald Reagan Presidential Library, Ventura, CA; Leonard Silk, "Economic Scene: Reagan Camp's Young Bloods," New York Times, February 29, 1980. http://search.proquest.com/docview/121038491?accountid=10747 (accessed January 26, 2012).

former CIA director George Bush as his running mate.[124] As attractive as Kemp was, it was unclear as to what he would bring to the ticket as a running mate. Kemp had pledged his full support to Reagan early in the primary process so most of his support was already going to be transferred to Reagan. Kemp often challenged the Republican establishment, which would have made his potential selection alienating to many in the party. Lastly, during the late 1970s rumors emerged that Kemp had previously engaged in homosexual activities.[125] The rumors were unsubstantiated, but they only heightened the risks of putting him on the ticket.

During the 1980 Presidential Campaign, Kemp worked to attract a strong labor constituency in support of Reagan. Kemp often tried to explain the Phillips Curve in speeches as a false dichotomy and that through supply-side economics, the government could curb inflation while reducing the unemployment rate. During that cycle's New Hampshire primary, in a speech supporting Reagan, Kemp restated his previous stance regarding the cause of inflation: "People don't cause inflation by putting up prices or bidding up labor. They can only try to defend themselves against Government, the real culprit."[126] Kemp would repeat this claim in different wording later that year during his speech at the Republican National Convention.[127] Prior to the Party Convention, Kemp advocated in a private letter to Senator John Tower, the platform committee chairman, a more inclusive tone with labor. In particular, Kemp asked the committee to refrain from restating its support of Taft-Hartley's Section 14, which allows for state "right to

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[124] Albert Hunt and James Perry, "The GOP Ticket: Reagan Picks Bush to Be Running Mate as Ford Deal Fizzles," *Albert Hunt*, July 17, 1980. http://search.proquest.com/docview/134502045?accountid=10747 (accessed March 23, 2012).
[125] Rowland Evans and Robert Novak, "Ugly Political Rumors," *Washington Post*, December 29, 1978. http://search.proquest.com/docview/146905047?accountid=10747 (accessed March 23, 2012).
[126] Jack Kemp New Hampshire Remarks, Speech, February 18, 1980, Box 237, Folder 7, Jack Kemp Papers, Library of Congress, Washington, DC.
[127] Jack Kemp Republican National Convention Address, Speech, July 15, 1980, Box 473, 1980 Campaign Papers, Ronald Reagan Presidential Library, Ventura, CA.

work" laws.[128] Kemp thought that this section could alienate labor support, which for him was a major constituency. Furthermore, when Ronald Reagan campaigned in Buffalo in September 1980, he had Kemp introduce him at a labor breakfast event. In introducing Reagan, Kemp worked to calm the apprehensions of the leaders stating, "Ronald Reagan believes in the right of trade unions to organize workers. He believes in free collective bargaining. He believes in unemployment insurance, trade readjustment assistance and strengthening the Social Security system."[129]

Following Ronald Reagan's presidential victory in 1980, Kemp found a ready ally in David Stockman, Reagan's appointment to head the Office of Management and Budget (OMB). Stockman had been a young conservative Congressman from Michigan who had advised Reagan on economics during his presidential campaign.[130] Much like his close friend Kemp, Stockman lacked a formal education in economics and was an autodidact known for his mastery of the subject.[131] According to the 1978 Almanac of American Politics, Stockman was often misperceived to be a liberal due to his previous work as a staffer for Republican Representative John Anderson. In reality, he was a strong fiscal conservative.[132] The day before Reagan officially nominated Stockman, he and Kemp issued a report to Reagan emphasizing the severity of the economic downturn and the need for swift action to combat it. The top solution they offered was a "supply side tax component" consisting of lowering the top marginal income rate

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[128] Robert Novak, "Reagan's New Coalition," *National Review*, August 22, 1980, 1023-26 https://login.proxy.library.emory.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=nch&AN=6072967&site=ehost-live (accessed March 23, 2012).
[129] Jack Kemp Labor Breakfast Remarks, Speech, September 11, 1980, Box 234, Folder 9, Jack Kemp Papers, Library of Congress, Washington, DC.
[130] Lee Lescaze, "Reagan Announces His First Eight Nominations," Washington Post, December 12, 1980. http://search.proquest.com/docview/147131131?accountid=10747 (accessed March 23, 2012).
[131] Marjorie Hunter, "Office of Management and Budget David Alan Stockman," New York Times, December 12, 1980. http://search.proquest.com/docview/121430399?accountid=10747 (accessed March 23, 2012).
[132] Michael Barone, Grant Ujifusa, and Douglas Matthews, *The Almanac of American Politics 1978 - The Senators, the Representatives, the Governors* (New York: E. P. Dutton, 1977), 410.

to 50%, further cutting capital gains taxes, and making it easier for businesses to depreciate taxable assets.[133]

The Economic Recovery Tax Act of 1981

Upon entering office, one of President Reagan's top priorities was passing the previously proposed Kemp-Roth bill. The move represented a departure for Reagan from his days as California Governor. Back then, he was indifferent to taxes as he placed more emphasis on balanced budgets. According to Reagan biographer Lou Cannon, Reagan boasted about his large tax refund and relief programs as governor while running for president, yet these returns had resulted from tax increases during his governorship. Furthermore, state taxes per $100 of personal income actually increased from $6.64 to $7.62 during Reagan's governorship.[134] Isaac Martin described Reagan's general outlook regarding taxation during his governorship as, "Cut taxes first, and you risked a deficit. Cut spending first, and lower taxes would follow. The natural choice was therefore to limit spending rather than taxes."[135] However, events of the late 1970s, including proposed property tax referendums in several states, brought tax rates to the forefront of American politics. Hence, while running for President, Reagan began to promise tax cuts if elected and subsequently threw his support behind the Kemp-Roth Tax Bill, which reduced marginal income tax rates, that was being debated in Congress at the time.

On February 18, 1981, Reagan announced his tax cut proposal to Congress asking for an across the board 10 percent income tax cut that July 1 and an additional 10 percent income tax

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[133] Leonard Silk, "Emergency Economic Program Urged On Reagan by 2 Advisers," *New York Times*, December 11, 1980. http://search.proquest.com/docview/121270903?accountid=10747 (accessed March 24, 2012).
[134] Lou Cannon, Governor Reagan: His Rise to Power (New York: PublicAffairs, 2005), 388.
[135] Martin, Isaac William. The Permanent Tax Revolt: How the Property Tax Transformed American Politics. (Stanford, CA: Stanford University Press, 2008), 129.

cut for the succeeding two years.[136] The chances of the bill's passage were augmented as the 1980 election provided Republicans with control of the White House and three-seat majority in the Senate as well as 33 additional members of the House of Representatives.[137] In proposing tax cuts however, Kemp was at a disadvantage to some congressional colleagues, as he did not sit on the House Ways and Means Committee. While Kemp could still propose tax reductions, they would need to be worked out and approved by the Committee before the entire House of Representatives could vote on them. Thus, fellow eastern New York Republican Congressman and House Ways and Means Ranking Member Barber Conable, Jr. was responsible for shepherding the bill through committee.

By that June, Reagan's proposals based off the Kemp-Roth bill were hitting legislative hurdles. Fears of deficits caused many in Congress to be reluctant to support such a steep tax cut. Reagan recalibrated his tax proposal, offering a 5 percent income tax cut for that October followed by 10 percent tax reductions for the succeeding two years.[138] Income tax cuts alone, however, were insufficient to attract a majority of votes and business incentives were subsequently added to the bill. In the final days before the vote on the bill, President Reagan added several sweeteners, such as indexing the taxes rates to inflation and tax breaks for commodity dealers, in an effort to ensure final passage.[139]

Kemp played a crucial role in courting union support for the bill. Many members of Congress from districts with a strong union presence were undecided on which way to vote. On July 23, helped with a Treasury Department briefing with about 27 union leaders and

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[136] *CQ Almanac 1981*, 37th ed. (Washington, DC: Congressional Quarterly, 1982), s.v. "Congress Enacts President Reagan's Tax Plan," http://library.cqpress.com/cqalmanac/cqal81-1171841 (accessed March 24, 2012).
[137] Michael Barone and Grant Ujifusa, *The Almanac of American Politics 1982; The President, the Senators, the Representatives, the Governors; Their Records and Election Results, Their States and Districts* (Washington, DC: Barone & Company, 1981), xi, xxvii, xxxv.
[138] Ibid.
[139] Thomas Edsall, "Reagan Goes to the Hill On Tax Bill," *Washington Post*, July 25, 1981. http://search.proquest.com/docview/147330403?accountid=10747 (accessed March 24, 2012).

representatives in an attempt to garner labor support for the tax cuts.[140] Kemp also served as a barometer for the Reagan administration in gauging union interest in the tax bill. In particular, a July 30 memo reveals that Kemp informed the White House of two Congressmen who switched their votes due to union lobbying.[141] Both Congressmen, Stanley Lundine of New York and Thomas Luken of Ohio, represented heavily blue-collar districts. Furthermore, many of the chief union officers lobbying for the bill's passage such as Roy Williams of the International Brotherhood of Teamsters and Teddy Gleason of the International Longshoreman Association had a well established working relationship with Kemp, which demonstrated Kemp's influence to a certain extent. Hence, Kemp's work with labor unions may have provided the crucial votes needed for the bill's final passage.

On August 3, 1981, the Senate approved the bill overwhelmingly by a vote of 67 to 8. The following day, the House of Representatives approved the bill by a vote of 285 to 95. On August 14, Ronald Reagan signed the Economic Recovery Tax Act of 1981 into law. Among the numerous things the final bill did, the bill's most famous provisions were dropping the top marginal tax rate from 70 percent to 50 percent, indexing tax rates to the consumer price index to guard against inflation, and reducing corporate taxes.[142] The fact that the bill lowered the top marginal income tax rate to 50 percent was significant because the Tax Reform Act of 1969 already capped the maximum tax rate on earned income (income derived from working as opposed to investments or savings) at 50 percent. Thus, this provision mainly affected people who derived significant portions of their incomes from investments or non-salary related means.

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[140] Attendees for Tax Briefing, Memo, July 23, 1981, Box 10, Tax Reduction/Treasury Folder, Robert Boniati Papers, Ronald Reagan Presidential Library, Ventura, CA.

[141] Memo to Elizabeth Dole, Memo, July 23, 1981, Box 10, Tax Reduction/Treasury Folder, Robert Boniati Papers, Ronald Reagan Presidential Library, Ventura, CA.

[142] *CQ Almanac 1981*, 37th ed. (Washington, DC: Congressional Quarterly, 1982), s.v. "Congress Enacts President Reagan's Tax Plan," http://library.cqpress.com/cqalmanac/cqal81-1171841 (accessed March 24, 2012).

The fact that this provision affected relatively few higher-class individuals demonstrates how remarkable it was for Kemp to garner blue-collar support for tax cuts affecting only a small group of taxpayers.

Conclusion

In gauging Representative Jack Kemp's political influence in popularizing supply-side economics, one must review his role in working with political and opinion elites as well as his building of a grass roots constituency in favor of tax cuts. Kemp worked diligently to develop and garner support for supply-side economics as evidenced by his work with economic, opinion, and political elites. Kemp worked with economists from academia such as Robert Mundell and Arthur Laffer to develop supply-side economics inspired legislation. Kemp also worked and corresponded with Irving Kristol to provide intellectual credibility and support to his economic theories. Kemp subsequently took Laffer and Mundell's policies and along with Kristol's public support, worked with political elites such as David Stockman and Ronald Reagan in order to implement these policies into law. Hence, Kemp's work with economic, opinion, and political elites was essential in popularizing and implementing supply-side economics into law.

Kemp also played an influential role in building a grassroots constituency in favor of supply-side economics. The significant union presence in Kemp's congressional district necessitated his courting of a labor constituency to ensure a political future. Kemp demonstrated his awareness of this in the way he framed economic issues. For example, his 1974 proposal to cut business taxes was named the Jobs Creation Act in order to portray it as beneficial to his constituents. Likewise, Kemp supported union interests when they aligned with his economic views as demonstrated by his filing of amicus curiae brief in support of the AFL-CIO in their court challenge to wage controls. Through courting union members for his conservative cause, Kemp laid the foundation for the "Reagan Democrat." Furthermore, Kemp's distinguished career as a professional football player along with his good looks and charisma made him a popular politician not just in his congressional district but also nationally.

Jack Kemp ultimately changed Republican economic orthodoxy, which ushered in a Republican Renaissance. The Republican Party had a longstanding tendency to favor balanced budgets in their economic policy. Had Kemp not been elected to Congress in 1970 and Herbert Stein remained the economic sage of the party, this preference might have gone on indefinitely. However, by rebranding tax cuts from one of balanced budgets to one of economic growth, Kemp brought in an unorthodox political coalition into the Republican Party including supply-side economists, neoconservatives, and union members, setting the groundwork for the "Reagan Democrat." Following Reagan's 1980 election, Kemp continued to work diligently inside and outside of Congress to forge the necessary political coalitions to successfully implement these ideas into law. Hence, the supply-side economic movement was the result of Representative Jack Kemp's work with a conservative vanguard to draft an alternative Republican economic policy and his work with unorthodox constituencies such as neoconservatives and the labor movement in order to support his ideas.

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