CAMBRIDGE
Cambridge University Press & Assessment
978-1-009-59513-1 — Pay Up! Conservative Myths About Tax Cuts for the Rich
John L. Campbell
Excerpt
More Information

# 1

# Conservative Myths About Tax Cuts

A fraud has been perpetrated on the American public. For decades, conservative politicians and pundits, mostly Republican, have tried to convince Americans that cutting taxes – especially taxes on wealthy people and large corporations – is a panacea for just about everything that ails the American economy: inflation, poor productivity, inequality, poverty, unemployment, wage stagnation, loss of markets to foreign competitors, and more. Some who preach this really believe it. Others may not believe it but call for tax cuts anyway to pander to their constituents, campaign donors, media audiences, and voters. Mitt Romney, for instance, confessed to his biographer that even though he called for eliminating inheritance tax when he was running for president in 2012, he didn't really believe that getting rid of the tax was necessary but said so anyway because that's what he thought voters wanted to hear.[1]

Regardless of their motives, they all insist that high taxes are the bane of the country's existence. And millions of Americans believe them. Why? Because conservatives have been very clever in packaging their ideas in ways that many people find convincing. For over forty years if not longer – from the presidency of Ronald Reagan through Joe Biden – conservatives have made five claims over and over to justify cutting taxes in the United States.

1. Taxes in America are too high, especially for the wealthy and large corporations.
2. High taxes hurt the economy.

[1] Coppins 2023, pp. 83–84.



© in this web service Cambridge University Press & Assessment www.cambridge.org

CAMBRIDGE
Cambridge University Press & Assessment
978-1-009-59513-1 — Pay Up! Conservative Myths About Tax Cuts for the Rich
John L. Campbell
Excerpt
More Information



3. High taxes encourage government waste.
4. High taxes are unfair.
5. High taxes threaten freedom.

This book disputes these claims. It shows that although they occasionally contain small grains of truth, by and large they are wrong. They don't stand up to the evidence. In short, they are deceptive myths – widely held but terribly misleading beliefs about the virtues of cutting taxes. In fact, the opposite can be true. Societies including the United States can often benefit from higher, not lower, taxes in many ways.

Some of these myths appeal to economic logic. The arguments about taxes being too high and damaging the economy certainly do. But others appeal more to emotionally charged values. Conservative concerns about government waste, for example, build on a long-standing visceral aversion to big government. Concerns about fairness and freedom resonate with people's feelings about the right values that Americans should live by. As a result, this book is as much about sociology and politics as it is about economics. It explores the gaps between ideas and facts. It is written not only for people interested in what makes an economy work, but also for people interested in the principles by which government and society should operate.

Efforts to cut taxes for the affluent and big business have occurred periodically throughout American history.[2] Occasionally, people used some of the myths discussed in this book to facilitate those efforts. But it wasn't until the Reagan era that these myths were stitched together with a unifying thread. That thread is called neoliberalism (sometimes known as market fundamentalism), a conservative economic theory that calls not only for cutting taxes and keeping them low thereafter, but also for slashing government spending and rolling back economic regulations. The idea is to unleash market forces, ostensibly for everyone's benefit, by minimizing the role of government in the economy. As such, the conservative obsession with cutting taxes in recent decades has been part of a much broader multipronged attack on the state. Neoliberalism had been around for a long time but without having much influence on policymaking. Its breakthrough in American politics was the Reagan presidency, after which all five of these myths became an essential part of conservative political rhetoric. According to Columbia University Law School's Michael Graetz, calls for tax cuts based on these myths became

[2] Graetz 2024; Martin 2013.

© in this web service Cambridge University Press & Assessment www.cambridge.org

CAMBRIDGE
Cambridge University Press & Assessment
978-1-009-59513-1 — Pay Up! Conservative Myths About Tax Cuts for the Rich
John L. Campbell
Excerpt
More Information



the Republican Party dogma that held its disparate coalitions together for the better part of a half-century.[3] To my knowledge nobody has scrutinized all five myths as a unified whole. This book does.

Conservative politicians have used these myths to help win elections and seize power. They promise to reduce taxes so that they can garner votes. And when asked to explain why they want to cut taxes they typically answer by trotting out these myths. So do the conservative pundits, think tanks, social media sites, and others who support their campaigns and their efforts to cut taxes once elected. These myths are repeated so often that many people now take them for granted and think that they are just common sense. In doing so, conservative politicians and their minions have pulled the wool over the eyes of millions of Americans. That's why it's important to expose these myths for what they are – misleading clichés lacking much empirical support that often benefit the rich and powerful.[4]

What follows in this chapter is a brief account of the rise of neoliberalism, which provided an intellectual basis for these five myths and helped elevate them to the forefront in American politics. Then it reviews some of the tax reforms that neoliberalism inspired. Next it takes a closer look at the myths themselves, their power in an age of rising misinformation, and how politicians have used them for over forty years. The chapter concludes with a quick summary of the book's core arguments and a short note on American exceptionalism and why the cross-national, historical, and other evidence I have mustered is appropriate for evaluating the truthfulness of these myths.

## THE RISE OF NEOLIBERALISM

According to historians Naomi Oreskes and Erik Conway, early glimpses of the myths eventually used to justify low taxes began appearing over a century ago. The National Association of Manufacturers (NAM), a conservative business association founded in 1895, initially spearheaded a movement seeking to minimize the role of government in the economy. It was a staunch opponent of the Progressive Movement in the 1920s and then the New Deal in the 1930s, both of which sought to expand government economic oversight. NAM was a fierce opponent of federal

[3] Graetz 2024, pp. 51, 149, 252–255.

[4] Block (1996), Bourdieu (1998), and Leff (1984) also show that myths and misleading rhetoric are often an important part of tax reform.

© in this web service Cambridge University Press & Assessment www.cambridge.org

CAMBRIDGE
Cambridge University Press & Assessment
978-1-009-59513-1 — Pay Up! Conservative Myths About Tax Cuts for the Rich
John L. Campbell
Excerpt
More Information



taxation. It claimed that taxation was nothing more than theft and that it constituted a slippery slope leading toward the expansion of government power in ways that threatened Americans' personal freedom, free enterprise, and the efficiency of the market in ways that ultimately led to totalitarianism.[5] Other powerful business associations and corporations soon joined the crusade against taxation, business regulation, and other forms of government intervention. Their message was clear: Economic, political, and civic freedom were inextricably linked so that a threat to one – most importantly the threat to economic freedom – was a threat to them all.[6]

NAM and its sympathizers spent millions of dollars spreading that message across the United States. They sponsored radio programs, television shows, newspaper editorials, magazine stories, comic books, children's literature, secondary school and university textbooks, Hollywood movies, religious sermons, and books for the public all touting the virtues of free markets and the vices of government intervention. They also gave vast sums of money to colleges and universities to build curricula and hire faculty that favored their arguments. Notably, the University of Chicago became a hotbed of radical free-market thinking championed by several famous economists, including Friedrich Hayek, George Stigler, and Milton Friedman. Early advocates of minimalist government and low taxes also provided financial support to think tanks, lobbyists, and politicians to push their views in Washington. But as Oreskes and Conway explain, the arguments they were peddling were propaganda with little empirical support and driven by the quest for profit, wealth, and economic power. The problem, however, was that their arguments lacked a coherent intellectual framework, which brings us to the rise of neoliberalism.[7]

The articulation of neoliberalism began in the late 1940s thanks to an esteemed international group of conservative intellectuals with financial support from some wealthy businessmen and conservative philanthropic foundations.[8] It included such conservative luminaries as the philosopher Karl Popper and economists Hayek, Stigler, Friedman, Frank Knight, Ludwig von Mises, and Lionel Robbins. Hayek, Friedman, and Stigler eventually won Nobel Memorial Prizes in economics. Together they and

[5] Oreskes and Conway 2023, pp. 23, 89, 118, 196.
[6] Oreskes and Conway 2023.
[7] Oreskes and Conway 2023.
[8] Mirowski and Plehwe 2009a; Oreskes and Conway 2023, chap. 5.

© in this web service Cambridge University Press & Assessment www.cambridge.org

CAMBRIDGE
Cambridge University Press & Assessment
978-1-009-59513-1 — Pay Up! Conservative Myths About Tax Cuts for the Rich
John L. Campbell
Excerpt
More Information



others formed the Mont Pelerin Society in 1947, a partisan thought collective so named for the Swiss town where they first met.[9] The group insisted that the world needed an intellectual alternative to communism, as practiced in the Soviet Union, and to Keynesianism, an economic theory that was emerging as the guiding light for most advanced capitalist democracies after the Second World War. Both communism and Keynesianism, they worried, were based in different ways on too much state control of the economy, which threatened market competition and individual economic and political freedom. In short, the Mont Pelerin Society was concerned that both democracy and capitalism were at risk owing to the increasingly dangerous intrusion of the state into the economy.[10] Although its members recognized that the state was necessary to protect competitive markets and individual freedom by providing certain institutions and legal frameworks, they insisted that the state's power should be kept to the indispensable minimum.[11]

Hayek, for instance, was emphatic about this in his famous book *The Road to Serfdom*, in which he argued against a pure laissez-faire philosophy. The question, he asked, was not whether the state should interfere with the economy but how it should do so. For him, state intervention was appropriate only under certain limited circumstances and only when it did not favor or harm particular people or disrupt competition. For example, only when markets failed to provide certain important public goods such as roads, or correct certain economic problems such as pollution, or prevent anticompetitive threats such as monopolies was state intervention warranted. Otherwise, the state should not interfere in the economy. As he put it, "We should make as much use as possible of the spontaneous [market] forces of society, and resort as little as possible to [state] coercion."[12]

A few patrons of the early neoliberal movement were so enthralled with Hayek's work that they arranged for him to come to the United States from Austria and obtain a faculty appointment at the University of Chicago, although not in the economics department, which refused to have him. They also arranged for *The Road to Serfdom* to be published in condensed form in *Reader's Digest*, read by millions of Americans, but curiously without any mention of the necessary roles for government

[9] Butler n.d.
[10] For an extensive discussion of the Mont Pelerin Society, see Mirowski and Plehwe (2009a).
[11] Mirowski and Plehwe 2009b, pp. 22–23.
[12] Hayek 2007, p. 71. See also, pp. 87–88, 118, 156.

© in this web service Cambridge University Press & Assessment www.cambridge.org

CAMBRIDGE
Cambridge University Press & Assessment
978-1-009-59513-1 — Pay Up! Conservative Myths About Tax Cuts for the Rich
John L. Campbell
Excerpt
More Information



in the economy that Hayek wrote about in the original version of his book. Thus, they turned the abridged version into a misleading antigovernment polemic. This was another example of how monied interests such as NAM sought to develop and disseminate market fundamentalist ideology. Similarly, conservative economist George Stigler's translation of Adam Smith's *The Wealth of Nations* dropped portions from the original where Smith argued that in some cases government intervention – including progressive taxation – is warranted.[13] Simplifications and misrepresentations of these two foundational conservative texts, erroneously elevating uninhibited free markets to a mythical, God-like status, foreshadowed similar departures from the truth that would come later.

The Mont Pelerin Society's members eventually played significant roles in the formation and activities of several influential conservative think tanks and policy research organizations in America that have long sung the praises of neoliberalism, such as the Heritage Foundation, the Cato Institute, and the Manhattan Institute. Society members have occupied important policymaking positions in American government. These include, for example, Arthur Burns and Alan Greenspan, former Federal Reserve Board chairs; Martin Feldstein, Paul McCracken, and Herbert Stein, former chairs of the President's Council of Economic Advisers; Edwin Meese, former US Attorney General; William Simon, former Treasury Secretary; and George Shultz, former Secretary of State and Secretary of Treasury. Other Society members, including academics, educators, journalists, authors, and businesspeople, helped push neoliberalism too. The Society was also influential in other advanced capitalist democracies and eventually in Latin America, East Asia, and Eastern and Central Europe.[14]

It's important to understand that neoliberalism was never a monolithic intellectual paradigm. Instead, it provided a smorgasbord of policy options from which policymakers could pick and choose. As a result, it was implemented in different ways in different places during the postwar period.[15] When it came to tax reform, some countries were less concerned with cutting taxes than the United States. For instance, in Germany cutting taxes was not a neoliberal priority. Chancellor Helmut Schmidt's Social Democratic Party pushed for some modest tax cuts in the late

[13] Oreskes and Conway 2023, chap. 9.
[14] Butler n.d; Campbell 2001; Dezalay and Garth 2002; Harvey 2005; Mirowski and Plehwe 2009a; Wade and Veneroso 1998a, 1998b.
[15] Thelen 2014.

© in this web service Cambridge University Press & Assessment www.cambridge.org

CAMBRIDGE
Cambridge University Press & Assessment
978-1-009-59513-1 — Pay Up! Conservative Myths About Tax Cuts for the Rich
John L. Campbell
Excerpt
More Information



1970s not because they were enamored with neoliberalism but because they thought it would take the issue away from the more conservative political opposition and because other European countries were doing the same. When Schmidt's successor Helmut Kohl announced regressive tax cuts, the worker's wing of his Christian Democratic Union party opposed them. So did local governments who stood to lose revenue in Germany's federalist tax system if those cuts were passed. Kohl's tax cut strategy didn't go far.[16] In France neoliberalism's brief heyday was during the late 1980s. Prime Minister Jacques Chirac embraced it but with more success in some areas than in others. French neoliberalism resulted in the privatization of some state enterprises and some economic deregulation. But when Chirac called for large income tax cuts, he failed to get them.[17]

Things were different in the United States. Small government was the neoliberal goal and conservatives saw cutting taxes as one of the best ways to achieve it. The reasons why require some explanation.

## NEOLIBERALISM AND TAX CUTS IN AMERICA

Despite the efforts of NAM, the Mount Pelerin Society, and other free-market acolytes, neoliberalism had little effect on politics and policymaking in the United States until the late 1970s. Before then, most economists and policymakers accepted a modicum of progressive taxation, government spending, and economic regulation – all in moderation. From the end of the Second World War through the early 1970s, Keynesianism was the dominant policymaking paradigm in America. Keynesians assumed that there was a tradeoff between unemployment and inflation – like a seesaw, as one went up the other went down. They also believed that raising and lowering taxes properly could help balance the seesaw, resulting in acceptable levels of both unemployment and inflation. On the one hand, raising taxes would take money out of people's pockets and reduce the aggregate demand for goods and services in the economy so that manufacturers would cut back on production, lower their prices, and lay off workers. As a result, inflation would decrease but unemployment would increase. On the other hand, lowering taxes would have the opposite effects – people would have more money to spend, demand would pick up, production would increase, workers would return to

[16] Prasad 2006.
[17] Denord 2009; Prasad 2006.

© in this web service Cambridge University Press & Assessment www.cambridge.org

CAMBRIDGE
Cambridge University Press & Assessment
978-1-009-59513-1 — Pay Up! Conservative Myths About Tax Cuts for the Rich
John L. Campbell
Excerpt
More Information



work, and prices would rise. In short, Keynesians believed that adjusting taxes would help smooth out the ups and downs of the business cycle.[18]

However, inflation and a sluggish economy in the late 1970s drew all that into question. Keynesianism ran into trouble. In the late 1960s and early 1970s, thanks to bad harvests around the world and deals to sell American grain to the Russians, prices for food began to escalate in the United States. So did prices for raw materials. Making matters worse, the price of oil skyrocketed suddenly in the wake of the 1973 OPEC oil crisis and again in 1979 after the Iranian revolution. Now inflation was mounting and the economy was stagnating, as rising unemployment rates indicated. This was called "stagflation." The Keynesian seesaw was broken. Unemployment and inflation were rising simultaneously. Keynesianism was discredited and a war of ideas erupted as economists and policymakers scrambled to find a solution to the stagflation riddle.

This provided a political opportunity for conservatives to push a new approach to managing the economy. It was based on neoliberalism and was called supply-side economics. It claimed that three things – excessive government spending, regulation, and taxation – were driving inflation to double-digit heights, undermining investment and, therefore, killing innovation, productivity, job creation, and economic growth. As such, the neoliberal supply-side solution for stagflation was remarkably simple: cut government spending, regulation, and taxes.[19]

Insofar as taxes were concerned, conservatives argued that the more businesses and investors had to pay the government in taxes, the less money they had to invest in ways that would facilitate economic growth and reduce unemployment. High taxes choked off the supply of investment capital. One reason taxes were too high, they argued, was that the government needed those revenues to help pay for expensive welfare and regulatory programs that conservatives wanted to scale back.[20]

Conservatives were particularly enamored with the neoliberal idea of cutting taxes as explained by economist Arthur Laffer. According to Laffer, if the government cut individual and corporate income tax rates,

[18] Keynesians also believed that adjusting government spending, another key part of fiscal policy, as well as interest rates and the money supply, the essential parts of monetary policy, would help smooth out the business cycle.

[19] Heilbroner and Milberg 1995; Prasad 2018.

[20] More progressive versions of supply-side economics acknowledge that when the supply of investment capital or other factor inputs the economy needs fall short, the government can provide them through industrial policy, state investment, and other means, rather than by cutting taxes (Matzner and Streeck 1991).

© in this web service Cambridge University Press & Assessment www.cambridge.org

CAMBRIDGE
Cambridge University Press & Assessment
978-1-009-59513-1 — Pay Up! Conservative Myths About Tax Cuts for the Rich
John L. Campbell
Excerpt
More Information



the revenue lost initially from those cuts would eventually be recovered and even surpassed by new revenues generated later by the phenomenal investment and economic growth that those tax cuts would presumably spark. In other words, cutting taxes would increase rather than decrease government revenue in the long run and, therefore, help reduce government budget deficits and pay down the national debt – two other goals that conservatives also held dearly. And cutting taxes on large corporations and the affluent was most important. After all, they were the ones who did the most investing, so putting money in their pockets through tax cuts would surely stimulate greater investment and economic growth with the benefits trickling down to everyone else. And because they would presumably invest their tax-cut windfall rather than spend it in ways that would increase aggregate demand, the inflationary effects of those tax cuts would be minimal.[21]

Of course, Keynesians also accepted that tax cuts were a good idea for stimulating the economy, but only during downturns in the business cycle when unemployment was high and cutting taxes would boost aggregate demand and jumpstart the economy. In contrast, neoliberal supply-siders wanted to keep taxes low all the time to encourage a steady supply of investment capital and reduce the size of government. Moreover, for Keynesians, despite the inflationary risks, tax cuts should target the middle and working classes, not corporations and the affluent, because the middle and working classes were the ones doing the lion's share of the spending that affected aggregate demand. Put differently, Keynesians saw managing aggregate demand as the government's chief tax policy priority; neoliberal supply-siders saw stimulating investment as the chief tax policy priority. So, there were fundamental differences in how conservatives such as Laffer and moderates such as the Keynesians would deploy tax cuts.

Jack Kemp, a conservative Republican congressman from upstate New York and former National Football League quarterback, and his Senate colleague William Roth were among the first politicians to buy Laffer's supply-side argument.[22] They sponsored the Tax Reduction Act of 1978, which proposed cutting individual income tax rates by a third and cutting corporate income tax rates by 3 percent over three years. As the Congressional Budget Office (CBO) noted in its evaluation of the Kemp–Roth bill, at its core was the supply-side argument that "the existing

[21] Graetz 2024, chap. 4.
[22] Weisman 2002, pp. 357–358.

© in this web service Cambridge University Press & Assessment www.cambridge.org

CAMBRIDGE
Cambridge University Press & Assessment
978-1-009-59513-1 — Pay Up! Conservative Myths About Tax Cuts for the Rich
John L. Campbell
Excerpt
More Information



marginal tax rates have so depressed incentives to work, save, and invest that a one-third cut in tax rates would sharply increase the level of total economic activity, perhaps by enough to make the tax reductions self-financing." There it was – Laffer's theory that cutting tax rates would boost investment and economic growth so much that government revenues would increase not decrease in the long run. However, the CBO concluded that "The evidence indicates that this large a response to the tax cuts is most unlikely."[23] In other words, the supply-side argument was nonsense – tax cuts would not be self-financing. The bill died in committee but the idea behind it did not.

It's worth mentioning that many well-respected economists also thought the Laffer theory was wrong. George Stigler called Laffer a "propagandist" not to be taken seriously; Alan Greenspan said he didn't know anyone who took the argument seriously; and Herbert Stein, who chaired the Council of Economic Advisors for Presidents Nixon and Ford, called the argument "bizarre."[24] When George H. W. Bush ran against Reagan for the Republican Party presidential nomination in 1979 he called Laffer's idea "voodoo economics." And Reagan's Director of the Office of Management and Budget, David Stockman, never believed that tax cuts would pay for themselves, but saw them as a way to inflate budget deficits and, therefore, justify spending cuts to shrink the size of government.

Nevertheless, when Ronald Reagan became president, his 1981 tax cut was modeled after the Kemp–Roth bill. It marked a fiscal turning point for conservatives and launched a decades-long crusade to slash federal taxes.[25] As sociologist Monica Prasad shows, there is much debate over why Reagan and his advisors embraced tax cuts so adamantly. Some say it was because economists rejected the conventional Keynesian wisdom, which failed to provide a way out of the stagflation dilemma. Others say it was because business interests, faced with increased international competition, could no longer afford high taxes and lobbied for tax reform. Another school of thought is that voters' antipathy toward high taxes, beginning with state-level revolts in California and Massachusetts against rising property taxes in the late 1970s and early 1980s, encouraged conservative politicians to favor tax cuts at the federal level. Yet others maintain that it was the other way around. Rather than responding to voter

[23] US Congressional Budget Office 1978, p. xiii.
[24] Graetz 2024, p. 57.
[25] Weisman 2002, p. 358.

© in this web service Cambridge University Press & Assessment www.cambridge.org