Introduction

ONCE YOU START to think about it, everything seems to come down to taxes. I began this project wondering why the United States has so much more poverty than other similarly wealthy countries.[1] Why is there such a concern to cut taxes in America—even though total taxes here are already lower than in almost any other developed country—instead of using government revenue to bring poverty down?[2]

But taxes and tax cuts affect more than poverty. Climate change? Experts agree that a carbon tax would be the best, least economically disruptive method to address climate change, but it's impossible to say the t-word in American politics today. Economic growth? Long-term growth requires spending on education, research and development, and infrastructure. But all of that depends on tax money. Inequality? Thomas Piketty, the economist who has done so much to put inequality back on the public agenda, comes back again and again to tax reductions as the reason for rising inequality in the United States and tax increases as a possible solution.[3] Automation? The difference between a utopian future in which machines do all the work and a dystopian future in which machines do all the work is a well-functioning tax system. The lead poisoning of Flint, Michigan? Partly about the economic collapse of Detroit, but also partly about the state's refusal to raise taxes.[4] Black Lives Matter? Two of the central cases that inspired that movement, the deaths of Sandra Bland and Michael Brown, are tax stories.

Because the states of Texas and Missouri lowered their taxes, their police departments began raising revenue by aggressively pursuing minor infractions, like changing lanes without signaling (in Bland's case) and walking in the middle of the street (in Brown's). Doing so multiplies the number of altercations that police get into with citizens, and some of these are bound to go wrong. Underlying the direct racism of the police is a form of structural racism and classism that often goes unnoticed: working-class members of society, including working-class police officers, have borne the brunt of our unwillingness to support a sufficient tax base.[5] Responding to the opioid epidemic, implementing policies that would address the root causes of populism, maintaining public education, subsidizing child and elder care, upgrading infrastructure—all of it comes back to taxes.

Some of these problems would have occurred even without the constraints imposed by tax cuts. For example, an ideologically inclined Congress might not agree to an infrastructure program even if we had the money to spend on it. But no one *wants* children to suffer from lead poisoning, or innocent prisoners to languish in jails for lack of legal representation.[6] Even most libertarians agree that the state should fund courts and police—indeed, libertarians were horrified when a wealthy white man was killed by police who concocted a story about marijuana possession so that they could claim his property.[7] The tax cut program has gone off the rails and is causing real damage to the capacity of the American state to provide the framework, the rules, the roads and the water pipes that allow an economy to function. Every few years we have another round of budget brinkmanship in Washington, and many observers wonder how much longer this can go on without damaging the country's reputation as a safe place to invest. Why are tax cuts always on the agenda, whether the economy is doing well or doing poorly, whether the budget is in surplus or deficit, whatever the actual needs of the moment, and despite the findings of economists that tax cuts are not a reliable recipe for economic growth?

This book is the story of how it all began. It traces the history of the tax cut that started the tax cut fervor in 1981—the "Laffer curve" tax cut, the "supply-side" tax cut, the "trickle-down economics" tax cut that has gone down in so much fame and infamy.

It was at the time the largest tax cut in American history.[8] More properly called the Economic Recovery Tax Act (ERTA) of 1981, this tax cut turned out to be only the beginning of a decades-long push for tax cuts by Republican politicians that continues to today. This first tax cut taught Republicans that tax cuts could be popular—something that was not clear at the time, because for decades before then opinion polls had shown strong and consistent opposition to deficits.[9] In demonstrating the electoral appeal of tax cuts even at the cost of deficits, and in eventually showing that deficits could be financed by foreign capital, the ERTA transformed the Republican Party from a party of fiscal rectitude into a party whose main domestic policy goal is cuts in taxes. This first tax cut remains a touchstone of both left and right, and many scholars see in it the rise of the era of the market in which we currently live.

Reagan's administration reoriented the economy toward the market in other ways, including through deregulation, free trade policy, tight monetary policy, and an aggressive stance against labor. But the ERTA can make a claim to being the most important of Reagan's free market policies, one of the most durable, the most controversial, and the most surprising given prior historical trends. The major financial deregulations came before and after Reagan, under Jimmy Carter and Bill Clinton. In environmental deregulation, Reagan's achievements were overturned by later presidents and subverted at state level. Reagan broke a strike of the Professional Air Traffic Controllers (PATCO), but in doing so he only accelerated a trend of labor decline that had begun long before his arrival. Reagan signed a free trade agreement with Canada in 1988 and proposed a free trade zone between Canada, the United States, and Mexico, a vision that would later be realized in the North American Free Trade Agreement (NAFTA), but his main efforts were not oriented to trade, and his administration ended up increasing trade barriers. Reagan was also president during a time of tight monetary policy under Federal Reserve Chairman Paul Volcker. But it was the Democrat Jimmy Carter who had originally appointed Volcker, also a Democrat, and the "Volcker shock" began in 1979 under Carter; in the context of the 1970s, when inflation had reached double digits, there was broad bipartisan support for fighting inflation. And both free trade and tight monetary policy, unlike the ERTA, rest on a large body of supporting academic evidence.[10] Reagan's other main achievement in taxes, the Tax Reform Act of 1986, has received a great deal of attention for its even-handed and revenue-neutral framework of lowering tax rates and eliminating exemptions, but over time exemptions have proliferated in the tax code, and it is the lower rates—the element introduced in 1981—that remain.[11]

Reagan and his successors never succeeded in controlling spending, or in limiting the growth of government regulation. The successful effort to transform Aid to Families with Dependent Children (AFDC) into Temporary Aid for Needy Families (TANF) was symbolically potent, but these policies are a small part of the budget, and the decreases have been matched by increased spending through the Earned Income Tax Credit (EITC) and the Affordable Care Act (ACA) of 2010. For several decades, the two largest non-defense items of government spending have been Social Security and Medicare. Any serious attempt to control or cut back government spending must cut back one or both of these programs. But as Reagan discovered, core welfare state programs are enormously popular. Although members of the administration did attempt substantial cuts, they could not find support even among Republican members of Congress.[12]

The ERTA, on the other hand, has only become more popular as time passes, and similar tax cuts have been implemented again and again.[13] And unlike policies like welfare reform, lower tariffs, or even financial deregulation, tax cuts affect everything the state can do—by threatening state capacity itself. Even though the ERTA's many tax breaks for special interests made it an imperfectly market-conforming tax policy, as the largest tax cut in American history and the fountainhead of the era of tax cuts that followed it dealt a significant and lasting blow to state capacity. More striking is that although there is vigorous opposition to most free market policies, on the issue of tax cuts for the middle classes there is no opposition. No significant force currently argues that taxes need to rise on the middle classes. On this question the Reagan victory has been so successful that the enemy has ceased to exist. The ERTA is thus a central episode, perhaps the central episode in the rise of economic conservatism in America since the 1970s.

Over the years the worst possible effects of the decades-long program of tax cuts, such as drastic cuts in popular programs, have been avoided through a sustained and decades-long policy of borrowing. But survey the country today, and stories abound of police departments stopping drivers for no reason and seizing their property to enhance departmental budgets, or cities making up for lost tax revenue by slapping exorbitant fees on citizens for "wearing pants below the waist in public [or] having a hedge above three feet in the front yard."[14] It turns out that if you try to starve the beast of government of tax revenue, it eats whatever else it can find.

Across-the-board cuts in tax rates for individuals at the expense of higher deficits represent more of a break with midcentury conservatism than other policies do. Although elements of the right have always criticized the income tax, after the 1940s antitax sentiment was largely relegated to the fringes of mainstream politics.[15] The colorful history of the antitax resisters on this fringe has recently been chronicled by several scholars, but in the 1950s and 1960s the mainstream of the Republican Party was committed to balanced budgets, even at the price of tax increases.[16] As the Kennedy administration considered tax cuts, Republican senator Barry Goldwater thundered: "Deficit spending is not now and never has been the answer to unemployment."[17] After Kennedy went ahead and cut taxes, it was the Democrats rather than the Republicans who were the tax-cutting party, especially because Republicans decided after Goldwater's defeat in the 1964 presidential race that the antitax fringe was a liability for their party. There was rhetorical obeisance from Republicans to the goal of cutting taxes (including by Goldwater himself), but in practice, Republicans increased taxes as much as they lowered them.[18] Richard Nixon and Gerald Ford both faithfully increased taxes in the mid-1970s. Nixon did propose tax cuts during the campaign of 1960, and his presidency did produce some tax cut legislation. But it also produced tax increases, and Nixon's tax cuts were for businesses, not for individuals.[19] Ford had no overarching philosophy favoring tax cuts, staggering from a tax increase in 1974 meant to address inflation to a tax cut in 1975 meant to address recession.[20]

Indeed, unlike other aspects of the rise of conservative economic politics, our contemporary fear of high taxes, particularly on the wealthy, is unprecedented in American history. From the late nineteenth century to the 1970s, America pioneered a politics of progressive taxation that was extreme in comparative perspective. Thomas Piketty writes: "Over the period 1932–1980, nearly half a century, the top federal income tax rate in the United States averaged 81 percent. It is important to emphasize that no continental European country has ever imposed such high rates (except in exceptional circumstances, for a few years at most, and never for as long as half a century). . . . In the United States, the top estate tax remained between 70 and 80 percent from the 1930s to the 1980s, while in France and Germany the top rate never exceeded 30–40 percent except for the years 1946–1949 in Germany."[21] Piketty is talking about nominal rates, but effective tax rates—the rates actually paid after deductions and exemptions and all the loopholes are accounted for—were also higher on capital in the United States than in other countries at this time.[22]

But those high tax rates did not necessarily bring in more tax revenue than less dramatic but more effective forms of tax collection in other countries, such as national sales taxes; moreover, the high American rates were undone by an increasingly bold attack on taxes that gathered force at century's end. The consequence is that if we examine tax revenue as a percentage of GDP from 1965 to 2016, no other rich OECD country shows both stable and relatively low tax revenues. The United States has kept total tax revenue for all levels of government at around 25 percent of GDP throughout this period. Only Ireland had lower tax revenue as a percentage of GDP in 2016, and then only because its revenues had declined recently because of economic crisis. A few other rich OECD countries have managed to keep revenues stable at higher levels—the United Kingdom at around 33 percent, and Germany at around 35 percent. But the United States is unique in having low levels as well as the smallest standard deviation during this period.[23]

Maintaining a steady rate of low tax revenue as an economy grows is unusual in historical perspective, because demands on the government grow as an economy becomes wealthier. This phenomenon is so pervasive that social scientists even have a name for it: "Wagner's Law."[24] For example, as GDP rises and the economy changes, demands on education rise, so that a population that had been educated to primary school levels now needs to be educated to high school or college level; as GDP rises medical care and medical technology improve, enabling people to live longer in conditions of health that do not allow them to work and therefore require care from the community; as GDP rises society's expectations change, so that electrification and telephone wires are no longer enough and communities start wanting to provide Wi-Fi access to all citizens; as productivity increases in the private sector, to compete for workers, government jobs have to raise salaries;[25] and as GDP rises, citizens may simply become able to collectively demand more from their governments.

For all of these reasons, the United States is unusual in having hovered around the same relatively low level of tax revenue as a percentage of GDP despite a stunning rise in GDP over the last several decades. Whether one thinks this is a positive or a negative accomplishment, it is an accomplishment, not something that happens naturally, and the question is why the United States was able to do this when other nations have not wanted to, or been able to.

This focus on tax cuts gives American conservatism a unique profile: in other countries, populists support the welfare state instead of threatening it. And the focus on tax cuts gives a material edge to the partisan polarization of the country. In wider perspective, as can be gleaned from the considerable scholarly work on "state building" compared to the much smaller literature on tax cut movements, it is unusual that a state "unbuilds" itself in this manner.[26] As a member of the Reagan administration noted in the run-up to the 1981 tax cut, "We're going to make history . . . no government has before voluntarily reduced itself in size."[27] Even more unusual is that this project of unbuilding the American state has lasted for several decades now. A generation-long project of attempting to decrease tax revenue is a curiosity in world history.

So why did the Republican Party suddenly abandon its historical commitment to the balanced budget and its acceptance of progressive taxation? And why did it do so in such wholesale fashion that tax cuts remain the main domestic policy that Republicans offer even today, nearly forty years later?

In the late 1990s, when I was working on my PhD, I decided this would be my research question. I was sure that free market policies in general, and the ERTA tax cut in particular, had arisen because of pressure from business groups. I knew that every other advanced capitalist country in the world had a comprehensive set of policies, including national health care, that kept poverty and inequality rates much lower than in the United States. I also knew that the United States allows money to influence politics to a greater extent than any other developed country does, and it was easy to surmise that the one thing led to the other—that business group pressure had led to Reagan's successes. I thought my role in life would be to document this outrage with such clear and convincing evidence that no one could ever doubt it again, and to show that other countries resist and contain business pressure and are therefore able to implement policies in the general interest.

There was only one problem. There was no such evidence. As I show in this book, the main part of the tax cut, the part that blew up the deficit, had not arisen from business group pressure at all. Instead, Reagan had to convince business to support it. Business groups did eventually come on board with this part of Reagan's plan, but they were not the initiators of it and were always reluctant supporters of it. This became clear within just a few months of investigating the topic.

But if it had not been business group pressure at the origins of this change, then what was it? This was much harder to figure out. I had to get inside the world of Reagan's decision-making to do so. In 2005, in the process of turning my research into a book, I traveled to the Reagan Presidential Library in Simi Valley, California. Many documents from the early Reagan administration were now available to researchers, and in the library's catalogs I found page after page of descriptions of relevant material. But although all of this material was legally accessible, before it could be seen by researchers it had to be hand-vetted by an archivist to make sure it did not contain any information about national security, or personnel, or the location of oil wells, or one of the other categories that Congress had deemed too sensitive to be seen by the public.[28] The Reagan Library archivists were so overwhelmed and understaffed that the only way to get them to vet the specific documents needed, they said, was to submit Freedom of Information Act (FOIA) requests. And those requests would take six or seven years to be processed because there were already so many requests in the queue.

I submitted FOIA requests for thousands of pages. But by then, I had an academic job and tenure to earn and could not wait six or seven years for the documents, and so I turned to other projects, including a brief version of the ERTA story drawn from newspaper accounts and secondary sources.[29]

Eventually the years did pass, the requests were processed, and out of the depths of the library's massive holdings emerged gems of history. And while I was waiting for all of the material I had requested, another interesting thing happened: Nancy Reagan decided, of her own accord, to let researchers access Reagan's pre-presidential records. There is a sharp legal dividing line between presidential records—documents created by the executive branch in the exercise of government—and pre-presidential and post-presidential records—documents created by an eventual president and his or her staff before inauguration as president and after relinquishing the presidency. Only presidential records are subject to FOIA requests. As for pre- and post-presidential records, if a family or estate wishes, it can keep them inaccessible forever, or even destroy them. During one of my early visits to the Reagan Library, a staff member had told me about the pre-presidential records and explained that there was nothing that could be done to access them, so in my mind I had written them off. But miraculously, when I visited in 2009 to check up on the progress of my FOIA requests, all the pre-presidential records were open.

As it happens, these pre-presidential records turned out to be as useful to me, or even more so, as all of the records I had pried open with FOIA.[30] Much of the story told in these pages comes from the pre-presidential records, because the policies that Reagan implemented in his first year were the most important ones, and these had been endlessly discussed and debated by his team long before the election. Reagan arrived in office with a fully worked-out policy agenda in place, and the papers from after he became president showcase mainly the administration's sales effort to get the plan through. I don't think I ever imagined that I would one day have a concrete personal reason to say: Thank you, Nancy Reagan.

Given its historical importance, the ERTA has not lacked for commentary, and as with a literary classic or a religious text, several rival schools of interpretation have arisen seeking to explain it. The dominant interpretations see the tax cut as the product of business interests, small government ideology, or racial backlash. Most of this commentary has been based on media accounts of the events, which are themselves based on interviews with the key actors. The Reagan Library materials, which include minutes and transcripts from meetings at which the key policies were discussed, memos and briefings, notes and letters between the key actors, and ephemera such as newsletters, reports, and campaign items, allow a fresh evaluation of these rival interpretations. These documents allow us to see the 1981 tax cut as it was being debated and decided.

What emerges from these records is a story that is new in the voluminous literature on Reagan and the free market revolution. I knew that Reagan had fixated on individual income tax cuts after he saw evidence of their popularity among the public. But what made these policies so popular in the United States at that time, when there was no such groundswell of support in other countries? Could it be what some analysts have suggested, that Americans are in general a market-loving people? But if so, why did opinion polls not show support for such policies before the 1970s? What happened then to increase this support?

The story I eventually pieced together is that the United States witnessed the rise of free market policies in the 1980s because, quite contrary to our general picture of American capitalism, the United States had adopted a stance toward its businesses that was unusually hostile in comparative perspective. At the time, no other developed country ringed its businesses with environmental and health and safety regulations as voluminous as those of the United States, few other developed countries raised so much revenue from the taxation of corporations, only one other developed country had banking regulations that were so stringent, and in general no other government in the developed world adopted as adversarial an attitude toward capital as the United States did. As we will see in the chapters to follow, even Social Democratic Sweden was in some ways more accommodating to business than the United States.

These policies had always made American businesses grumble, and in the 1970s, combined with a worsening economy, they ignited an organized counterattack by business groups. That counterattack had mixed success, however. In fact, the real success of free market policies came not from the complaints of business, but from the way adversarial policies also divided the public and may have hurt economic growth. In particular, adversarial policies combined with the inflation of the 1970s to produce increasingly heavy rates of taxation and therefore increasing support for cutting taxes among the general public, a sequence not seen in most other countries.

But how could it be that a country so suspicious of governmental intervention that it refused to take responsibility for the basic health of its citizens until well into the twenty-first century—over one hundred years after the first European health care programs—had policies that were so adversarial to business? And why were the European countries, champions of the public welfare state, also revealing themselves to be coddlers of capital? Although it seemed mystifying at the time, in the end the question answered itself. European policymakers, worried about what the growing welfare state would do to the economy, had embedded it in measures that were favorable to capital. It is not clear whether an extensive welfare state actually harms the economy—we discuss this in chapter 11—but it is clear that European policymakers thought it might; therefore, they tried to design welfare programs so as not to damage work incentives and embedded them in a broader political economy that was supportive of businesses in many ways. This broader political economy featured reliance on regressive forms of taxation and lighter regulation and even allowed the self-regulation of business. In a few cases, the bargain of extensive welfare benefits embedded in a political economy that encouraged business in several ways was struck explicitly by actors who were aware of what they were doing, at identifiable points in time.[31] In other cases, the bargain developed only haphazardly over years and decades as national sales tax emerged as the historical anchor that allowed the growth of an extensive state.[32] Only the United States, with its small and residual welfare state, had the luxury of burdening businesses with regulations and taxation, or the need to do so—until it ran into the economic crisis of the 1970s, at which point the limits to this strategy became clear.

For the purposes of our examination of the ERTA, the key feature that explains the rise of tax cuts in America is disproportionate reliance on income, profit, and capital gains taxes as compared to sales taxes and other kinds of taxes. This tax structure, when combined with inflation, led to tax dissatisfaction, which the Republican Party—newly desperate to find winning issues in the wake of Watergate—picked up and mobilized as its route into power. This was the origin of the tax cut movement.

I emphasize, however, that this explanation does not accord final primacy to the preferences of the public, nor is it a story of a grassroots movement in favor of the free market. It's true that polls in the 1970s captured rising tax dissatisfaction, and that this dissatisfaction was rooted in objective factors having to do with a political economic structure that is unusual in comparative perspective. On the other hand, public preference was essentially contradictory: polls also showed respondents wanting to preserve spending and avoid deficits. It was not that public preference moved politicians in a particular direction; rather, Republican politicians *sought out and nurtured* potential dissatisfaction within the public, playing to the tax dissatisfaction and doing their best to downplay the concerns about spending and balanced budgets, because spending was an issue that did not offer a contrast with the Democrats, and balancing the budget was an issue without electoral potential. Cutting taxes was certainly not an issue with perfect electoral potential either. But it was better than any of the alternatives.

Rather than a median voter model, then, I elaborate here a theory of politics based on the efforts of the entrepreneurial politician, who forges a coalition in favor of a policy out of occasional polls, media stories, willing economists, periodic meetings and conferences, and a gut sense of where the votes are. Analysts of the rise of free market policies often jump to the conclusion that those who benefited from the tax cut—businesses and the wealthy—must have been the ones who brought it about, or try to root the origins of tax cuts in social conflicts around race or in the social and intellectual currents of the time. But in the case of the tax cut, the movement to wind back the state originates in the state. Changes including the rise of polling and the weakening of committees in Congress led to a democratization of the state that strengthened the role of such entrepreneurial politicians in mid- to late-twentieth-century America.[33]

Most of this book is devoted to tracing the course of the innovation of the policy: from its origins, to getting on the agenda, to winning in the decision-making arena over many obstacles—and then to being scaled partway back and resurrected. I then turn to explaining the context to ask why tax cuts were the mobilizable issue. I examine American political economy in historical and comparative perspective to explore how the consumer economy of the postwar period led to the free market policies of the post-1973 period, both as a backlash to the consumer orientation on the part of business and as an outgrowth of the consumer orientation on the part of voters and politicians.

These theoretical points lead to a practical implication: the key lever for change is not campaign finance reform, or developing intellectual counter-narratives. Rather, the tax cut agenda will be abandoned only if and when the Republican Party can find an issue to mobilize around with greater electoral potential. This is not easy, because as we will see, the Democratic Party owns most of the popular issues.

Part I of the book, "Tax Cut Clientelism," tells the story of the tax cut as seen through the Reagan Presidential Library documents and other archives. Part 2, "American Conservatism and American Hegemony," draws three lessons from the story:

1. Don't overestimate business power. Much of American progressive politics revolves around complaints about business power. In fact business power, or the power of wealthy individuals more generally, was not responsible for the 1981 tax cut or for many of the free market policies we have seen over the last several decades. In some cases where businesses were victorious (such as the repeal of Glass-Steagall), the victory took a great deal of effort and brought American businesses only to a position that European businesses took for granted, without having had to struggle.

The focus on business power in America is good and necessary: without that vigilance from journalists and scholars and the public, business probably *would* be politically powerful. And if we shouldn't overestimate business power, we should not underestimate it either. As we will see, business groups were often quite capable of defining their interests, organizing around them, and winning political concessions. An examination of American business power in comparative perspective gives a better appreciation of both its extent and its limits.

But business power is not the end of the story, and understanding what is really going on requires moving past the question of business power.

2. Lack of democracy is not the problem. If the literature on the rise of free market policies begins with the assumption of business power, it generally ends with a ringing call for more democracy. In fact, the dominance of tax cuts is the result of democracy at work—although saying that, as we will see, is a compliment neither to democracy nor to the tax cuts. The democracy demonstrated in the story of tax cuts is not democracy understood as the median voter's views reflected in policy, but actually existing democracy, in which the views of voters are conflicted, and politicians gain power by creating as much as following voter preference.

In our hyperpartisan and polarized moment it may be hard to believe that in 1950 a distinguished group of political scientists concluded that the problem of American democracy was that the parties were not partisan and polarized *enough*. At that moment there was so little partisanship that the problem, according to these observers, was voters couldn't tell what each party stood for, and there was no reason to believe a candidate would or could do what had been promised in the campaign—partly because it was not clear what had actually been decided by an election.

A "responsible" party system, the political scientists wrote in a famous report, was one in which the voter had a clear choice, in which each party promised some specific policy or program and strove to implement it if elected.[34] This might be called the "mandate model" of democracy: a political party works hard to unify so it can promise something clear to voters and, if victorious, strives genuinely to implement it. Only such a model of democracy presents the voters with an actual choice and allows them to hold parties accountable to voters.

It is possible to see the story chronicled here as the rise of a mandate model of democracy under the Republicans, who strove to unify on the issue of tax cuts and then to deliver those tax cuts when they gained power. They did this not because of any philosophical commitment to responsible party systems, but because it seemed to them to offer a route to electoral victory. From this point of view, the Republicans' efforts are exactly the definition of democracy at work.

What the authors of that midcentury report did not foresee is that a politics that gives voice to fundamental debates and divisions would be a more democratic politics, but also a more divisive one. Moreover, the mandate model, in which a politician adheres to the platform she promised in the campaign, can lead to situations where the politician is voting against public opinion but still upholding the vision of the responsible party. The mandate model asks only that the politician make a clear promise during the election and strive to implement that promise in office—even if the opinions of voters change in the interim. Whether voters actually chose the party for the stated reason is not always clear. And there is generally enough scope in public preference to allow politicians latitude in what they choose to focus on, making the mandate a weak constraint. Most importantly, the mandate model can lead parties to emphasize certain issues—those on which they can visibly demonstrate accountability—over others on which accountability is harder to demonstrate. Thus, the mandate model can remove from politics issues whose solutions politicians are unable to deliver during short terms of office, thereby making it difficult to address problems whose benefits will become visible only in the long term.[35]

Nevertheless, these are all problems of a different nature than what is generally envisioned by scholars who argue that free market policies reflect an absence of democracy: the real problems are problems *within* democracy and the incentives that politicians in particular democratic contexts face to mobilize particular issues.

The Republicans' development of a mandate around the politics of tax cuts and the perceived electoral consequences of this provide the best explanation for the rise of the tax cut movement and for its persistence even after the high levels of support for tax cuts withered. But the parameters within which politicians are able to make mandates are very narrow, and because of this, Republicans are trapped in the politics of tax cuts as much as the rest of us are. It's not that they don't believe in tax cuts. Indeed, at the height of the battle over the ERTA, one legislator wrote, "I am prepared to work for, fight for, bleed for, die for the tax package."[36] Another of the central actors would say later, "This is a mission I have. There is a power moving me that I don't quite understand. I truly believe that I can save people and that the supply-side revolution can save the world from decline, poverty, disease and war."[37]

But there are other Republicans who believe equally deeply in the need to bring back manufacturing jobs, or balance the budget, or lessen the country's polarization. What the tax cut story shows is how much effort went into making tax cuts the centerpiece of Republican strategy. The tax cut movement depends on Republicans walking a very fine line to convince voters, and themselves, that tax cuts will not lead to spending cuts or higher deficits, and on being able to keep a quarrelsome coalition together. We will see in the following chapters that the tax cut magic may be weakening. Nevertheless, the effort and difficulty chronicled here are also, in another way, a source of strength for the tax cut movement: this story makes clear how much effort would need to go into finding any new issue to displace tax cuts, and therefore how daunting is the task to move the party away from tax cuts. Over the last few years we have seen only one other issue—xenophobia—that is able to appeal to the Republican coalition with anything like the power of tax cuts. The policy of tax cuts is resilient because, for Republicans who don't want to travel the xenophobia route and are unwilling to accept that Americans like their welfare state, tax cuts are all they have to offer.

In short, the tax cut movement is the realization of what some prescient thinkers noticed early in the twentieth century: when a democracy is not forced to choose between higher taxes and lower spending, it chooses neither.[38] These are democracy's deficits.

3. Welfare states work best when they are embedded in pro-market policies. The most surprising discovery I made from this decades-long investigation is the degree to which Ronald Reagan—the recent president who is perhaps most successfully identified with American patriotism—was promoting a program that, in at least some respects, imitated European countries. This element of the conservative resurgence, some aspects of which I have explored in prior work, helps to explain both the similarities and differences between American and European capitalism, but it has been almost entirely overlooked in all of the scholarship on conservatism.[39]

This observation allows us to take the scholarship on the resurgence of the American right, which is by now well developed, in a global direction. Two specific elements of the country's economic role in the world are central. First, as the world's consumer of last resort, characterized by a large market as well as an orientation toward consumption rather than savings, the United States was fundamentally different from other countries in its postwar politics, and Reagan's free market policies developed out of these midcentury trends. Second, with the internationalization of capital, the United States has lost a constraint that kept tax cuts on the periphery of politics until Reagan's tax cut eventually showed that deficits could, at least in the short term, be financed with foreign borrowing.

Examining the events in an international context also leads to a way forward in rethinking how states can and should oversee the welfare of their citizens. European welfare states at midcentury managed to lower poverty and inequality while striving to give businesses what they needed for economic growth; indeed, in some ways Europe was more solicitous of capitalist growth than the United States. This is the good news: there is actually a path forward that identifies an area of cooperation that could improve citizens' welfare while also helping the economy. The European model cannot be imitated blindly because the United States played and to some extent continues to play a role in the global economy that pulls it down different paths, and both its economic and political circumstances are too different. But the observation that progressive policies have been most successful where progressive policymakers have been careful to avoid damaging economic growth is the central lesson to take away from the history of the European welfare states. The absence of this bargain in twentieth-century American history is the best explanation for the unique nature of American economic conservatism.