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Author(s): Sidney Blumenthal

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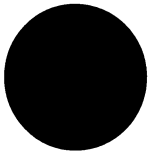
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Seeking Insolvency The Strange Career of Supply-Side Economics *Sidney Blumenthal*

For almost a generation, American politics have been consumed by issues of insolvency. Soon after the passage of the tax cut advocated by Ronald Reagan in 1981 and the almost immediate explosion of the federal deficit, senior decisionmakers in the Reagan administration grasped that they had created a mechanism for controlling policy choices and limiting the political debate. The deficit had created a spiraling effect: a general paralysis of social policy, which in turn accelerated public cynicism about the capacities of government. In this peculiar era, those who sought to restore solvency and public trust had to fight against the current. When President Bush signed a tax bill in 1990—after campaigning in 1988 on the phrase, “Read my lips, no new taxes!”—he was savaged as a betrayer by the Republican right, an assault from which he never recovered.

The atmosphere that seemed naturally to generate hostility toward government also produced an authoritarian populist demand for a strong leader to take charge and bring everything, including the deficit, under control. In such an environment, the eccentric billionaire Ross Perot twice nominated himself for president. President Clinton, in 1993, managed to persuade Congress, then with Democratic majorities, to pass a deficit-reducing budget by a margin of only two votes in the House and by a 50-50 tie broken by Vice President Gore in the Senate—in both chambers without a single Republican in support. As it is, much of the effort of the Clinton administration has been devoted to the politically arduous task

of restoring solvency, not simply in the accountant’s ledger but in the larger sense of gaining confidence in the national government’s ability to act and in mustering the means for new goals in a post-Cold War society.

For members of the Republican right, the approach of a new century has produced an opposite reaction. From their perspective, the restoration of solvency is much more than economic anathema; it threatens to realign the contours of politics against them. They desperately want to preempt policy options in their favor through the tried-and-true method of the past. Tax cuts, then, are more than a simple reward to constituencies in the upper income brackets; they are a fiscal weapon to regain insolvency and thus political dominance.

The bipartisan balanced budget agreement has hardly settled the question. Rather, it has provided a platform for the right’s next stage: the tax cuts granted are criticized as sops and the social mandates, such as health insurance for children, are assailed as travesties.

The 1996 Republican presidential campaign and the Republican-controlled 105th Congress are case studies in this strange politics of insolvency. Bob Dole, despite his career-long opposition to tax cuts, was forced by the internal dynamics of the Republican Party to make them the principal plank of his campaign. Jack Kemp, a champion of tax cuts, but whose career was a shambles, was designated as Dole’s running mate and party savior because of his belief in the insolvency mechanism. Newt Gingrich, as the

Speaker of the House in the 104th Congress, shut down the federal government twice and threatened to push the United States into default on the debt as a strategy to force President Clinton to agree to his "Contract with America," whose centerpiece was a huge tax cut. The means, paralyzing the government, was merely a disastrously crude version of the end.

After falling to the lowest public esteem of any major elected official since Richard Nixon at the depths of Watergate, Gingrich is wary of repeating himself in the 105th Congress. But when he disdained tax cuts, he discovered that he had provoked a revolt by his followers. In his desperation to remain as their leader, he swiftly reversed himself. The harsh charges of betrayal against Gingrich reflected more than the usual partisan demand for conformity. If the program is a sign of faith, lack of belief must cross over into heresy. Even magic enters the equation.

In 1996, the Republican Party staked its chance in the presidential campaign on the magnetic attraction of the number 15, even though it is not a number with a previously magical history. It echoes distantly only of April 15, the last day for filing federal income taxes. But 15 percent was the amount Dole pledged he would cut taxes. It was also the number that adorned Jack Kemp's football uniform when he played quarterback for the Buffalo Bills. Accordingly, the book on their economic plan was priced at \$15.

The magic number, arbitrarily chosen, pointed to a larger system of belief, indeed, to an undying faith that dates back to the formulation of Say's Law, the catechism of the eighteenth-century French economist Jean-Baptiste Say, which states that supply creates its own demand. This venerable doctrine, asserting, *mirabile dictu*, the perfection of the *laissez-faire* market, was buried by the Great Depression. But in the late 1970s, it was exhumed by a tireless handful of obscure economists and political publicists who made Say's Law the heart of Reaganomics.

This latter-day version of supply-side economics is based upon an alchemy in which tax cuts supposedly increase not only productivity but tax revenues. According to its believers, the application of the formula would lead to an end to poverty and the eradication of deficits. When the opposite effect was produced, the experience did not disillusion the supply-siders.

Insolvency has become such an essential political instrument that the Republican right defends tax cuts with a religious fervor. Mainly because of its connection to the sunny personality of Ronald Reagan, supply-side economics has also come to stand for the very quality of optimism in the GOP. Since Reagan's departure from the White House, the positive thinking of the supply-siders has been an indispensable, even necessary, asset enabling Republicans to overlook any dire consequences of Reaganomics. Even more than in the Reagan period, supply-side economics serves as a utopian faith.

Politicians without Charisma

Bob Dole, a legislative logroller and master of procedural motions, was to the marrow of his bones anti-utopian. His sensibility was a compound of small-town flintiness, bitter personal experience, and nearly four decades of assimilating every institutional nuance of Congress. Left to his own unscripted devices, he railed about how the world could be understood only by experiencing "pain" and how the only way to get ahead is "the hard way."

Dole not only lacked charisma; he was suspicious of it in any form. His *beau idéal* was Richard Nixon, with whom he had a relationship that evolved from the masochistic to the worshipful. Nixon was a politician without charisma who came from a small-town background similar to Dole's and had become president. Dole was attracted to him because he saw in him the possibility of his own ultimate success. Ronald Reagan, however, was another matter.

From the beginning, Reagan's pleasure principle economics offended Dole's ingrained Micawberism—a case of prairie penuriousness appalled by California hedonism. Dole never grasped the politics of conjuring dazzling holograms before rapt audiences. Rather, he openly disdained the idea of “vision” as indecipherable silliness. (During his 1988 presidential campaign, the second of his three attempts for the nomination, he passed an optician's store and told reporters he might go in to buy “a vision.”)

Dole was the farthest figure, both grammatically and emotionally, from Reagan. In the early 1980s, his constant labors to stanch Reagan's deficits, leading him to engineer large tax increases, won Dole lasting enemies in the party, who cast him as an irredeemable Herbert Hoover-style Republican in his deficit obsession. Dole tried to fend off his Republican critics in his usual way, brandishing his sardonic humor as a shield against a world of hurt. “The good news is that a bus full of supply-side economists went over a cliff; the bad news is that there was an empty seat,” he joked. Dole's contempt for Congressman Jack Kemp (“played without a football helmet”) was undisguisedly sneering: “tax cut for hairspray.” Kemp was almost everything Dole disliked: a gridiron hero who had done it the easy way.

But Dole's path to the supply-side and eventually to Kemp was a curious echo of the Reagan experience; for, once he found himself on his journey, Dole encountered many of the same cast of characters who created the supply-side movement back in the late 1970s, when Reagan himself was converted. They had not faded away, or, sadder but wiser, accepted that supply-side economics had not worked as they had advertised. As far as they were concerned, the Dole campaign was a ceremony of reenactment; Dole, at least, was a bridge to their past.

“The way I see it,” Richard Darman, who was a key aide in the Reagan White

House and President Bush's director of the Office of Management and Budget, told me,

somebody in the Dole apparatus made a strategic decision to run this campaign as if it were 1980 and they could recreate the winning Reagan coalition. That coalition was probably a one-time phenomenon. It wasn't available to George Bush in 1988. In 1980, the public was experiencing double-digit inflation, double-digit interest rates, a real sense of America floundering in the world, and the advertised sense of malaise. Reagan came to power, not because of the strength of conservative ideas and not because of the particular programmatic recommendations, but because people were so disturbed by the failures of the prior administrations. And Reagan represented a host of friendly American icons, an optimistic visage.

Darman's book *Who's in Control?* (1996) detailed how political and budget choices had been harshly circumscribed since Reagan's tax-cut bill of 1981 induced a paralyzing insolvency. He revealed that the Office of Management and Budget, under the directorship of David Stockman, had not done its study of the original bill until it was enacted by Congress. Darman called the bill “cowboy heaven,” which was also the name of Reagan's ranch—Rancho Cielo. When the revenues did not flow into federal coffers as the theorists predicted, Reagan refused to cut the budget and the deficit skyrocketed. Darman called the tax cut “some sort of Faustian bargain with Mephistopheles in 1981, for which we were paying a price,” and he confessed to rereading *Faust* “wanting to know when and how our own story might end.”

Ammunition in Search of a Weapon

The political origin of the supply-side movement, the point at which a major political

figure first attached himself to the cause, can be traced to an incident during the summer of 1979. The event was a dinner party at the Pacific Palisades home of Arthur Laffer. The guests included his neighbors, the Reagans, and Jack Kemp. Laffer was an economist teaching on the campus of the University of Southern California at a small institute funded by one of Reagan's millionaire friends. He had gained a certain notoriety in the late 1970s in the editorial pages of the *Wall Street Journal* for having drawn a curve on a napkin charting how less taxes meant more government revenues. Laffer had made the drawing for his friend Jude Wanniski, an editorial writer for the *Journal* who dubbed it the "Laffer Curve" and promoted it with religious fervor. Wanniski conceived of the theory as "ammunition in search of a weapon," and, trolling through Congress one afternoon like a talent scout, he "discovered" Representative Kemp. After their conversation, which stretched long into the night, the backbencher from an upstate New York district emerged as a disciple of the supply-side creed.

"The Cabal"

In short order, Kemp was elevated to its national spokesman in the *Journal's* columns. Having made Kemp a star, Wanniski then pushed for him to run for the Republican presidential nomination. In January 1979, Wanniski convened a meeting of what he called "the cabal," a group made up of the neoconservative "godfather" Irving Kristol, an unknown congressman from rural Michigan named David Stockman, and GOP activist Jeffrey Bell, to convince Kemp to run. (Kristol was the impresario of the supply-side. He arranged for foundation funding of Wanniski's supply-side book, *The Way the World Works*, and a fellowship for him at the American Enterprise Institute. To gain visibility and intellectual credibility for Stockman, Kristol published an essay he wrote in *The Public Interest*.)

John Sears, who had managed Reagan's near upset of President Gerald Ford in 1976 and was in charge of Reagan's 1980 campaign, closely monitored the movements of the cabal. In Kemp, he saw a youthful, energetic figure who might split the conservative vote; in supply-side economics, he saw "a new handle" for the aging Reagan. Sears was the hidden hand behind the dinner at Laffer's.

That evening, Kemp agreed not to run for president and Reagan expressed his belief in the Laffer Curve. He absorbed the supply-side into his political chemistry as though it had been in his genes. Until Kemp was picked by Dole as his running mate, his pledge of support to Reagan at Laffer's dinner party, guaranteeing Reagan's monopoly on the supply-side notion, was the moment of his greatest political influence.

By 1992, the supply-side cause was in a political shambles: the deficit was astronomical; President Bush, who was scorned, especially by the House minority whip Newt Gingrich, for violating his pledge not to raise taxes, was defeated by Bill Clinton; and Kemp, who, as secretary of housing and urban development, had had his budget severely constrained, found himself out of office.

It would be charitable to call Kemp an unlucky politician. He did not run when he should have and did run when he should not have. In 1980, he did not challenge an ill Jacob Javits in the Senate primary. Kemp was just too nice to stomp on a sick old man. But Alfonse D'Amato was up to the task, and in time he became the political boss of New York State. In 1982, Kemp was pressured by many in the party to run for governor against Mario Cuomo, but he wavered and then demurred. Businessman Lewis Lehrman lost by only two points, and it was widely felt by disappointed Republicans that Kemp could have won. Finally, in 1988, Kemp made the race for president. But he lost every Republican primary he entered, not even finishing second anywhere.

George Bush (who first labeled supply-side economics “voodoo economics” during the 1980 GOP primaries) revived him from political death by appointing him to the cabinet as secretary of housing and urban development. He regarded Kemp’s speechifying at cabinet meetings as the equivalent of the noise made by a fingernail dragged across a blackboard.

Kemp’s Elba, after Bush’s defeat, was a think tank called Empower America, a suite of offices in downtown Washington, bankrolled for \$4 million by the Wall Street financier and supply-sider Theodore Forstmann. (Contributions from benefactors to Empower America in its first year totaled \$8.6 million.) The former drug czar William Bennett was also installed there. By the end of its first year of operation, the think tank had turned into a wrestling arena. Bennett, the social conservative, attacked the supply-sider for ignoring culture and Kemp, the supply sider, attacked the moralist for ignoring economics.

“Empower America was a fizzle,” James Pinkerton, the former Bush policy planner, told me. “It was a speaker’s bureau with nice carpets. Kemp didn’t have a job, a capital ‘O’ office.” Without political prospects, he simply turned to making money, receiving appointments to six corporate boards with portfolios of stock options (20,000 shares from the American Bankers Insurance Group, for example), and large fees (up to \$35,000) from business groups for his talks about supply-side. He became a high-end motivational speaker and a millionaire.

“The Amigos”

The Republican takeover of Congress for the first time in 40 years left Kemp, if anything, more alienated from power than before. Throughout the early and mid-1980s, the Young Turks of the GOP in the House had looked up to him as their leader. The heart of this caucus—Kemp, Newt Gingrich, Trent Lott, Vin Weber, and Connie Mack, calling themselves “the amigos”—

met regularly for years at a Mexican restaurant on Capitol Hill. “As Newt says,” according to Tony Blankley, until recently Gingrich’s press secretary, “Jack is his older brother.” But now, with Gingrich as Speaker of the House, Lott and Mack risen to the Senate, and Weber one of Washington’s busiest lobbyists, Kemp had no role.

In the new Republican Congress there was no supply-side faction. Within the House, there were the antigovernment deregulators, the fiscal conservatives, and the Christian rightists. The only potential leader for congressional supply-siders might have been Gingrich, but Gingrich seemed to his political older brother to be too intoxicated with his new position to take the right stance. “Gingrich is like Deion Sanders doing a dance in the end zone,” Kemp remarked to Dick Darman.

Kemp believed, as ever, that making a balanced budget the center of gravity was misguided. “As the party shifted more to deficit reduction and cultural issues, Kemp was not part of it,” said Pinkerton. Although Kemp was getting rich, he was cranky. He was on the sidelines, complaining about the players, his old teammates.

His carping annoyed Gingrich, who nonetheless still felt close to him. He helped get Kemp named the chairman of a private commission on taxes (funded by a number of Kemp and Gingrich benefactors, such as Forstmann), partly to give him a role. In January, on the eve of the Republican primaries, Kemp issued its report, which called for a flat tax but offered no specifics about the rate. The report was ignored by Bob Dole, who was desperately trying to survive the onslaught of negative advertising paid for by the flat-tax crusader, the wealthy publisher Steve Forbes.

Forbes had been a longtime Kemp booster; he had stepped in as the financial angel of Empower America when Forstmann bailed out. Forbes had nursed the hope that Kemp would run for president in 1996, but when Kemp announced that he would not,

it was like an invitation to his underwriter. "A lot of us assumed in 1993 and 1994 he would run for president," Forbes told me. "We were disappointed he decided not to. We asked him to reconsider. It never would have occurred to me to run."

But who is the collective "we" in which Forbes includes himself? Behind the Forbes candidacy was a little-known group of wealthy Republican fundraisers in New York City, the Political Club for Growth, single-mindedly devoted to the supply-side cause. "We'd been looking for another Reagan for a long time," Richard Gilder, its founder, a senior partner at Gilder, Gagnon, a Wall Street investment firm, explained to me.

The Political Club for Growth was started by Gilder and Lewis Lehrman, Rite-Aid drugstore mogul and supply-sider, after Lehrman's narrow loss to Mario Cuomo for governor in 1982. It was created as a forum for meeting candidates and determining whether they should receive contributions. Membership depends upon ideological affinity and giving a minimum of \$3,000 a year. Gilder estimates the number of members at 65 to 85, most drawn from Wall Street. Since its founding, the Political Club for Growth's principal adviser in helping them screen candidates' "bona fides," according to Gilder, has been Jude Wanniski.

Kemp and Gingrich became particular favorites of the club. (As it happens, Kemp's financial portfolio—and that of supply-side booster, columnist Robert Novak—are handled by Gilder.) Gilder and a number of other club members became prime supporters of GOPAC, Gingrich's political action committee. (The club treasurer, Lisa Britton Nelson, became GOPAC's executive director.) Club members also funded important conservative organizations, including the Manhattan Institute, a policy think tank, and the U.S. Term Limits movement. Steve Forbes was an active club member.

Within the Republican Party, Forbes thought of himself as a Kempite. He had, in

fact, become Empower America's chairman after replacing Forstmann as the group's chief financial angel. Forbes devoutly hoped that Kemp would run for president. But the day after the 1995 Superbowl, where Kemp held his annual gathering with financial contributors, he announced that he would not run in 1996. It seemed an emphatic conclusion to Kemp's ambitions, but it turned into an opportunity for Forbes.

Keeping the Supply-Side Embers Burning

Once again, Wanniski played the role of the excitable catalyst. He considered the Contract with America "a disaster," he told me, "a product of Newt wanting to demonstrate to all his friends, Kemp and the amigos, that he was no longer an acolyte. I yelled at him. Newt and I haven't spoken since. When I thought of not having a horse in 1996 I couldn't sleep at night. I called Steve up and told him he should run, and wrote him a long memo."

Forbes expected that Kemp would endorse his candidacy. According to Jeff Bell, "he thought he had a promise of support from Kemp." But when Forbes was riding high, Kemp held back; only when Forbes was collapsing did Kemp rush to his side. Angry at Dole for attacking Forbes's supply-side views, he called him up to inform him "he was going to endorse Steve," said Wanniski, who was Kemp's confidant. Then Kemp spoke with Gingrich to tell him what he was about to do. Gingrich flatly told him that he would be finished in politics for good. "What Newt was doing was assessing what the consequences would be," said Blankley. A Dole campaign official, who had been close to Kemp, told me: "Kemp endorsed at exactly the moment it wouldn't have any meaning." At the press conference when Kemp endorsed Forbes, the candidate knighted him "my guru in chief," and commended him for being "willing to risk his reputation." "I'm in my wilderness years," Kemp said.

Then, without telling Forbes, Kemp announced that he would negotiate Forbes's withdrawal from the campaign. An upset Forbes declared that he was not about to withdraw. Kemp's unilateral statement probably prolonged Forbes's agony. When he quit at last, Kemp delivered a valedictory comment: "He changed the course of the debate in 1996 from pessimism to optimism."

"Forbes was the one who kept hope alive. Forbes was the carrier of the 'Remnant.' Forbes selflessly kept the supply-side embers burning," said John Buckley, Dole's communications director, who had been Kemp's press secretary in his 1988 campaign.

On July 12—months after Forbes had dropped out of the race and Kemp seemed bound for oblivion—the amigos met for dinner, the first time they had met since Kemp endorsed Forbes. Gingrich was still angry at Kemp for what seemed to him a capricious act—his last-minute endorsement of Forbes. Kemp was agitated that no one, as he saw it, had stood up for the supply-side cause. According to Wanniski's account, "They wound up yelling and screaming."

"I'm getting out of here," said a disgusted Connie Mack.

Kemp jumped up. "It's my fault," he said. "I shouldn't have raised my voice."

"No, I apologize," said Gingrich. "Jack's right. We got off our message."

According to Tony Blankley, "It was a meeting where they were all reviewing the events that had led to the wilderness years for Jack. There were strong feelings of sadness. It was an emotional meeting. They're... not placid individuals. The bond is so strong and the sense of common purpose is so great that by the end of the day they are arm in arm."

The dinner ended with a resolve to hold a public forum to pressure the Dole campaign to adopt a supply-side stance. On July 23, Kemp remarked, "I was not there to upstage the Dole campaign. I was there to get Newt and Trent and Connie to elevate the

issue again because balancing the budget is not the be-all and end-all of the American economy."

Reinventing Dole

By now, the brief salutary effect for Dole of his June resignation of his Senate seat had worn off. His slight rise in the polls disappeared and he sank back to where he had begun. In the void of Dole's inertia, Donald Rumsfeld, a former Ford administration defense secretary, an *éminence grise* in Dole's campaign, contacted the amigos about their plans. That promptly set off an internal debate about whether Dole should adopt a tax cut proposal. Steve Forbes, but not Jack Kemp, was invited into the Dole council to argue his position. On August 5, in the latest effort to lift Dole, the campaign announced its plan for a 15 percent tax cut. It had rejected Forbes's more radical suggestion to roll back all the tax increases of the 1990s, which would have been a strike not only against Clinton but against Bush.

Within the party, Dole's advocacy of the tax cut was seen as reconciling the factions. A senior Dole campaign aide depicted Dole's move not as tactical, but as grand strategy, worthy, he insisted, of comparison to "Nixon in China." (In the story, Dole remained Nixon, never Reagan.) The shift of Dole's attitude toward Kemp from distaste to wonderment swiftly followed his adoption of the supply-side tax cut as his platform. Two days afterward, in fact, Kemp's name surfaced publicly as a vice presidential possibility—the "ten" (a maximum strong number) Dole was seeking. "We were thinking about not voting at all, until Kemp joined the ticket," said Richard Gilder.

When Kemp was chosen, he seemed almost as astonished as some of his longtime political associates. One of them, who was also working with the Dole campaign, told me: "Great men like Churchill and Nixon maneuvered to get out of the wilderness. Kemp stumbles through life with no plan. Be disloyal to your friends, insult the ortho-

doxy of your party, undercut the nominee, and you get rewarded with the big prize. There's a funny lesson in that."

Throughout the campaign, Dole had tried to reinvent himself. He had even given up the greater part of his identity, the Senate, without taking on another one. Dole's embrace of the supply-side and of Kemp was an attempt to resurrect himself as Reagan—above all, as a winner. "I'll be Ronald Reagan if you want me to be," he had said plaintively early in the campaign. At the San Diego convention, Nixon passed as unmentionable, while Reagan appeared as a looming figure projected onto the gigantic television screen mounted behind the platform. He had always promised that he could restore the Edenic past and now his image beckoned to his own administration as that past. Dole strained to lift himself to Reagan's level. In the most memorable line of his acceptance speech, in words crafted for him by the fabulist novelist Mark Helprin, he beseeched for acceptance as a medium for time travel: "Let me be the bridge to an America that only the unknowing call myth."

The economic panacea was supposed to be a political panacea. The Republican convention undulated with posters reading "15." At the moment of his selection, Kemp was regarded as a formidable political force, a charismatic leader with an electric message. With Republicans, the vice presidential candidate is often chosen to fit the junior executive model—Nixon and Dan Quayle were in this line. Kemp, 61 years old, was seen as a kind of junior Gipper, surrounded with the celebrity of sports rather than of cinema. He was the quarterback as leading man, the player who could score the touchdown. He was not a middle manager type; he was coming off the bench as a middle-level mythmaker.

Kemp's volubility, which previously had irritated Dole, was now suddenly an asset. His effortless ability to talk ad infinitum about the intricacies underlying supply-side

economics meant that Dole himself did not have to explain the airy details with which he had no patience. He had hired Kemp for that. His naming of Kemp had seemingly ended his quest for reinvention. Dole simply had to repeat the number 15 to tap into the magic.

Hoping for Magic

But the bounce from the Republican convention declined rapidly. A month after the convention, 64 percent of the public did not believe Dole could deliver his tax cut and 63 percent, according to his own internal campaign poll, did not believe it would help them. As Darman saw it, the Dole campaign was attempting to defy recent history. He pointed out that tax increases under Reagan, Bush, and Clinton hardly caused calamities, but were indeed beneficial. "Clinton raised taxes, and we've had a continuation of economic growth," Darman said.

People who say there are terrible tax increasers who will bring us economic ruin are running against a public understanding to the degree that the sky didn't fall in. The public has kind of learned that cutting taxes deeply can cause a fiscal dilemma and that raising taxes doesn't cause a recession. The people making the argument in either direction have 16 years of experience that isn't consistent with their argument.

The shortcomings of the numerological politics of the supply-side led Kemp, on September 21, to spend an hour and a half in a closed meeting with nearly two dozen disgruntled social conservatives from organizations such as the Christian Coalition, the Free Congress Foundation, and the Eagle Forum, at which he was lectured that the campaign had become too focused on economics. Participants reported afterward that Kemp took careful notes, and Edwin Feulner, the president of the Heritage Founda-

tion, whom Kemp had hired as a senior aide, announced, "We have to rebuild the Reagan coalition a step at a time."

The tax cut message went into abeyance while the Dole campaign spent about \$5 million to broadcast one television commercial attacking President Clinton as soft on teenage drug use 7,300 times. On the stump, Dole took to shouting: "Liberal! Liberal! Liberal!" In the first debate with President Clinton, he offered no explanation whatsoever for his tax cut. Immediately afterward, he boarded a bus to tour New Jersey with Governor Christine Whitman, who had won in 1993 on the promise of a 30 percent tax cut. Dole said he hoped that the "magic" would rub off.

Conservatives prayed that Kemp would compensate for Dole's shortcomings in his debate with Vice President Gore. But Kemp the debater acted as though he had only to utter the magic phrases of the supply-side to win people over. He reiterated that cutting taxes increases tax revenue and volunteered an explanation of the Greek origin of the word "economy." He recoiled at the negative campaign that was being ginned up, pleading instead for civility. His closing statement included an encomium to "liberal democracy"—the first time a prominent Republican had used the word "liberal" as something other than a curse in decades. He had remained the same fellow who refused to challenge Javits.

Immediately after Kemp's debate, Dole began campaigning on the stump with William Bennett, who appeared for a week to have become his virtual running mate. In danger of becoming a displaced person, Kemp suddenly and briefly went negative, all the while declaring, "I am not an attack dog."

But Kemp's performance had accelerated a whirling factionalism it was supposed to have resolved. On the right, spokesman after spokesman, from William Bennett to Christian Coalition leader Ralph Reed, denounced his kinder and gentler approach.

The neoconservatives, who had blamed the incivility of the counterculture in the 1960s for the cultural decline of the country, now called for total war. William Kristol, the scion of neoconservatism and editor of the *Weekly Standard*, the neoconservative organ, attacked the very concept of civility and praised the negative campaign as a platonian "good." The *Washington Times* summed it up for many conservatives when it editorialized: "What we need is not civility, but a higher standard of vitriol."

The Future of Republican Politics

Of all the Republicans, only Ronald Reagan emerged from the campaign unscathed. In its immediate aftermath, the quest for a resurrected Reagan began amidst the fragments of the former Reagan coalition. On the one hand, the social conservatives believed that the raising of the tax cut issue had been achieved at the expense of their issues. Gary Bauer, the president of the Family Research Council, a religious right organization, told me immediately after a lunch with Kemp in September that the supply-side approach "makes the party sound like a party of accountants. If Dole loses they sure can't blame it on the social conservatives again."

But for the supply-siders, as always, the future of Republican politics depends upon adopting their message in unadulterated form. So far as they are concerned, the Dole tax cut proposal failed to catch fire because it did not come early enough and was not radical enough.

Despite his failure to secure the nomination in 1996, Steve Forbes thinks of himself as the ultimate Republican winner. Without him, he insists, Bob Dole would never have raised the banner of the 15 percent tax cut or selected Jack Kemp as his running mate. "The campaign did set the agenda. At the end of the day, it led to naming Kemp," Forbes told me. Unfortunately, he continued, the imperfect way in which his flat-tax program was taken up

doomed Dole. "The message didn't get out on the presidential level. There wasn't a consistent message. There didn't seem to be a strategy. If you don't have a strategy you're in trouble, regardless of who's running with you."

Through his new group, Americans for Hope, Growth, and Opportunity, Forbes objects to a balanced budget for its own sake, remaining fixed on his lodestar, the flat tax. "Stick with the big reform. Always remember the big picture. Never forget this is a means to an end." He has also objected to any congressional deal to secure the solvency of the Social Security system by adjusting the Consumer Price Index (an approach favored by many conservatives). Instead, he advocates privatizing Social Security for younger workers as a first step to phasing out the entire system. "How to Replace Social Security" ran the headline on his article in the *Wall Street Journal* on December 18.

"What I'm doing is sort of what the Marxists called agitprop," Forbes told me. He is the pure supply-sider, unbound by the constraints of elected office, free of the world of compromises; he inhabits an ideal realm of supply and demand, not a grubby one of give and take.

Speaker of the House Newt Gingrich does not enjoy the luxury of Forbes's position or, not without relevance, his fortune. For months, Gingrich pondered how to pay the \$300,000 penalty levied against him for his ethics violations. The amigos came to his rescue, with Kemp, Weber, and Lott acting as his middlemen, contriving the scheme of a personal loan (not a loan from a commercial bank, to which Gingrich would have to pay compound interest). Former presidents Bush and Ford were sounded out as sources of the cash, but they demurred. The proposal went to Bob Dole, who overcame his previous coolness toward the speaker to proffer the loan as a token of his esteem and friendship. In this case, demand created its own supply.

Scorned by public opinion and scourged by members of his own Republican Conference, Gingrich wanted to avoid a repetition of his performance in the 104th Congress. In mid-March, he laid out a new strategy to put a balanced budget ahead of tax cuts. The reaction against him from the Republican right was instantaneous and fierce. One Republican congressman, Peter King, called him "road kill." Gingrich's hold on the Speakership seemed shaky. Less than three weeks later, in early April, Gingrich repudiated himself, declaring for "the largest tax cut we can get this year." He made his case in the terms of supply-side utopianism, declaring, "And every year, I want to shrink the government and lower taxes and increase economic growth."

The New Rosy Scenario

On May 2, 1997, Gingrich and Lott made a deal with Clinton to balance the budget by 2002. In fact, the deficit was already rapidly falling of its own accord. At the crisis point of the negotiations, when congressional Democrats balked because they found the deal too harsh, an extra \$225 billion in new revenues was discovered; the cuts were lessened, new initiatives funded, the deal closed.

The 1993 budget, which had been enacted at a high political price to the Democrats, had made this balanced budget possible. On the eve of Clinton's accession to the presidency, in December 1992, Dick Darman informed incoming officials that the deficit was underestimated by \$60 billion and that it would top more than \$360 billion by 1997. But the 1993 budget bill set in motion a train of economic events that resulted in bringing the deficit down in 1997 to below \$100 billion, a feat hitherto considered virtually impossible. The 1997 deal was the capstone to the earlier effort.

Without the recent deal, it is quite likely that continuing prosperity would have brought about a balanced budget through a flow of steadily increasing

revenues. (The existence of these revenues by itself counfounds supply-side theory, coming as they do as a consequence of the 1993 budget bill, which slightly increased taxes on the top rate.) The revenues have become a mighty river, and if there are surpluses—a factor unanticipated by all the political actors—there will undoubtedly be a new round of conflict.

The balanced budget agreement is not the stopping point in the politics of insolvency but the beginning of its next phase. By establishing a balanced budget that included significant new programs, the old paralytic formula, with its virulent antigovernment side effects, may have been retired. But in the immediate wake of the budget deal, Jack Kemp saw the opening and issued a call for \$350 billion in new tax cuts. Not even an actual balanced budget could put supply-side economics to rest.

Columnist George Will sensed perhaps more acutely than most that the deal was a break with the past. In a May 8 column, he dismissed Clinton's concessions as "nothing decisive about anything" and thundered that "the current [Republican] party severs its connection with Ronald Reagan." He denounced Gingrich as a "nonleader" and warned: "What can Republicans run on collectively? Nothing." Will's high dudgeon is

an indication of the sullen mood of the right. On that note, the crusade to regain insolvency is being renewed.

Supply-side economics has become a pre-millennial miracle religion. Its catechism of tax cuts is granted magical powers to balance budgets (even when they are already balanced), bring forth Republican unity, and erase doubts about the faith. The Reagan period is not seen as a refutation; instead, deficits are explained as a sign of the incompleteness of the whole design, a shortcoming that only measures the level of belief and conversion. The insolvency that the plan actually produced is understood positively because it yielded a windfall of political profit.

The political fragmentation of the post-Reagan Republican Party, rather than dispiriting the militants, only spurs them to attain the higher cause. The more distant the application of the formula, the greater the urgency. Redeemers who falter—Jack Kemp, Newt Gingrich—are flayed as false messiahs. Believers do not fear paralysis of the government, or even another convulsive shutdown. Stationed on the battlements, they see themselves as an army of saints. If only their crusade can compel universal belief, there will be a second coming of Reaganism—a true millennium.●