PRELIMINARY DRAFT: NOT FOR QUOTATION OR CITATION

Ideational Domestication and the Reagan Tax Reforms, 1981–1986

Seiichiro Mozumi

Yokohama National University, Japan (mozumi-seiichiro-jc@ynu.ac.jp)

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Introduction

Since the New Deal era of the 1930s, the federal government has depended primarily on progressive income taxation and payroll taxes. This tax regime has heavily relied on the financial contributions of the middle- and higher-income classes.[1] However, there is a widespread perception that the federal tax system has become less progressive and less redistributive over the last fifty years.[2] It is partly because of policymakers' "tax favoritism." Since the early twentieth century, they have repeatedly reduced income-tax liabilities through statutory rate cuts and an expanding array of tax expenditures. Although both tax cuts and tax expenditures constrained federal revenues, the use of tax expenditures had an additional consequence central

[1] W. Elliot Brownlee, *Federal Taxation in America: A History* (New York: Cambridge University Press, 2016); Ajay K. Mehrotra, *Making the Modern American Fiscal State: Law, Politics, and the Rise of Progressive Taxation, 1877–1929* (New York: Cambridge University Press, 2013); Monica Prasad, *The Land of Too Much: American Abundance and the Pradox of Poverty* (Cambridge, MA: Harvard University Press, 2012); Joseph Thorndike, *Their Fair Share: Taxing the Rich in the Age of FDR* (Washington, D.C.: The Urban Institute Press, 2013).

[2] Thomas Piketty and Emmanuel Saez, "How progressive is the U.S. federal tax system? A historical and international perspective," *Journal of Economic Perspectives*, 21 (1), 3–24; Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, "Distributional national accounts: methods and estimates for the United States," *The Quarterly Journal of Economics*, 133 (2), 553–609; Emmanuel Saez and Gabriel Zucman, *The Triumph of Injustice* (New York: W. W. Norton and Company, 2019); Chrystia Freeland, *Plutocrats: The Rise of the New Global Super-Rich and the Fall of Everyone Elese* (New York: Penguin, 2012); Brink Lindsey and Steven M. Teles, *The Captured Economy: How the Powerful Enrich Themselves, Slow Down Growth, and Increase Inequality* (New York: Oxford University Press, 2017); Timothy Noah, *The Great Divergence: America's Growing Inequality Crisis and What We Can Do about It* (New York: Bloomsbury); Joseph E. Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers Our Future* (New York: W. W. Norton and Company, 2012).

to the American fiscal regime: they enabled government to provide substantial benefits through the tax code without the visibility associated with direct public expenditure. The United States has been evaluated as a "hidden welfare state" that provides benefits through tax expenditures in the federal budget as a critical avenue for providing indirect social benefits for working- and middle-class families. Conservative hostility to the expansion of the welfare state led policymakers to explore less visible state-building strategies than direct social programs.[3] The use of tax expenditures reinforced the American commitment to private welfare by encouraging the formation of formal private health and pension programs. This delegation of social welfare functions and program responsibilities to private sectors enabled policymakers to address a wide array of public needs and demands from Congressional moderates and conservatives and opposing interest groups without increasing the size of government.[4] Nevertheless, the extensive use of tax expenditures has narrowed the federal income tax base, reduced federal revenues, and complicated the tax system. Moreover, because the benefits of many tax preferences have disproportionately accrued to higher-income taxpayers, these arrangements have raised persistent concerns about the equity and transparency of the federal tax system.[5]

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[3] Andrea L. Campbell, "America the Undertaxed: U.S. Fiscal Policy in Perspective," *Foreign Affairs*, 91 (5) (2012), 99–112; Christopher Howard, *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States* (Princeton, NJ: Princeton University Press, 1997); Christopher Howard, *The Welfare State Nobody Knows: Debunking Myths About US Social Policy* (Princeton, NJ: Princeton University Press, 2007); Joshua T. McCabe, *The Fiscalization of Social Policy: How Taxpayers Trumped Children in the Fight Against Child Poverty* (New York: Oxford University Press, 2018); Prasad, *The Land of Too Much*, 150–59, 165–70.

[4] Jacob S. Hacker, *The Divided Welfare State: The Battle over Public and Private Social Benefits in the United States* (New York: Cambridge University Press, 2002); Michael B. Katz, *The Price of Citizenship: Redefining the American Welfare State, Updated Edition* (Philadelphia: University of Pennsylvania Press, 2008); Kimberly J. Morgan and Andrea L. Campbell, *The Delegated Welfare State: Medicare, Markets, and the Governance of Social Policy* (New York: Oxford University Press, 2011).

[5] Christopher Ellis and Christopher G. Faricy, *The Other Side of the Coin: Public Opinion Toward Social Tax Expenditures* (New York: Russell Sage Foundation, 2021); Christopher G. Faricy, *Welfare for the Wealthy: Parties, Social Spending, and Inequality in the United States* (New York: Cambridge University Press, 2015); Suzanne Mettler, *The Submerged State: How Invisible Government Policies Undermine American Democracy* (Chicago: University of Chicago Press, 2011); Sven Steinmo, *Taxation and Democracy: Swedish, British, and American Approaches to Financing the Modern States* (New Haven: Yale University Press, 1993).

Against this background, since the 1930s, the Treasury and tax experts inside and outside Congress have attempted to reform the tax favoritism by lowering the rates of individual and corporate income taxes to reduce the tax burden of low- and middle-income classes while reducing and eliminating unfair tax loopholes and preferences to broaden the tax base and enhance tax equity both horizontally and vertically. A recurrent reform tradition developed around the concept of "comprehensive income": "[T]he money value of the net accretion to one's economic power between two points of time."[6] Rooted in the comprehensive-income tradition associated with Edwin R. A. Seligman, Robert Murray Haig, and subsequent public-finance experts, reformers repeatedly sought to combine a broader tax base and reduced tax preferences with horizontal and vertical equity, simplicity, neutrality, and sufficient revenue capacity.[7] The Treasury and tax experts believed that tax reform based on the concept would make the federal income tax system fairer, simpler, and more equitable both horizontally and vertically, with sufficient ability to raise revenue. They believed that such reforms would restore the legitimacy and the federal extractive capacity by making the distribution of tax burden more transparent and equitable. However, the institutionalization of tax expenditures has also made their success politically difficult. Tax expenditures have generated constituencies, reinforced public–private arrangements of social provision, and become embedded in the expectations and economic activities of their beneficiaries.[8] Unlike many direct expenditure programs, tax preferences

[6] Robert M. Haig, "The Concept of Income——Economic and Legal Aspects," in ed. Robert M. Haig, *The Federal Income Tax* (New York: Columbia University Press, 1921), 7–27.
[7] Edwin R.A. Seligman, "Introduction: The Problem in General," in ed. Robert M. Haig, *The Federal Income Tax* (New York: Columbia University Press, 1921), vii-x, 27. Several public finance scholars in the United States followed the concept of income and further developed the idea of federal income tax reform in the 1930s. See, e.g., Paul H. Wueller, "Concept of Taxable Income I-III," *Political Science Quarterly*, Vol.53, No.1 and 4 (1938), and Vol. 54, No. 4 (1939); Carl S. Shoup, *Facing the Tax Problem: A Survey of Taxation in the United States and a Program for the Future* (New York: Twentieth Century Fund, 1937); and Roswell Magill, *Taxable Income* (New York: Ronald Press, 1936).
[8] Hacker, *The Divided Welfare State*; Howard, *The Hidden Welfare State*; Howard, *The Welfare State Nobody Knows*; Morgan and Campbell, *The Delegated Welfare State*.

generally persist without annual legislative reauthorization, while their beneficiaries have strong incentives to resist their restriction or elimination.[9] Against these longstanding political and institutional obstacles, the Tax Reform Act of 1986 (TRA86) exceptionally broadened the federal income tax base by restricting numerous tax preferences.

Previous studies have examined three different aspects of the Reagan administration's tax policies. First, many previous studies focused on his administration's commitment to one of the largest tax cuts in history: the Economic Recovery Tax Act of 1981 (ERTA) that reduced marginal tax rates and expanded tax breaks to stimulate the "supply side" of the U.S. economy.[10] Second, a small number of previous studies have evaluated the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the Deficit Reduction Act of 1984 (DEFRA) as tax increases through base-broadening measures aimed at fiscal consolidation.[11] Two years after enacting the DEFRA, Reagan signed the TRA86 into law. It substantially broadened the tax base, eliminated or restricted numerous tax preferences, and drastically reduced statutory marginal rates and the number of brackets as one of the most comprehensive tax reforms in history.

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[9] Leonard E. Burman and Marvin Phaup, "Tax expenditures, the size of efficiency of government, and implications for budget reform," *Tax Policy and the Economy*, 26 (1), 2012, 93–124.

[10] Brownlee, *Federal Taxation in America*, 182–88; W. Elliot Brownlee and C. Eugene Steuerle, "Taxation," in W. Elliot Brownlee and Hugh Davis Graham (eds.) *The Reagan Presidency: Pragmatic Conservatism and Its Legacies* (Lawrence: University of Kansas Press, 2003), 159–61; Timothy J. Conlan, Margaret T. Wrightson, and David R. Beam, *Taxing Choices: The Politics of Tax Reform* (Washington, D.C.: CQ Press, 1988), 21, 33–34; Dennis S. Ippolito, *Why Budgets Matter: Budget Policy and American Politics* (University Park; The Pennsylvania State University Press, 2015), 230–32; Cathie Jo Martin, *Shifting the Burden: The Struggle Over Growth and Corproate Taxation* (Chicago: The University of Chicago Press, 1991), Chapter 5; Iwan Morgan, *The Age of Deficits: Presidents and Unbalanced Budgets from Jimmy Carter to George W. Bush* (Lawrence: University Press of Kansas, 2009), 85–91; Monica Prasad, *Starving the Beast: Ronald Reagan and the Tax Cut Revolution* (New York: Russell Sage Foundation, 2018); Monica Prasad, "The popular origins of neoliberalism in the Reagan tax cut of 1981," *Journal of Policy History*, 24 (3), 2012, 351–83; Steuerle, *Contemporary U.S. Tax Policy*, Chapter 5; C. Eugene Steuerle, *The Tax Decade: How Taxes Came to Dominate the Public Agenda* (Washington, D.C.: The Urban Institute Press, 1992), Chapter 3; Wesley W. Widmaier, *Economic Ideas in Political Time: The Rise and Fall of Economic Orders from the Progressive Era to the Global Financial Crisis* (Cambridge: Cambridge University Press, 2016), 138–39.

[11] Brownlee, *Federal Taxation in America*, 188–90; Brownlee and Steuerle, "Taxation," 161–68; Conlan et al., *Taxing Choices*, 34–35; Ippolito, *Why Budgets Matter*, 232; Martin, *Shifting the Burden*, Chapter 6; Morgan, *The Age of Deficits*, 95–107; Steuerle, *Contemporary U.S. Tax Policy*, Chapter 6; Steuerle, *The Tax Decade*, Chapter 4; Widmaier, *Economic Ideas in Political Time*, 147.

Previous studies on the TRA86 have emphasized the comprehensive income tradition as its important intellectual origin, in contrast to the supply-side orientation generally associated with the ERTA. They also evaluated the TRA86 as an exceptionally successful case of a fundamental tax reform to enhance simplicity, economic neutrality, and fairness of the federal tax system.[12]

Although the Reagan administration implemented tax reforms that fall into these three categories, many scholars place the Reagan presidency within the broader neoliberal transformation of American political economy, characterized by tax reductions, deregulation, and the growing political authority of market-oriented ideas.[13] Some scholars in the history of American populism regard the ways in which political actors justified and legitimated policy choices during this period as populistic.[14] In the United States, since the 1970s, the political and intellectual discourse has shifted from an emphasis on social structure and collective goals to one that emphasizes individual choice, the market, and incentives.[15] Within this broader context, Reagan's tax reforms, particularly the ERTA and the drastic cuts in tax rates until 1986, have frequently been associated with the rise of American neoliberalism — an emphasis on market-oriented policies and a reduced role for government intervention.[16]

Recent scholarship has qualified this explanation by revealing the diverse political origins, policy objectives, and consequences of Reagan's tax reforms. Monica Prasad challenges

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[12] Brownlee, *Federal Taxation in America*, 190–209; Brownlee and Steuerle, "Taxation," 168–73; Conlan et al., *Taxing Choices*; Ippolito, *Why Budgets Matter*, 230–34; Martin, *Shifting the Burden*, Chapter 7; Morgan, *The Age of Deficits*, 112–14; Steuerle, *Contemporary U.S. Tax Policy*, Chapter 7; Steuerle, *The Tax Decade*, Chapters 5–9.
[13] Gary Gerstle, *The Rise and Fall of the Neoliberal Order: America and the World in the Free Market Era* (New York: Oxford University Press, 2022), 94–97, 107–28; Monica Prasad, *The Politics of Free Markets: The Rise of Neoliberal Economic Policies in Britain, France, Germany, and the United States* (Chicago: The University of Chicago Press, 2006).
[14] Joseph Lowndes, "Populism in the United States," in Cristóbal Rovira Kaltwasser, Paul Taggart, Paulina Ochoa Espejo, and Pierre Ostiguy (eds.) *The Oxford Handbook of Populism* (New York: Oxford University Press, 2017), 233–34, 237, 241; Michael Kazin, *The Populist Persuasion: An American History* (New York: Basic Books, 1995), 261–64.
[15] Daniel T. Rodgers, *Age of Fracture* (Cambridge, MA: Harvard University Press, 2011).
[16] David Harvey, *A Brief History of Neoliberalism* (New York: Oxford University Press, 2005), 52.

explanations that attribute the large individual income tax cuts of the ERTA primarily to the political influence of business interests or to a coherent ideology. She points out that inflation-induced tax burdens, popular demands for tax relief, and Republican electoral strategies played important roles in making large-scale individual income tax reductions politically attractive. She also demonstrates that the Reagan administration selectively employed competing economic arguments and subsequently sought to address growing budget deficits through the TEFRA, largely by restricting business tax preferences, while preserving the individual income tax rates lowered by the ERTA.[17] Timur Ergen and Inga Rademacher demonstrate that the tax reforms of 1981 and 1986 reflected contrasting visions of economic growth and the appropriate role of corporate taxation. Although both reforms were business-friendly, supply-side in orientation, and could be classified as neoliberal, they were based on fundamentally different conceptions of what constituted desirable policies for businesses and the economy as a whole. In the 1981 reform, the key concept was to promote capital formation through tax incentives for capital investment. In contrast, the 1986 reform shifted policy toward enhancing tax neutrality and the efficiency of resource allocation by reducing investment incentives and lowering the corporate tax rate.[18] W. Elliot Brownlee further questions whether the growing influence of neoliberal or retro-liberal ideas produced a coherent transformation of the federal tax system during the 1980s. The ERTA was followed by two revenue-raising measures, the TEFRA and the DEFRA, and ultimately by the TRA86, which substantially broadened the income tax base. Brownlee argues that these

[17] Prasad, *Starving the Beast*; Prasad, "The popular origins."
[18] Timur Ergen and Inga Rademacher, "The silicon valley imaginary: US corporate tax reform in the 1980s," *Socio-Economic Review*, 21 (2), 2023, 935–57.

developments did not fundamentally displace the longstanding American reliance on income taxation.[19]

These studies show us that simply classifying Reagan's four tax reforms as "neoliberal" obscures these important differences in policy vision. They simultaneously leave room for a closer examination of how policymakers reconstructed competing fiscal ideas, policy objectives, and instruments across successive reforms, and how they justified and legitimated these changing configurations without repudiating the administration's central economic commitments. As David Harvey emphasizes by referring to Antonio Gramsci's concept of "common sense" — the sense held in common — the so-called "neoliberal" policymaking during the Reagan presidency "had to be accomplished by democratic means…the prior construction of political consent across a sufficiently large spectrum of the population to win elections."[20] This perspective draws attention not only to the political origins of particular policies but also to the ways in which changing policy objectives and instruments were presented as consistent with widely accepted economic and political principles. This article demonstrates that the Reagan administration's tax reforms between 1981 and 1986 combined continuity in its central economic commitments with substantial transformations in policy objectives, instruments, and the configuration of fiscal ideas. While maintaining its commitment to lower marginal tax rates, stronger economic incentives, and sustained economic growth, the administration selectively reinterpreted and recombined competing fiscal ideas to formulate tax reforms that could be presented as consistent with multiple policy objectives, including fiscal

[19] W. Elliot Brownlee, "Tax policy in the United States: was there a 'neo-liberal' revolution in the 1970s and 1980s?" in Gisela Hürlimann, W. Elliot Brownlee, and Eisaku Ide (eds.), *Worlds of Taxation: The Political Economy of Taxing, Spending, and Redistribution Since 1945* (Cham: Palgrave Macmillan, 2018), 155–86.
[20] Harvey, *A Brief History of Neoliberalism*, 39. Harvey cited Gramsci's sentences from Antonio Gramsci, *Selections from the Prison Notebooks*, translated by Q Hoare and G. Nowell Smith (London: Lawrence and Wishart, 1971), 321–43.

consolidation, tax simplification, and tax equity. Fiscal discourse, particularly populist appeals to ordinary taxpayers against privileged interests, played a role in justifying and legitimating these changing policy configurations as components of a coherent economic policy program. Thus, the transition from the ERTA to the TRA86 represented neither a straightforward continuation of the original tax-cutting program nor its repudiation, but a historically contingent process of ideational domestication through which continuity in fundamental commitments coexisted with substantial changes in policy design and political justification.

Rather than representing a repudiation of the principles underlying the ERTA, the development of base-broadening reforms in 1982 and 1984 and the comprehensive tax reform in 1986 involved the gradual reinterpretation and recombination of competing fiscal ideas within the Reagan administration's broader economic policy agenda. Even among the supply-side advocates who shaped the ERTA, fundamental tax reform and simplification had been recognized as desirable long-term objectives, although their political feasibility remained uncertain. Moreover, while the ERTA was still under congressional consideration, officials in the Cabinet Council on Economic Affairs (CCEA), the Office of Management and Budget (OMB), the Council of Economic Advisers (CEA), and the Treasury were already concerned about deteriorating revenue projections and the prospects for long-term fiscal stability. In response, Treasury officials, particularly John E. Chapoton, explored revenue-raising measures drawn from structural revisions of the tax system that had been under consideration since 1981, seeking to present them not as explicit tax increases but as politically defensible corrections of tax preferences and abuses. The CCEA examined fundamental tax reform as part of a broader economic policy agenda encompassing lower interest rates, capital formation, inflation control, productivity growth, and responses to such challenges as low-income living standards,

demographic change, women's economic equity, education, and investment. Within this agenda, lower marginal tax rates, stronger incentives to work and invest, and sustained economic growth were increasingly regarded as instruments for addressing these interconnected problems, while fiscal consolidation was treated as a complementary objective. The fundamental tax reform was consequently developed in relation to proposals advanced by both congressional Republicans and Democrats, including flat-tax proposals, with the TEFRA understood as a step toward broader reform. To make such a program politically viable, however, the administration also had to present base broadening and rate reduction as a means of simplifying the tax system, restoring fairness, and eliminating unjustified tax privileges. Within this context, the TRA86 emerged as an attempt to reconcile fiscal consolidation, economic growth, investment incentives, tax simplification, and competing conceptions of tax equity within a politically defensible policy program. This development involved more than a pragmatic adjustment to fiscal pressures. By distinguishing the preservation of lower marginal tax rates from the protection of particular tax preferences, administration officials redefined the relationship between tax reduction and tax reform. In this sense, base-broadening measures were not simply concessions to fiscal pressures or a repudiation of the administration's economic program. They were reinterpreted as instruments for preserving its central commitments while addressing emerging fiscal and political problems.

This article examines the policymaking and legislative processes underlying Reagan's successive tax reforms and the role of fiscal discourse in their political legitimation. It does so by conceptualizing *ideational domestication* as a historical process through which political actors selectively reinterpret, reweight, and recombine elements of competing fiscal ideas, translate them into politically viable policy instruments, and legitimate the resulting configurations

without necessarily repudiating the governing policy program. It examines how policymakers reconstructed fiscal ideas into successive tax reforms while maintaining central economic commitments, and how populist fiscal language helped present these reforms as serving ordinary taxpayers against privileged interests. By connecting policy feedback, ideational recombination, and discursive legitimation, the article contributes to theories of institutional and ideational change. The article also contributes to fiscal sociology by examining how competing conceptions of fiscal fairness were historically reconstructed through policymaking and political discourse, and how these changing meanings helped legitimate reforms of the federal tax system.

1. Fiscal Sociology, Domestication as Bricolage, and Fiscal Populism

1-1. The Perspective of Fiscal Sociology and Its Remaining Challenges

Recent scholarship on tax history has generally been inspired by the fiscal sociology suggested by two early twentieth-century Austrian social scientists — Rudolf Goldscheid and Joseph A. Schumpeter. It provides a framework for examining this subject by treating public finance not simply as a mechanism for raising revenue and redistributing it but as a constitutive element of political and social order and the historical development of a fiscal regime as a result of a fiscal–social contract. From this perspective, fiscal regimes or institutions reveal the historical interrelations between the pattern of public finance and the structure and dynamics of economics, politics, and society; and how states and societies define collective purposes, distribute fiscal obligations, and construct claims to the common interests as the "will of the people."[21]

[21] Rudolf Goldschied, "A Sociological Approach to Problems of Public Finance," in Richard A. Musgrave and Alan T. Peacock (eds.) *Classics in the Theory of Public Finance* (New York: St. Martin's Press, 1958), 202–13; Joseph A. Schumpeter, "The Crisis of the Tax State," in Alan T. Peacock, Ralph Turvey, Wolfgang F. Stolper, and Elizabeth Henderson, *International Economic Papers: Translations Prepared for the International Economic Association*, no. 4 (London: Macmillan, 1954), 5–38.

Schumpeter's later elaboration on democracy further suggested that what appears as the general will or common interest may itself be politically constructed, rather than simply reflecting independently formed popular preferences or demands. He therefore stressed that observing the process would reveal by whom, how, and why a particular decision was made in a given time and place and under certain conditions.[22]

Several decades later, many scholars attempted to revive Schumpeter and Goldscheid's ambition of fiscal sociology. The first generation, Neo-Marxist and sociological approaches, treated fiscal crisis, taxation, and public expenditure as windows into conflicts over class, distribution, accumulation, and the legitimacy of the state. Rather than regarding public finance as a technically neutral mechanism, these studies asked how the allocation of tax burdens and public expenditures reflected and reshaped relations among social groups, how tax resistance emerged, and how fiscal conflict could destabilize political and social order.[23] The second generation among historians, political scientists, and sociologists also shifted attention toward state capacity, institutional diversity, and the historical organization of revenue extraction. Some of them helped encourage historical work on tax and fiscal regimes, asking how institutions, political actors' interests and preferences, class and interest-group powers, ideas, and social structures interact over time to produce distinctive variations in tax levels, structures, and burden.[24] Other second-generation scholars highlighted how political actors and democratic forces outside government mobilize historically inherited ideas within path-dependent, social-

[22] Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* (New York and London: Harper and Brothers Publisher, 1942).
[23] Daniel Bell, *The Cultural Contradictions of Capitalism* (New York: Basic Books, 1976); Fred Block, "The Fiscal Crisis of the Capitalist State," *Annual Review of Sociology*, Vol. 7 (1981), 1–27; James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, Inc, 1973); John F. Padgett, "Hierarchy and Ecological Control in Federal Budgetary Decision Making," *American Journal of Sociology*, 87 (1) (1981), 75–129.
[24] Sven Steinmo, *Taxation and Democracy: Swedish, British, and American Approaches to Financing the Modern State* (New Haven: Yale University Press, 1993); John Campbell, "The State and Fiscal Sociology," *Annual Review of Sociology*, Vol.19 (1993), 163–185.

learning processes of tax policymaking among presidential leadership, Congress, governmental and policy experts, political leaders, and broader political forces such as partisan organization, shaping the evolution of national tax regimes. They trace the processes of fiscal regime formation as configurations of political interests, institutions, and policy arrangements that structure conflicts over taxation and spending and are historically formed and reinforced within particular political contexts. Ideas mediate policy communities and coalitions as actors interpreted changing economic circumstances and sought to reshape inherited institutional arrangements. Their approach thus linked changes in economic knowledge and fiscal ideas to institutional change, state development, and the historically contingent formation of distinctive tax regimes.[25] These studies share a view that a state's means of raising and deploying financial resources is the most crucial factor to explain its existing and immediate capacities to implement policies and achieve policy goals.[26]

Recent scholarship in fiscal sociology has developed these insights by examining the history of taxation as a historically contingent relationship among state-building and its capacity, institutional diversity, and the historical organization of revenue extraction. Many previous studies of fiscal sociology and history cite Margaret Levi's concept of "quasi-voluntary compliance." This concept emphasizes how credible government commitments, perceptions of fairness, and expectations that others will also comply can sustain taxation without relying exclusively on coercive enforcement.[27] Many scholars and studies have employed the framework

[25] W. Elliot Brownlee, "Reflection on the History of Taxation," in W. Elliot Brownlee (ed.) *Funding the Modern American State, 1941–1995: The Rise and Fall of the Era of Easy Finance* (New York: The Woodrow Wilson Center Press and Cambridge University Press, 1996), 3–36; Paul Pierson, "From Expansion to Austerity: The New Politics of Taxing and Spending," in Martin A. Levin, Marc Karnis Landy, and Martin Shapiro (eds.) *Seeking the Center: Politics and Policymaking at the New Century* (Washington, D.C.: Georgetown University Press, 2001), 54–80.
[26] Theda Skocpol, "Bringing the state back in: strategies of analysis in current research," in Peter B. Evans, Dietrich Rueschemeyer, Theda Skocpol (eds.) *Bringing the State Back In* (New York: Cambridge University Press, 1985), 3–37.
[27] Margaret Levi, *Of Rule and Revenue* (Berkley and Los Angeles: University of California Press, 1988).

of "quasi-voluntary compliance" or its modified version as the basis for their research perspective.[28] These studies regard taxation not only as a revenue-raising instrument but also as a causal factor that provides the balance between a strong/weak state and a successful/unsuccessful society. They share the view that consent, trust, and legitimacy are crucial to the history of taxation. They also assume that strong states have the extractive capacity to raise enough revenue to finance social integration programs and convince citizens that taxation fairly finances the state by obtaining tax compliance and providing a fairer, more efficient, simpler tax system and more tolerant social programs. Thus, these studies highlight the importance of focusing on the history of a state — a territory in which the decision-making or the development of institutional arrangements and the manufactured will are effective — and examining how and why taxation has been justified and legitimized.

A recently emerging research field of the "new fiscal sociology" has integrated these perspectives of historical and democratic institutionalism, the modified version of Levi's concept of quasi-voluntary compliance, and new fiscal history.[29] The new fiscal sociology emphasizes the concept of "taxpayer consent"—the product of a social contract that establishes dynamic relationships that individuals have with their government and their society through the

[28] Marcero Bergman, *Tax Evasion and the Rule of Law in Latin America: The Political Culture of Cheating and Compliance in Argentina and Chile* (University Park: The Pennsylvania State University Press, 2009); Richard Bonney (ed.), *The Rise of the Fiscal State in Europe, c. 1200-1815* (Oxford: Oxford University Press, 1999); Martin Daunton, *Trusting Leviathan: The Politics of Taxation in Britain, 1799–1914* (Cambridge: Cambridge University Press, 2001); Martin Daunton, *Just Taxes: The Politics of Taxation in Britain, 1914–1979* (Cambridge: Cambridge University Press, 2002); Andrew Monson and Walter Scheidel (eds.), *Fiscal Regimes and the Political Economy of Premodern States* (New York: Cambridge University Press, 2015); Wilson Prichard, *Taxation, Responsiveness and Accountability in Sub-Saharan Africa: The Dynamics of Tax Bargaining* (New York: Cambridge University Press, 2015); Sven H. Steinmo (ed.), *The Leap of Faith: The Fiscal Foundations of Successful Government in Europe and America* (New York: Oxford University Press, 2018); Sven H. Steinmo and John D'Attoma, *Willing to Pay? A Reasonable Choice Approach* (New York: Oxford University Press, 2021); Bartolome Yun–Casalilla and Patrick K. O'Brien with Francisco Comín Comín (eds.), *The Rise of Fiscal States: A Global History 1500–1914* (Cambridge: Cambridge University Press, 2012).

[29] Isaac W. Martin, Ajay K. Mehrotra and Monica Prasad (eds.), *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective* (New York: Cambridge University Press, 2009).

government. Whereas the concepts of quasi-voluntary compliance and fiscal exchange focus on the interrelations between individual taxpayers and the state, the new fiscal sociology regards taxpayer consent—including both political acceptance and compliance with the law—as a result of a *social* rather than an *individual* contract. The new fiscal sociology assumes that taxpayers think about collective goods and that their calculations are affected by the characteristics of the society as a whole. The new fiscal sociology thus focuses on the society rather than individual costs or benefits to understand consent to taxation. New fiscal sociology scholars treat history as "a garden of forking paths, with critical junctures—usually wars and economic crises—marking moments of choice."[30] They do so by examining the interrelations among formal and informal institutions and taxation while considering historical sequence and context by depending on the theories of path dependence, critical junctures, positive feedback processes, divergent and contingent historical paths, and institutional continuities. The research interests and perspectives of taxpayer movements and the social history of taxation align with the new fiscal sociology.[31] These perspectives are compatible with several public policy studies that theorize the justice or legitimacy of a state's policy choice by examining the interaction of policymakers in the state and societal actors, such as taxpayers or general citizens.[32]

[30] Martin et al., *The New Fiscal Sociology*, 14.
[31] Nicolas Delalande and Huret, Romain (2013) "Tax resistance: A global history?" *Journal of Policy History*, 25 (3), 301–4; Romain Huret, *American Tax Resisters* (Cambridge, MA: Harvard University Press, 2014); Douglas Kanter and Peter Walsh, *Taxation, Politics, and Protest in Ireland, 1662–2016* (Cham: Palgrave Macmillan, 2019); Isaac W. Martin, *The Permanent Tax Revolt: How the Property Tax Transformed American Politics* (Stanford: Stanford University Press, 2008); Isaac W. Martin, *Rich People's Movements: Grassroots Campaigns to Untax the One Percent* (New York: Oxford University Press, 2013); Janet Roitman, *Fiscal Disobedience: An Anthropology of Economic Regulation in Central Africa* (Princeton, N.J.: Princeton University Press, 2005); Korinna Schönhärl, Gisela Hürliman, and Dorothea Rohde, *Histories of Tax Evasion, Avoidance, and Resistance* (London: Routledge, 2023).
[32] Bo Rothstein, *Controlling Corruption: The Social Contract Approach* (Oxford: Oxford University Press, 2021); Leonard Seabrooke, *The Social Sources of Financial Power: Domestic Legitimacy and International Financial Orders* (Ithaca: Cornell University Press, 2006).

Despite these contributions, fiscal sociology leaves room for a more explicit account of how fiscal ideas are historically reconstructed and translated into institutional reform. Although existing scholarship has emphasized the roles of institutions, political interests, legitimacy, and taxpayer consent in shaping fiscal regimes, it has devoted comparatively less attention to the processes through which actors reinterpret and recombine competing fiscal ideas historically, transform their meanings through political discourse, and justify and legitimate particular policy instruments. Fiscal ideas are neither fixed doctrines nor simply reflections of predetermined interests; their meanings and political uses may change as actors confront inherited institutions, shifting economic conditions, and competing claims about fiscal fairness. Explaining fiscal development therefore requires examining not only how institutions and social relations shape taxation, but also how political actors reconstruct fiscal ideas and languages to make institutional change possible. The next section develops this perspective by drawing on historical institutionalism, ideational and discursive approaches, and the concept of ideational domestication.

1-2. Domestication and Discursive Institutionalists' Perspectives

The scholarship of fiscal sociology is highly compatible with the analytical framework of American Political Development (APD). APD has focused on how inherited institutions, historical sequences, and policy feedbacks structure the possibilities for subsequent reform. APD treats political institutions as historically constructed arrangements that themselves shape subsequent political possibilities. It also focuses on temporality, historical contingency, sequencing, and the mutually constitutive relationship between state and society and the state's

historical development.[33] Path-dependent processes and policy feedbacks can make some arrangements increasingly durable by creating constituencies, expectations, and political incentives that shape subsequent choices.[34] At the same time, political actors exercise agency by creatively recombining inherited institutional and cultural resources for new purposes.[35] Scholarship on gradual institutional change has itself emphasized the ambiguity of inherited institutions and the role of actors in interpreting, reproducing, redirecting, and transforming them. Institutions structure the terrain on which fiscal reform occurs. However, they do not uniquely determine how actors understand that terrain or which paths they seek to construct within it. Some scholars therefore have emphasized path-shaping alongside path dependence, focusing on the agency and causal mechanisms through which institutional trajectories are reproduced or redirected.[36]

Explaining the historical processes by which actors formed institutional changes and pathways requires attention to the ideas through which actors diagnose problems, interpret their circumstances, imagine alternatives or policy choices by translating their ideas into politically usable forms, and seek to construct a path of institutional development. The term "ideas" has encompassed different forms of political understanding, including causal beliefs about how the world works, principled beliefs about what is desirable or just, and broader frameworks through

[33] Karen Orren and Stephen Skowronek, The Policy State: An American Predicament (Cambridge, MA: Harvard University Press, 2017); Karen Orren and Stephen Skowronek, *The Search for American Political Development* (New York: Cambridge University Press, 2010).
[34] Paul Pierson, *Politics in Time: History, Institutions, and Social Analysis* (Princeton, NJ: Princeton University Press, 2004).
[35] Gerald Berk and Dennis Galvin, "How People Experience and Change Institutions: A Field Guide to Creative Syncretism," *Theory and Society*, 38 (2009), 543–80.
[36] Giuliano Bonoli, "The Politics of the New Social Policies: Providing Coverage Against New Social Risks in Mature Welfare States," *Policy and Politics*, 33 (3) (2005), 431–49; Robert Henry Cox, "The social construction of an imperative: why welfare reform happened in Denmark and the Netherlands but not in Germany," *World Politics*, 53 (3) (2001), 463–98; James Mahoney and Kathleen Thelen, *Explaining Institutional Change: Ambiguity, Agency, and Power* (New York: Cambridge University Press, 2010); Wolfgang Streeck and Kathleen Thelen, *Beyond Continuity: Institutional Change in Advanced Political Economies* (New York: Oxford University Press, 2005).

which actors identify policy problems and appropriate responses.[37] Scholars who focus on the role of ideas believe that they help political actors interpret uncertainty, identify interests, build coalitions, challenge institutions, and legitimate policy alternatives. They also believe that a policy paradigm provides a framework of ideas that defines policy problems, goals, and instruments. When existing paradigms cannot adequately address emerging policy challenges, new ideas may arise, potentially leading to institutional reforms and, ultimately, paradigm change.[38] Under conditions of crisis and uncertainty arising from unprecedented situations, ideas help actors identify their interests, serve as political weapons against opponents, and provide justifications for delegitimizing existing institutions and legitimizing new ones. Shared ideas also facilitate political coalition-building and the mobilization of support. Once institutionalized, ideas shape actors' perceptions and interests through path-dependent processes, thereby contributing to institutional stability.[39] Discourse plays a pivotal role in the series of processes involving the generation of ideas, the communication and dissemination of draft ideas, persuasion, and acceptance, as well as the changes the ideas themselves undergo along the way in the process of institutionalization—reflected in actual, structured policies—following processes of policy interpretation, justification and de-justification, competition and emphasis among discourses, and divergence and convergence. Actors' subjective or intersubjective perceptions and interpretations and their changes are indispensable, as are the justification of

[37] Daniel Béland and Robert Henry Cox, "Ideas and Politics," in Daniel Béland and Robert Henry Cox (eds.) *Ideas and Politics in Social Science Research* (New York: Oxford University Press, 2011), 3–20; Judith Goldstein and Robert O. Keohane, "Ideas and Foreign Policy: An Analytical Framework," in Judith Goldstein and Robert O. Keohane (eds.) *Ideas and Foreign Policy: Beliefs, Institution, and Policy Change* (Ithaca: Cornell University Press, 1993), 3–30.
[38] Peter A. Hall, *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton, NJ: Princeton University Press, 1989); Peter A. Hall, "Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain," *Comparative Politics*, 25 (3) (1993), 275–96.
[39] Mark Blyth, *Great Transformations: Economic Ideas and Institutional Changes in the Twentieth Century* (New York: Cambridge University Press, 2002).

policies through framing, the persuasion of others based on that justification, and discursive strategies in order to implement policies and achieve institutional reform.[40] Discourse also structures actors' language and generates a pattern in discussions among them.[41]

Building on these perspectives, discursive institutionalism explains political change and continuity through the interaction of ideas, discourse, and institutions. Schmidt distinguishes the cognitive and normative functions of discourse, through which actors justify policies as effective responses to problems and legitimate them in terms of shared values.[42] Discursive institutionalism further distinguishes *coordinative discourse*, through which policymakers develop and negotiate policy ideas, from *communicative discourse*, through which they seek public acceptance of policies as necessary and appropriate.[43] However, ideas are neither necessarily coherent nor fixed. Carstensen conceptualizes ideas as configurations of interrelated meanings and political actors as *bricoleurs* who creatively retain, reject, reweight, and recombine elements of inherited ideas, cognitive schemas, and institutions. Such bricolage may combine logically incompatible elements without producing paradigm change, but remains constrained by existing policy traditions and political cultures. Its political effectiveness depends on connecting new ideas to established frameworks, appealing to other actors' interests, and building coalitions.[44] Wesley Widmaier, in turn, examines how policy orders constructed through ideas

[40] Frank Fischer, *Reframing Public Policy: Discursive Politics and Deliberative Practices* (New York: Oxford University Press, 2003).
[41] Maarten A. Hajer, *Authoritative Governance: Policy-Making in the Age of Mediatization* (New York: Oxford University Press, 2009).
[42] Vivien A. Schmidt, "Discursive institutionalism: the explanatory power of ideas and discourse," *Annual Review of Political Science*, 35 (2) (2008), 303–26; Vivien A. Schmidt, "Taking ideas and discourse seriously: explaining change through discursive institutionalism as the fourth 'new institutionalism'," *European Political Science Review*, 2 (1) (2010), 1–25.
[43] Vivien A. Schmidt, "Does discourse matter in the politics of welfare state adjustment?" *Comparative Political Studies*, 35 (2) (2002), 168–93.
[44] Martin B. Carstensen, "Paradigm man vs. the bricoleur: an alternative vision of agency in ideational change," *European Political Science Review*, 3 (1) (2011), 147–67; Martin B. Carstensen, "Ideas are not as stable as political scientists want them to be: a theory of incremental ideational change," *Political Studies*, 59 (3) (2011), 596–615.

and discourse may generate their own instability. His social psychological institutionalism identifies three stages: *principled construction*, in which interpretive leaders establish normatively biased policy ideas; *intellectual conversion*, in which ensuing economic stability encourages experts to push the normative principles that underpinned the existing policy order into the background, marginalize alternatives, and refine the prevailing policy model; and *misplaced certainty*, in which confidence in that model obscures emerging sources of instability and contributes to subsequent crises.[45]

Two perspectives can be added to bricolage and discursive institutionalism. First, the process of bricolage occurs within the interaction between the inside and outside of actors who have and (re)construct an idea. Intellectual history complements this relational understanding of ideas by reconstructing how changing meanings emerged within particular historical contexts. Rather than treating ideas as fixed doctrines with stable meanings, intellectual historians examine both their intellectual content and how their meanings change as historical forces that move among and inside actors, institutions, and historical contexts. Intellectual history has approached this problem both internally, by examining the conceptual structures of ideas, and externally, by reconstructing their interaction with changing social and political contexts.[46] The history of fiscal ideas is therefore simultaneously a history of their changing meanings and of the political and institutional settings in which those meanings became usable. Second, ideas develop not in isolation or within a single intellectual repertoire but through the interaction of multiple, historically coexisting traditions. Political actors selectively reinterpret and recombine elements

[45] Wesley W. Widmaier, *Economic Ideas in Political Time: The Rise and Fall of Economic Orders from the Progressive Era to the Global Financial Crisis* (New York: Cambridge University Press, 2018).
[46] Merle Curti, *The Growth of American Thought, Third Edition* (New York: Harper and Row, 1964); Arthur O. Lovejoy, *The Great Chain of Being: A Study of the History of an Idea* (New York: Routledge, 2009); Jennifer Ratner-Rosenhagen, *The Ideas That Made America: A Brief History* (New York: Oxford University Press, 2019).

drawn from these traditions, although inherited institutions, policy traditions, and political cultures constrain which combinations are available and politically meaningful. Ideational change is thus relational and historically path-dependent, without necessarily entailing paradigm change.

These perspectives provide the basis for conceptualizing the *domestication of fiscal thought*, drawing in part on Herbert Stein's historical account of the American fiscal revolution. Stein emphasizes that policy change resulted not simply from changing economic conditions but also from accumulated experience and changing interpretations of those conditions, as policymakers reconsidered, recovered, and synthesized inherited and previously discarded ideas.[47] This insight provides a historical foundation for examining how political actors reconstruct competing fiscal ideas within existing institutional and intellectual traditions. Bricolage helps explain the recombination of ideas, while learning, translation, discursive persuasion, and institutionalization illuminate the broader processes through which reconstructed ideas become politically usable and potentially durable.[48] Such processes may transform not only the policy applications of fiscal thought but also its substantive meanings. Successful domestication can institutionalize particular configurations of ideas and legitimating claims, potentially establishing new policy paradigms or conventional wisdom through social learning. Failed attempts also matter: their arguments, political languages, and rejected alternatives may survive and reshape the possibilities available to subsequent reformers.

Domestication requires distinguishing among *fiscal ideas*, *fiscal discourse*, and *fiscal language*. Discourse refers to the interactive processes through which actors formulate,

[47] Herbert Stein, *The Fiscal Revolution in America: Policy in Pursuit of Reality, Second Revised Edition* (Washington, D.C.: The AEI Press, 1996), 3–5.
[48] Carstensen, "Paradigm man vs. the bricoleur," 157–60; Vivien Schmidt, *The Power of Ideas and Discourse in Political Analysis: A Discursive Institutionalist Perspective* (New York: Oxford University Press, 2026), 23–24.

coordinate, contest, justify, and legitimate policy ideas, drawing on both cognitive claims about effectiveness and feasibility and normative claims about fairness and appropriateness. Coordinative and communicative discourse identify interconnected arenas through which ideas are developed, translated, and publicly defended.[49] Fiscal language, following Daniel Shaviro, refers to the historically available vocabularies, categories, and labels through which fiscal policies become politically intelligible and contested. Shaviro distinguishes its *labeling* function, whereby actors attach favorable or unfavorable descriptions to policy instruments, from its *structuring* function, whereby ostensibly objective categories shape how actors perceive and evaluate policy alternatives.[50] Fiscal language is thus both a means of describing fiscal realities and a weapon of political conflict; its persuasive force depends partly on its claim to provide a meaningful description of those realities. Discourse consequently does more than communicate predetermined ideas: through political justification and legitimation, it can reshape the meanings and relationships of the ideas themselves.

Building on these perspectives, this article conceptualizes *ideational domestication* as a contested historical process through which political actors selectively reinterpret, reweight, and recombine elements of competing fiscal ideas, translate them into politically viable policy instruments, and justify and legitimate the resulting configurations within inherited institutional, economic, and political contexts. This process may involve substantial changes in policy objectives and instruments without necessarily requiring the abandonment of a governing program's central commitments. In the Reagan case, domestication involved reconstructing the relationships among competing fiscal ideas so that successive tax reforms could be presented as

[49] Schmidt, *The Power of Ideas and Discourse*, 15–18.
[50] Daniel N. Shaviro, *Taxes, Spending, and the U.S. Government's March Toward Bankruptcy* (New York: Cambridge University Press, 2007), 4–7.

consistent with multiple policy objectives while preserving the administration's fundamental commitments to lower marginal rates, economic incentives, and growth.

1-3. Populism and U.S. Tax Populism

This framework also raises a further question: through what historically available political languages can actors legitimate the recombination of competing fiscal ideas and tax reform proposals? If fiscal ideas, discourses, and languages help translate competing ideas into politically legitimate policy programs, an important question is which forms of language enable actors to bridge otherwise conflicting conceptions of fiscal fairness. In U.S. tax politics, populist appeals to ordinary taxpayers against privileged interests have provided one historically influential means of doing so. This section addresses this issue by reviewing the literature on populism and U.S. tax populism.

Previous studies conceptualized populism as an ideology, political strategy, discourse, and style. They focused on these factors to examine top-down (populist), bottom-up (social movement), or both (political parties) populist mobilization.[51] Despite these differences, these approaches share an emphasis on appeals to "the people" and criticism of political, economic, or social elites. One of them, Cas Mudde and Cristóbal Rovira Kaltwasser's ideational approach, defines populism more specifically through a moral distinction between a virtuous and relatively homogeneous people and a corrupt elite whose particular interests are represented as contrary to

[51] Paris Aslanidis, "Populism and Social Movements," in Cristóbal Rovira Kaltwasser, Paul Taggart, Paulina Ochoa Espejo, and Pierre Ostiguy (eds.) *The Oxford Handbook of Populism* (New York: Oxford University Press, 2017), 305–25; Kirk Hawkins, Madeleine Read, and Teun Pauwels, "Populism and Its Causes," in Cristóbal Rovira Kaltwasser, Paul Taggart, Paulina Ochoa Espejo, and Pierre Ostiguy (eds.) *The Oxford Handbook of Populism* (New York: Oxford University Press, 2017), 267–86; Kenneth M. Roberts, "Populism and Political Parties," in Cristóbal Rovira Kaltwasser, Paul Taggart, Paulina Ochoa Espejo, and Pierre Ostiguy (eds.) *The Oxford Handbook of Populism* (New York: Oxford University Press, 2017), 287–304.

the general will.[52] For the historical analysis of American populism, Michael Kazin conceptualizes it as a language through which political actors claim that they "speak for the vast majority of Americans who work hard" and view their elite opponents as self-serving and undemocratic, and seek to mobilize the former against them within U.S. democracy. Kazin also demonstrates that political actors employ and operate populist language within different intellectual and political traditions. With this formulation, Kazin provides a historical approach to understand the power of populist rhetoric in the United States.[53]

Drawing on Kazin, Elliot Brownlee points out that two types of tax populism have been dominant in the U.S. history of tax policy since the end of the nineteenth century: the "progressive" tax populism and the "retro-liberal" tax populism. The progressive tax populist movements have focused on attacking the power held by corporations and the wealthiest citizens by calling for tax reform that would shift the burden of government from regressive to progressive taxes. The resulting political contests over the progressive income tax were unusually tense and difficult because of the vagueness of the ability-to-pay criterion of fair taxation. This progressive tax populism waned and gave way to the retro-liberal tax populism in the 1970s. The retro-liberal tax populism called for reducing taxes overall, reducing the progressivity of the income tax, and reducing the size of government. The advocates of these policies claimed that they would promote economic growth and opportunity by liberating both average Americans and investors from the incentive-killing burdens of high progressive taxation and social programs that the anti-tax populists said benefited only bureaucrats, politicians, and the unworthy clients of the programs that progressive taxes funded. Progressives and retro-

[52] Cas Mudde and Cristóbal Rovira Kaltwasser, *Populism: A Very Short Introduction* (New York: Oxford University Press, 2017), Chapter 1.
[53] Michael Kazin, *The Populist Persuasion: An American History* (New York: Basic Books, 1995), 1–2.

liberals asserted parallel claims that they each represented a majority of Americans. Both progressives and retro-liberals were confident that they represented the American people. The grinding conflict between the two tax populist visions of ideal tax and fiscal policies has prevented the progress of the kind of fundamental tax and fiscal reform.[54]

Anti-privilege language was not confined to progressive taxation. Appeals to ordinary taxpayers against special interests could also legitimate horizontal equity, lower marginal rates, base broadening, and the elimination of tax shelters and preferential treatment. This possibility is central to ideational domestication: political actors may detach familiar normative claims from their earlier policy associations and reconnect them to different fiscal instruments without abandoning their established commitments. Such language can facilitate coordination among actors who agree in opposing tax privileges but differ over redistribution, progressivity, or the proper size of government. Nevertheless, appeals to fairness are not inherently populist; they acquire a populist character when actors construct a morally charged opposition between ordinary taxpayers and privileged interests and claim to represent the broader people. Whether such appeals facilitate or constrain institutional reform therefore depends on how actors define these opposing groups and connect them to specific policy proposals. In the Reagan tax reforms, populist fiscal language may have helped reconcile continuity in the administration's central economic commitments with changes in policy objectives and instruments. Appeals to ordinary taxpayers against privileged interests provided a potentially shared language through which lower marginal rates, base broadening, tax simplification, and the elimination of tax preferences could be justified as mutually compatible components of a broader reform program. Such language communicated fiscal ideas while also potentially reshaping their political meanings and

[54] W. Elliot Brownlee, "Taxation and the Clash of Populisms, from Reagan to Trump," in Japan Institute of Public Finance (ed.) *Political Economy of Public Finance: In the Case of Tax Reform* (Tokyo: Yuhikaku, 2018), 70–100.

relative importance. Its significance therefore lay not simply in mobilizing support for predetermined policies, but in helping construct and legitimate an interpretation of successive tax reforms as consistent with both the Reagan administration's established commitments and its evolving policy objectives. Whether and how this process occurred is a central empirical question of this article.

1-4. Analytical Framework and Research Design

The preceding discussion suggests that ideational domestication involves not only reconstructing competing fiscal ideas under institutional constraints but also politically legitimating them through historically available fiscal languages, including populist appeals. The analytical framework based on the concept of ideational domestication examines how successive institutional reforms can combine continuity in a governing policy program's central commitments with transformations in policy objectives, instruments, and legitimating ideas. Political actors operate within inherited institutional constraints while confronting multiple, potentially competing policy objectives and changing economic, fiscal, and political circumstances. Rather than necessarily abandoning their established commitments, they may selectively reinterpret and recombine elements of competing fiscal ideas, developing policy instruments that can be presented as consistent with both those commitments and evolving policy objectives. Through fiscal discourse, actors negotiate the relationships among these ideas, justify their policy choices, and seek to legitimate the resulting configurations. Populist fiscal language may facilitate this process by connecting different instruments and objectives to a shared conception of fiscal fairness, particularly through appeals to ordinary taxpayers against privileged interests. Ideational domestication thus provides a framework for explaining how

substantial institutional change may emerge through the reconstruction of fiscal ideas and their political legitimation without a wholesale replacement of the governing policy program.

This article employs the analytical framework of historical process tracing to examine how the fiscal ideas and policy instruments underlying Reagan's tax program changed between 1981 and 1986. The central empirical task is to distinguish ideational domestication from alternative explanations emphasizing fiscal necessity, partisan compromise, interest-group bargaining, or the independent influence of tax experts. This article also explains how ideational domestication in tax policymaking contributed to the institutional reconstruction of the federal tax regime during the Reagan presidency. The analysis therefore focuses on changes in policy proposals before their final legislative enactment. The Treasury deliberations were especially important because they reveal whether base broadening, simplification, and tax equity entered the administration's agenda only after external political pressure or were already being incorporated into efforts to preserve the ERTA's objectives. This article also examines how proposals changed as they moved between executive officials and Congress, and how the language used to justify them evolved. To assess the role of populist fiscal language, the analysis distinguishes between its use in publicly legitimating already formulated proposals and its potential influence on the formulation and revision of those proposals. Evidence of the latter would require tracing how appeals to ordinary taxpayers and opposition to privileged interests entered policy deliberations, affected the relative importance assigned to competing objectives, or shaped the selection and justification of particular tax instruments. This distinction is essential for determining whether populist fiscal language functioned primarily as a means of political persuasion or also contributed to the ideational reconstruction of the reform program itself. The analysis proceeds chronologically, beginning with the passage of ERTA and the emergence of its fiscal

contradictions, continuing through TEFRA and the development of comprehensive reform proposals, and concluding with the political reconstruction and enactment of TRA86. The Reagan tax reforms illustrate how political actors could preserve the central commitments of an existing economic policy program while selectively reconstructing competing fiscal ideas into changing policy instruments, presenting successive reforms as compatible with multiple policy objectives, and employing populist fiscal discourse to justify and legitimate the resulting configurations. Rather than treating policy feedback, ideational recombination, and discursive legitimation as separate or sequential stages, the analysis examines how these processes interacted within the development, revision, and political justification of successive tax reform proposals.

2. Tax Reform Movements before the Reagan presidency, 1945–1980

The intellectual origins of how to make the federal tax system fairer had lain in the United States since Congress introduced the individual income tax in 1914. Tax experts had attempted to accomplish a "one package" comprehensive income tax reform to make it simpler, fairer, and more equitable. However, by the end of World War II, the United States had heavily relied on high-rate progressive income taxation, the so-called punitive "mass-based wartime taxation" that had included most middle-class wages and salaries.[55] The tax system also paved the way for a proliferation of tax expenditures that favored recipients of unearned income and higher-income classes. This "tax favoritism" undermined statutory tax rates, eroded the breadth of the tax base, and made the federal income tax system complicated and inequitable among income types and

[55] For the mass-based wartime taxation, see Carolyn C. Jones, "Class Tax to Mass tax: The Role of Propaganda in the Expansion of the Income Tax during World War II," *Buffalo Law Review*, 37 (3), 1989, 685–737.

classes.[56] Learning of Haig's concept while experiencing his work in the Franklin Roosevelt administration and the Treasury's Tax Legislative Counsel the following year, a tax law scholar, Stanley Surrey, began influencing the Treasury's crafting of tax reform after World War II. Having been appointed a law professor at the Harvard Law School in 1951, Surrey convened numerous conferences for economists and tax experts to discuss the federal tax system and advised congressmen and congressional staff on tax reform proposals. They also focused on constructing an equal, fair, and simple federal income tax system. Among them, a very senior and politically talented Representative in the House Committee on Ways and Means (CWM), Wilbur D. Mills (Democrat—Arkansas), significantly contributed to this discussion.

The ideas of the concept of comprehensive income spread not only inside Congress and the Treasury but also among fiscal experts in the 1950s. In the mid-1950s, Mills began leading the effort to accomplish comprehensive income tax reform by cooperating with many well-trained tax scholars including Surrey. After Mills assumed the chairmanship of the CWM in 1958, he appointed economic experts, political parties, business leaders, and Treasury staff, including Surrey, to attend a series of hearings from November 16 to December 18, 1959, where they discussed specific tax reform proposals and promoted the necessity of tax reforms to the public. Surrey argued that lowering and smoothing the tax rate structure and eliminating unjustifiable tax preferences for the upper brackets would reduce the tax burden of lower- and middle-income classes, improving fairness, simplicity, and the horizontal and vertical equity of the tax system without revenue losses. After the hearings, the Treasury and the CWM concurred that the tax reform plan would be essential to promoting tax fairness and desirable economic or social objectives. During the 1960 presidential campaign, Democrats and their candidate John F.

[56] Brownlee, *Federal Taxation*, 163–72.

Kennedy (Democrat—Massachusetts) adopted tax reform based on Surrey's tax idea and the CWM's 1959 hearings as part of their agenda. The "Kennedy–Johnson tax cut" of 1964 once vanished the impetus for a tax reform based on the concept of comprehensive income.[57] Following these movements in the early 1960s, the Treasury, led by Surrey, Assistant Secretary of the Treasury for Tax Policy under Kennedy and Lyndon B. Johnson, nevertheless began a long-range research program directed toward comprehensive reform of the federal tax structure. Nixon's first tax reform, the Tax Reform Act of 1969 (TRA69), was its consequence. TRA69 succeeded in enhancing tax equity both vertically and horizontally while reducing the tax burden of many middle- and working-class taxpayers. However, many middle- and working-class taxpayers expressed their dissatisfaction with its results on their tax burden.[58]

In 1973, debates on the federal tax policy centered on restoring public confidence in the federal tax system by simplifying it and enhancing its equity and economic efficiency. Progressive taxation proponents among tax scholars such as Joseph Pechman and Surrey and the representatives of labors and the needy demanded an income tax reform based on the principle of "ability to pay" that they regarded as the criterion of "economic, social, or tax justice."[59] The representatives of labors and the needy also required cuts in the tax burden of the poor and the middle class provided by highly progressive federal income, payroll, and state and local taxes. They stated that taxpayers' dissatisfaction with and resentment over the lack of justice in the nation's tax structure had reached alarming heights. Business organizations desired tax reforms to simplify the tax system and make it less progressive to encourage investment in new job-

[57] Seiichiro Mozumi, "The Kennedy–Johnson Tax Cut of 1964, the Defeat of Keynes, and Comprehensive Tax Reform in the United States," *Journal of Policy History*, 30 (1), 25–61.
[58] Seiichiro Mozumi, "Tax Expenditures and the Tax Reform Act of 1969," *Social Science History* 46 (1) 2022, 93–118.
[59] House Committee on Ways and Means, *General Tax Reform: Panel Discussions before the Committee on Ways and Means House of Representatives, Ninety-Third Congress, First Session on the Subject of General Tax Reform,* Part 1 of 11 (February 5, 1973) (Washington, D.C.: U.S. Government Printing Office, 1973), 1–25, 146.

producing facilities, economic efficiency, and risk-taking.[60] However, the price upsurge and recession of 1973–74 urged the federal government to shift its fiscal policy direction. The Treasury and the administration of Gerald Ford were concerned that small investments resulted in low productivity and weak international competitiveness of the US economy, the US balance-of-trade deficits, and the decline of public confidence in the US economy and the capacity of the federal government because of the continuation of budget deficits. Criticizing the Keynesian fiscal policy, Simon recommended that both the administration and Congress should shift the focus of their policymaking from personal consumption to capital formation through the increase in saving and investment in productive capacity while keeping the balance of budget through a "sound" fiscal policy.[61]

These economic conditions and Simon's recommendation of a sound fiscal policy accelerated debates on a thorough reform of the existing federal tax system that relied heavily on progressive income taxation and regressive payroll taxes. The debates arose from three ideas for tax reform. First, value-added tax appeared as a candidate for a new tax for the federal tax system among tax experts in Congress through the recommendation of a public finance expert at the University of Oregon, Richard Lindholm.[62] The second idea of tax reform oriented to tax cuts for promoting the "supply side" of the economy along with the rise of the so-called "neo-liberalism" that was replaced by the term coined by W. Elliot Brownlee, "retro-liberalism"—a political ideology that "dropped any interests in promoting economic equality through government policies" including tax reform and social policy, "engaged in sweeping attacks on

[60] House Committee on Ways and Means, *General Tax Reform (Testimony from Administration and Public Witnesses)*, Part 2 of 18 (March 7, 8, 9, 1973) (Washington, D.C.: U.S. Government Printing Office, 1973), 487–95, 582–85, 675.
[61] The Treasury Department, *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1975* (Washington, D.C.: U.S. Government Printing Office, 1975), 301–07.
[62] Richard Lindholm to Lawrence N. Woodworth, December 20, 1974, Folder: Value Added Tax, Box 830, Joint Committee on Taxation (JCT), RG 128, National Archives (NA).

government in general, regarded free markets as the crucial source of social freedom, ignored inequality as a social and economic problem (except insofar as they believed it was caused by government), and disregarded evidence regarding market failure and dysfunction."[63] Representative Jack Kemp (Republican—New York) and his economic advisers, including Paul Craig Roberts, played a significant role in promoting the ascent of supply-side tax cut proponents' ideas in federal tax politics.[64] Third, the administration of Gerald Ford and his Treasury began considering a fundamental reform of the existing federal tax system to reduce the lower- and middle-class tax burden while broadening the tax base to boost fairness, equity, and simplicity to defeat stagflation and bracket creep through capital formation. Implying the possible shift from "income taxation" to "consumption-based taxation," the Secreatry of Ford's Treasury, William E. Simon, declared that the Treasury would launch a review of the individual and corporate income tax reform initiatives for a fundamental shift in domestic policies away from continued growth in consumption and government spending and toward greater savings, capital formation, and investment to increase productivity, the standard of living, jobs, real income, and price stability.[65] Consequently, the Treasury released *Blueprints for Basic Tax Reform* on January 17, 1977. It indicated that both plans would broaden the tax base by reducing tax preferences, making it possible to raise the same amount of revenue with a substantially lower tax rate structure. It also pointed out that a lower-rate structure would mitigate the distorting effects of taxes on economic decisions. The Treasury intended to accomplish a reform of the existing progressive federal income tax system, making it fairer, simpler, more efficient,

[63] Brownlee, *Federal Taxation*, 176–77.
[64] Paul Craig Roberts, *The Supply-Side Revolution: An Insider's Account of Policymaking in Washington* (Cambridge, MA: Harvard University Press, 1984), 31.
[65] The Treasury Department, *Annual Report of the Secretary of the Treasury, 1975,* 324–40.

and more equitable enough to obtain millions of Americans' confidence in the tax system.[66] The differences in ideas among value-added tax proponents, supply-side tax cut proponents, and the Treasury set the tone for the next four years of tax politics.

After Jimmy Carter took office, the first debate on tax reform focused on how to reduce the middle-class tax burden and to bolster the fairness and equality of the federal income tax. During Carter's first year, taxpayers' resentment of federal fiscal policies urged Congress to implement an offsetting tax cut in part because of his increase in Social Security taxes.[67] In this context, the Carter administration recommended a comprehensive tax reform program based on *Blueprints*' recommendations on January 21, 1978. Congressional Republicans and Democrats, including the two congressional tax-writing committees, Al Ullman (Democrat—Oregon) and Russell Long (Democrat—Louisiana), favored the use of tax preferences that might benefit the middle class and encourage capital formation rather than the closing-loophole reform measures.[68] Consequently, the 1978 tax reform reduced the income tax burden borne by middle-income taxpayers with almost no closing-loophole measures. However, its tax-cutting effect was too small to offset the expected increase in the tax burden induced by the 1977 Social Security tax increases and inflation in 1979, which intensified the tax-cutting campaign inside and outside Congress.[69] Both Republicans and Democrats favored drastic supply-side tax-cut plans, incldluing the Capital Cost Recovery Act (CCRA) sponsored by Conable and Representative James R. Jones (Democrat—Oklahoma)—the so-called "10–5–3 bill" that would accelerate

[66] The Treasury Department, *Blueprint for Basic Tax Reform*, January 17, 1977, i–iii, 1–3, 9–12, 136–40.
[67] Martha Derthick, *Policymaking for Social Security* (Washington, D.C.: The Brookings Institution, 1979), 49, 202n26, 431–32; Robert Kuttner, *Revolt of the Haves: Tax Rebellions and Hard Times* (New York: Simon and Schuster, 1980), 213–14.
[68] Seiichiro Mozumi, ""Tax Reformers' Ideas, the Expenditure–Taxation Nexus, and Comprehensive Tax Reform in the United States, 1961–1986," in Gisela Huerlimann, W. Elliot Brownlee, and Eisaku Ide (eds.), *Worlds of Taxation: The Political Economy of Taxing, Spending, and Redistribution since 1945* (Cham: Palgrave Macmillan, 2018), 199.
[69] Christopher R. Conte, "Congress Approves $18.7 Billion Tax Cut," *Congressional Quarterly Weekly Report*, October 21, 1978, 3035.

depreciation or tax write-offs for major business purchases for buildings in 10 years, machinery and equipment in five years, and cars and trucks in 3 years— and a tax reform plan proposed by Kemp and Senator William Roth (Republican—Delaware) that would cut across the board individual income tax rates by 10 percent every year for three years—known as the "10–10–10" tax cuts or the "Kemp–Roth plan"—and index tax rates along with the progress of inflation. These sponsors believed that these supply-side tax cuts would increase productivity and create jobs.[70] Within this context, the impetus for introducing the federal value-added tax vanished in 1980.[71]

During the Carter presidency, the U.S. tax policy debate completely shifted to a "tax-cutting race." The Republican Presidential candidate, Reagan, weighed in with a $36 billion tax program that would provide $31.5 billion in cuts for individual taxpayers with a 10-percent rate cut and facilitate the first installment of a three-year, 30 percent tax cut, and a $4–5 billion business tax cut based on the CCRA. As other presidential candidates' tax cut plans, Reagan's plan targeted to the supply side of the economy in response to a real need to spur saving and investment while appealing to voters that the candidates would slash "the increasing government's tax bite" because of tax bracket creep from wage inflation and higher Social Security taxes.[72] Reagan won in the 1980 Presidential election. Republicans also recorded the landslide victory. Reagan was supposed to accomplish his campaign promise of tax cuts to address the surging interest in tax reduction for taxpayers and capital formation to stimulate investment and promote economic growth. However, the result of tax reform recommendations

[70] Edward Cowan, "Tax-Cut Talk Rises in Capital," *New York Times*, September 11, 1979, 60, 66.
[71] Seiichiro Mozumi, "A Victim of the 1970s U.S. Tax 'Politics': The Failure of Al Ullman's VAT Recommendation, 1972–1980," in Seiichiro Mozumi, Anna Konishi, and Frédéric Tristram (eds.) *The Global Diffusion of a Fiscal Invention: Value-Added Tax and the Historical Diversity of Modern Fiscal Regimes* (New York: Oxford University Press, Forthcoming), Chapter 13.
[72] Robert D. Hershey Jr., "Politics, Promises and Three Plans for Tax Relief," *New York Times*, August 31, 1980, 126, 139.

during the Carter presidency left Reagan with the long-standing and intractable issues of tax simplicity, equity, and fairness almost untouched.[73] Furthermore, the 1970s' tax politics left the subject of accomplishing a "sound" fiscal policy to shift personal consumption to capital formation through the increase in saving and investment in productive capacity while reducing the budget deficits.

3. ERTA and the Contradictions of Supply-Side Tax Reduction in 1981

The next day Reagan won in the 1980 election, his Transition Task Force for Tax Policy (TTFTP) drafted a report that recommended the intellectual resources later mobilized in Reagan's four tax reforms. The TTFTP believed that the weakness resulted from the individual income tax system with high, steeply progressive marginal rates based on social views favoring income redistribution from the rich to the poor, with the tax base eroded by a series of tax breaks. They criticized that the tax system made vast and often arbitrary distinctions between different taxpayers, different types of income and deductions, and different ways of doing business. They also recognized that preferential provisions undermined public confidence in tax fairness. The TTFTP therefore recommended that the Reagan adminsitration should craft their tax program by making them "interrelated" by lowering high tax rates for both individuals and corporations to the point where they would no longer be a significant disincentive to productive work and investment; the application of the lower tax rates as uniformly as possible to all taxpayers and to all types of income to make the tax system the most efficient and neutral to economic choices; special exceptions designed to benefit particular taxpayers or types of income where the exception would "clearly promote the nation's goals" or be "necessary to correct the bias against

[73] Jeffrey H. Birnbaum and Alan S. Murray, *Showdown at Gucci Gulch: Lawmakers, Lobbyists, and the Unlikely Triumph of Tax Reform*, (New York: Random House, 1987), 16.

such taxpayers or income." TTFTP prioritized immediate, drastic rate reductions to meet Reagan's campaign promise. Although the TTFTP believed that major simplification by a massive tax reform would be difficult, they expected that it would address the fundamental need to correct the bias in favor of consumption and against saving and investment. Overall, the TTFTP did not intend to use the tax system to "manage" the economy or "make" the economy grow but to "let" the economy grow, increasing tax revenues. The TTFTP addressed that "these major themes encompass the three traditional tax policy goals of equity, efficiency and simplicity."[74]

Following the TTFTP's recommendation, Reagan announced his first tax reform plan as part of the President's Economic Recovery Program (PERP). The PERP included an across-the-board cut in marginal tax rates for individuals of 5 percent on October 1, 1981, followed by additional 10 percent cuts on July 1, 1982, and July 1, 1983. Reagan also proposed the Accelerated Cost Recovery System that would accelerate write-offs for depreciation of machinery, equipment, and structures for businesses. The PERP's tax cut sought to reduce marginal tax rates, encourage saving and investment, stimulate capital formation, promote innovation and productivity growth, and restore sustained noninflationary economic growth while limiting the federal tax revenue as a percent of gross national product to 20 percent.[75]

During congressional consideration, concerns about federal deficits and the distributional consequences of business tax preferences surfaced. Assistant Secretary of the Treasury for Tax Policy, John E. (Buck) Chapoton, warned that significant proposals such as this bill for savings

[74] The Transition Task Force on Tax Policy, "Report of the Task Force on Tax Policy," November 5, 1980, Folder 2: Transition Task Force on Tax Policy, 1979–1980, 1 of 3, Box 185, SF, TD, DTRP, LOC.
[75] Ronald Reagan, "Address before a Joint Session of the Congress on the Program for Economic Recovery," February 18, 1981, Online by Gerhard Peters and John T. Woolley, *The American Presidency Project* (https://www.presidency.ucsb.edu/node/246567).

and institutions would totally undermine the Reagan administration and the Treasury's strategy for tax policy.[76] The Treasury began examining the possible measures to raise tax revenues silently and invisibly. Even with a certain degree of the tax cut's supply-side stimulus effects, they estimated that revenue losses would become substantial over several years, expanding from $2.2 billion in 1981 to $92.5 billion in 1990 at most.[77] In Congress, House Democrats criticized the business portion of the proposal as "too generous." They also charged that the individual income tax cuts did not "make whole" taxpayers in the lower income brackets when they took both Social Security tax increases and bracket creep into account.[78] Bowing to the requirements from Congressional Republicans, Reagan reshaped the tax package several times by expanding tax preferences for capital incomes and businesses. In so doing, he prevented Democrats from passing their own alternative tax plan and forced them to move closer to his administration's position. Opponents feared the plan would aggravate inflation and lead to uncontrollable budget deficits. The Chairman of the House Committee on Ways and Means (CWM), Daniel Rostenkowski (Democrat—Illinois), told colleagues before the final vote in the CWM that "This is the president's bill. It outlines a bold—and risky—economic strategy."[79]

On August 13, 1981, Reagan signed the ERTA into law. The ERTA would cut $749 billion of business and individual tax revenues over the next five years. It provided the largest tax cut in U.S. tax history to respond to the requirements of capital formation and the tax-cutting

[76] "Interim Report of the CCEA Working Group on Indexing," June 2, 1981, Folder 5: Cabinet Council on Economic Affairs, Jun. 10–30, 1981, Box 117, SF, TD, DTRP, LOC. This material was attached to Murray L. Weidenbaum to Cabinet Council on Economic Affairs, "Interim Report of Working Group on Indexing," June 2, 1981, Folder 5: Cabinet Council on Economic Affairs, Jun. 10–30, 1981, Box 117, SF, TD, DTRP, LOC.
[77] John E. Chapoton to Donald T. Regan, "Revenue Estimates for Restoring the Original ACRS Proposal after 1984," June 6, 1981, Folder 3: Memoranda Tax Policy, Jun. 2–Nov. 5, 1981, Box 60, MF, TD, DTRP, LOC.
[78] John E. Chapoton to Donald T. Regan, "Key Points Raised in Congressional Sessions on H.R. 3849," June 12, 1981, Folder 3: Tax Policy, Jun. 2–Nov. 5, 1981, Box 60, MF, TD, DTRP, LOC.
[79] Pamela Fessler, "Reagan Tax Plan Ready for Economic Test," August 8, 1981, *Congressional Quarterly Weekly Report*, 1431–36.

arguments in the late 1970s. ERTA largely cut both individual and business income taxes more than Reagan had recommended and increased the number of tax loopholes. ERTA's tax cuts inclined to businesses and the wealthy. Reagan presented the legislation not simply as a huge tax cut but also as part of a broader reversal of the growth of federal spending, taxation, and government intervention that had characterized the preceding decades led by Democrats. Reagan emphasized that the ERTA was based on the belief that the cut in tax rates would stimulate the economy so that it would provide additional tax revenue for the federal government. Reagan maintained that his tax cut and budget bills represented "a turnaround of almost half a century of a course this country has been on and mark an end to the excessive growth in government bureaucracy and government spending and government taxing." He emphasized that the real credit would go to Americans "who finally made it plain that they wanted a change and made it clear in Congress and spoke with a more authoritative voice than some of the special interest groups that they wanted these changes in government." He concluded that "we will see the results when people begin to have more money in their pocket from their earnings and when the lowered expenditures of government begin taking effect."[80] The ERTA represented a major political victory for Reagan. The resulting legislation institutionalized the central commitments of Reagan's economic program, making subsequent proposals to reverse the tax cuts politically costly. However, the Reagan administration's commitment to lower marginal rates did not necessarily imply a commitment to preserving every existing tax preference. Rather, questions about tax preferences and loopholes defects of the federal tax system remained on the agenda of the Treasury and the Reagan administration even after they passed the ERTA.

[80] Ronald Reagan, "Remarks on Signing the Economic Recovery Tax Act of 1981 and the Omnibus Budget Reconciliation Act of 1981, and a Question-and-Answer Session with Reporters," August 13, 1981. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project* (https://www.predidency.ucsb.edu/node/246919).

4. A Fiscal Correction Justified by Fundamental Tax Reform Ideas, 1981–1982

As a consequence of the deepening recession and substantial increases in defense expenditures, each successive projection of the budget deficit increased after the ERTA was legislated. The fiscal difficulties that followed the enactment of ERTA urged the Reagan administration to consider a fiscal correction to proceed within constraints partly created by their own legislative achievement. Shortly after ERTA's enactment, the chairman of the Senate Finance Committee (SFC), Robert Dole (Republican—Kansas), declared that the SFC would start to discuss a new tax reform plan to offset the revenue loss provided by the ERTA. Rostenkowski also maintained that it was unreceptive to any more tax-cutting legislation in 1981.[81] The chairman of Reagan's Council of Economic Advisers (CEA), Murray L. Weidenbaum, pointed out that the prospects of the economy from a strong upturn in early 1982 would be clouded by initial tax cuts of ERTA because of higher interest rates, energy and food prices than expected, and the strong dollar that would depress exports and encourage imports. He believed that these factors would portend a smaller revenue base and higher deficits than expected before the ERTA's enactment. He was also concerned that it would make financial markets worry about further heavy deficit financing, absorbing savings, keeping higher interest rates, and interfering with private investment.[82] Furthermore, the most serious political problem was that postponing or reversing the scheduled ERTA reductions could lead people, businesses, and the financial markets to interpret it as an admission that Reagan's economic program had failed.

[81] Irwin B. Arieff with Reports by CQ Staff Writers, "Congress Returns to Face More Economic Problems, Crowded Legislative Agenda," September 5, 1981, *Congressional Quarterly Weekly Report*, 1668.
[82] Murray L. Weidenbaum, "Economic Update," September 8, 1981, Folder 1: Fiscal Year 1982 Fall Budget Program, Sept. 1981, Box 108, SF, TD, DTRP, LOC.

In September 1981, these concerns led Treasury officials to craft the Reagan administration's next tax reform plan by distinguished "tax increases" that would undermine the incentives established by the ERTA with what they called "revenue enhancement" provisions to recover revenue without reversing or postponing the ERTA's central principles. The Treasury recommended that the Reagan administration should follow this direction by preserving lower marginal rates while modifying the tax base by restricting selected tax preferences to "enhance" the federal extractive capacity without sacrificing the ERTA's supply-side objectives. The Treasury expected that it would have an impact "on the viewpoint that we cannot or will not balance the budget or that we are implicitly recognizing that our fiscal-budget plan was a mistake" if the Reagan administration recommended it as a tax increase. They believed that the "revenue-enhancement" provisions would enable the Reagan administration to persuade the market that they were serious about balancing the budget and restoring confidence in the ERTA. They expected that targeting the revenue-raisers to tax loopholes and abuses would help balance the budget without obstructing economic growth, as the TTFTP had recommended in their report. Furthermore, the revenue-enhancement program could reduce the pressure to enact further spending reductions and make the market believe any Congressional resistance against it as a certificate that Congress could not control budget deficits. However, the administration's tax increase proposal could be viewed as a confirmation of the Democrats' arguments that the ERTA's revenue cuts would be excessively huge. The Treasury expected that the Democrats could seek to vindicate their position by attempting to repeal all or part of the ERTA. The challenge was therefore not simply to restore federal revenues, but to identify revenue measures that could be defended as consistent with the administration's commitment to economic growth.

In this setting, the correction of tax abuses and preferential treatment began to acquire a significance extending beyond conventional deficit reduction.[83]

The Reagan administration had to devise a revenue-enhancement program that would satisfy the various preferences and demands of the majority of Americans. Despite the sacrifice of substantial tax revenues, the majority of Americans expected that the ERTA would fail to meet their needs. The Harris Survey conducted between August 11 and 16 demonstrated that 61 percent of the respondents doubted the supply-side economists' proposal that the country should abandon the graduated income tax for a flat tax. It also revealed that all groups below the $35,000 income level wanted to retain the progressive tax rate structure. Among those with annual incomes of more than $35,000, however, 49 percent of respondents went along with the argument that investment would be stimulated by a 20 percent flat rate tax. The rest of the public, including the people with higher incomes than $35,000, felt that "to charge everyone the same percentage of their income in taxes would be decreasing federal income taxes for the rich and increasing taxes for people with incomes below $18,000 a year." The respondents expected that the Reagan years would be harder times for the less privileged and a field day for the most privileged. 75 percent of respondents were convinced that "the rich and big business would be much better off" and 64 percent felt the elderly, the poor, and the handicapped would especially be hit the hardest. Most Americans believed the progressive tax burden was fair and equitable based on the principle of ability to pay. 51 percent of respondents among business executives shared this view, as did 53 percent of those in the highest income brackets.[84] Therefore, the

[83] "Untitled," Undated, Folder 5: Revenue Raisers, Spt. 14, 1981, Box 165, SF, TD, DTRP, LOC. This material was attached to John E. Chapoton to Donald T. Regan, "Revenue Raising Proposals," September 14, 1981, Folder 5: Revenue Raisers, Spt. 14, 1981, Box 165, SF, TD, DTRP, LOC.
[84] The Harris Survey, "Majority of Americans Reject Proposal to Abandon Graduated Income Tax," September 21, 1981, File: Tax Reform–Folder 3, July 1982–December 1982, CFOA 846, Box 6, Eugene J. McAllister Files (EJMF), Staff Members and Office File Collections (SMOF), Ronald Regan Library (RRL).

Reagan administration needed to "sell" revenue-enhancement provisions not only as a means of reducing the deficit, but also as a way to promote investment and ensure that the wealthy and large corporations bore their fair share of the tax burden.

On September 24, 1981, Reagan announced that he would recommend the next tax reform program in addition to new spending cuts for fiscal 1982. Reagan described it as "the revisions of the tax code to curtail certain tax abuses and enhance tax revenues, while maintaining incentives for economic growth." The possible provisions included business tax accounting rules dealing with the completed contract method, certain residential and business energy tax credits, the use of tax-exempt industrial development bonds, modified coinsurance arrangements by life insurance companies, the tax threshold for unemployment compensation, corporate tax collections, and administrative rules to facilitate IRS collection and enforcement efforts. These reforms would raise additional tax receipts of $3 billion in fiscal 1982, $8 billion in fiscal 1983, and $11 billion in fiscal 1984.[85] Members and staff of the CWM, SFC, House Budget Committee (HBC), and Senate Budget Committee (SBC) evaluated the tax reform plan as a rationale, a vehicle, and an excuse for opening up the tax "increase" to avoid further deep spending cuts.[86] House Republicans were reluctant to move on revenue increases, while Senate Republicans supported the plan. In order to avoid further spending cuts, a number of Republicans and Democrats suggested reducing the budget deficit by increasing excise taxes and delaying the second and third stages of the ERTA. The Assistant Secretary of the Treasury for Legislative Affairs, Dennis Thomas, rejected this suggestion by arguing that the delay of the ERTA would repudiate Reagan's commitment to his economic programs and reduce taxes for working people,

[85] Office of the Press Secretary of the White House, "Fact Sheet: Fall Budget Program," September 24, 1981, Folder 1: Fiscal Year 1982 Fall Budget Program, Sept. 1981, Box 108, SF, TD, DTRP, LOC.
[86] "Assessment of Revenue-Raising Proposals," October 8, 1981, Folder 6: Revenue Raisers, Sept. 15–Oct. 13, 1981, Box 165, SF, TD, DTRP, LOC.

the savings and investments needed for economic recovery. Assistant Secretary of the Treasury Paul Craig Roberts and Thomas emphasized that the Reagan administration "should go ahead with" the "revenue enhancement" package.[87] The CEA expected that this tax reform proposal would demonstrate his administration's will "to accept responsibility for putting the nation's fiscal house back in order."[88] The Deputy Assistant Secretary of the Treasury for Tax Analysis, Greg Ballentine, emphasized that "Tax increases can be found which will not reverse that effect of the tax cut and which are superior to borrowing as a means of finance. Except for the corporate speed-up, the six revenue enhancement measures mentioned in the President's speech are examples of such tax increases."[89]

Many contemporary suggestions of thorough-going tax reforms helped the Reagan administration, the Treasury, and the tax-increase proponents in Congress justify and legitimize the possible revenue-enhancement provisions. The most remarkable proposal was a flat income tax with low marginal rates proposed by the Hoover Institution's economists Robert E. Hall and Alvin Rabushka. Despite the enactment of the ERTA, Hall and Rabushka argued that the US tax system remained a "disgrace because of inordinately lengthy, filling volumes of tax codes" made by hundreds of tax preferences and "steeply progressive rates" even under the ERTA. They argued that the current tax system weakened individual incentives to work, save, and invest while squeezing the lower- and middle-income taxpayers by bracket creep. They also criticized the proliferation of tax preferences for encouraging taxpayers to become tax evaders and to

[87] Dennis Thomas, "Revenue Update," Undated, Folder 6: Revenue Raisers, Sept. 15–Oct. 13, 1981, Box 165, SF, TD, DTRP, LOC; Paul Craig Roberts, "Effects of Postponing Tax Rate Reductions," October 13, 1981, Folder 6: Revenue Raisers, Sept. 15–Oct. 13, 1981, Box 165, SF, TD, DTRP, LOC.
[88] Roger B. Porter to Donald T. Regan, "Thoughts on the Current Economic Outlook," November 2, 1981, Folder 5: Cabinet Council on Economic Affairs, Oct. 26–Dec. 4, 1981, Box 118, SF, TD, DTRP, LOC.
[89] Greg Ballentin to Donald T. Regan, "The Burden of Taxes and the Burden of Government: A Non-political Discussion," October 29, 1981, Folder 3: Memoranda Tax Policy, Jun. 2–Nov. 5, 1981, Box 60, MF, TD, DTRP, LOC.

channel their money into tax shelters. Hall and Rabushka also pointed out that the American demand for justice meant that the rich should pay higher taxes. As a contribution to the debate and discussion on this important subject, Hall and Rabushka proposed a simple income tax based on a lower, flatter rate structure with a much broader tax base than the existing tax system by replacing the entire current system of separate tax rate schedules on corporate and individual income. The new tax would apply the tax rate to all taxpayers and all types of income, excluding the very poor. They suggested that the reform would be accomplished revenue-neutral. The simple flat rate would end bracket creep and largely minimize the penalty current law imposed on two-earner households (the marriage penalty). It would cease further proliferation of a variety of tax expenditures by base-broadening measures, decreasing the time for tax avoidance and inequity among income classes. A simplified tax with low marginal rates would also help restore confidence in government and would support the basic honesty of the American people. Most importantly, Hall and Rabushka expected that their ideal tax system would restore the incentives to work, save, and invest, thereby promoting economic growth and higher standards of living and producing more tax revenues. They believed that the growth stimulated by tax reform would increase Americans' income overall and decrease the federal budget deficit.[90]

Within the political and intellectual contexts, Chapoton recommended that the Treasury and the Reagan administration should continue to examine the appropriateness of the existing tax expenditures.[91] In the State of the Union address on January 26, 1982, Reagan requested $86.6 billion in new tax revenues through "revenue enhancement" provisions for fiscal 1983–87 as part

[90] Robert E. Hall and Alvin Rabushka, "A Simple Income Tax with Low Marginal Rates," January 1982, File: Tax Reform–Folder 2, 1982, CFOA 846, Box 5, Eugene J. McAllister Files (EJMF), Staff Members and Office File Collections (SMOF), Ronald Regan Library (RRL).
[91] John E. Chapoton to Donald T. Regan, "Tax Expenditures," January 29, 1982, Folder 4: Memoranda Tax Policy, Nov. 13–Dec. 24, 1981, Box 60, MF, TD, DTRP, LOC.

of his budget deficit cut plan. Reagan's package was designed to look as little as possible like a tax-increase request by recommending "unwarranted tax loophole-closing measures" and appealing them as a program to "improve tax collection" through base-broadening measures such as withholding taxes on interest and dividend income and faster corporate tax payments. The Reagan administration also resurrected several measures they proposed in September 1981, including forbidding use of the so-called complete contract method of accounting which allowed firms with multi-year contracts to delay payment of taxes until the projects were completed; repealing special 10 percent to 15 percent energy tax credits for businesses; restricting the use of tax-exempt industrial development bonds; elimination of a tax code provision that allowed insurance companies to reduce their tax liability by setting up subsidiaries; a speedup of corporate income tax payments; an increase of 5,000 in the IRS enforcement staff; and repeal of a provision allowing corporations to immediately write off interest and tax costs incurred during construction. In the meantime, Reagan emphasized that the revenue-enhancement provisions did not mean the "retreat" from his original plan or the effort to balance the budget "on the backs of the American taxpayers." He reaffirmed his belief that the ERTA would stimulate economic recovery.[92]

As fiscal pressures squeezed direct spending programs drier, pressure was mounting for control of tax expenditures both inside and outside Congress. The SBC chairman, Pete Domenici (Republican—New Mexico), noted that the federal government was quietly "spending" $82 billion through new or expanded tax breaks, including the ERTA's provisions, bringing to 110 the total number of federal tax expenditures.[93] A survey conducted by the Reagan administration's

[92] Pamela Fessler, "$86 Billion Reagan Tax Proposal Outlined," January 30, 1982, *Congressional Quarterly Weekly Report*, 149.
[93] Pamela Fessler, "Congress Urged to Scrutinize Tax Breaks that Cost U.S. Billions in Lost Revenues," January 30, 1982, *Congressional Quarterly Weekly Report*, 155–58.

staff member, Richard Wirthlin, found that Americans rather favored a cut in non-defense spending than revenue increases when they faced four pre-structured budgeting options: postponing the tax cut, reducing defense spending, reducing all federal spending except defense, and not balancing the budget.[94] Public opinion revealed a widespread perception that the PERP disproportionately favored the wealthy.[95] At Camp David on February 5, 1982, the Reagan administration counted fiscal year 1983's budget as a major priority to make it feasible with the movement on defense and taxes. In so doing, they intended to appeal to Congress by showing that they were effectively controlling their economic program and to avoid the image of a "rich-man's President."[96] Both parties sought politically a "comfortable" legislative action to reduce budget deficits because 1982 was an election year during a serious recession.[97] In both houses, the Democrats asserted that Reagan's budget, through cuts in domestic discretionary and entitlement programs, would "unfairly" impose the burden of sacrifice most heavily on those who could least afford it. By contrast, Republicans demanded deeper cuts in discretionary spending and entitlement programs and higher revenues than Reagan had requested. In a televised speech on April 29, Reagan therefore urged the American people to press for budget compromise to end the expansion of tax expenditures, direct government spending, government

[94] Richard B. Wirthlin to Richard Richards, "The Budget," January 29, 1982, File: Book for Long Range Planning, Camp David, Feb. 5, 1982, 1 of 2, Box 1, Series I: Subject Files, Richard G. Darman Files (RDFSF), SMOF, RRL. This material was attached to Richard B. Wirthlin, "A National Survey of Public Attitudes: Summary of Findings," February 1982, File: Book for Long Range Planning, Camp David, Feb. 5, 1982, 1 of 2, Box 1, Series I: Subject Files, Richard G. Darman Files (RDFSF), SMOF, RRL.
[95] Richard B. Wirthlin to Richard Richards, "The Economy," February 2, 1982, File: Book for Long Range Planning, Camp David, Feb. 5, 1982, 1 of 2, Box 1, Series I: Subject Files, Richard G. Darman Files (RDFSF), SMOF, RRL. This material was attached to Richard B. Wirthlin, "A National Survey of Public Attitudes: Summary of Findings," February 1982, File: Book for Long Range Planning, Camp David, Feb. 5, 1982, 1 of 2, Box 1, Series I: Subject Files, Richard G. Darman Files (RDFSF), SMOF, RRL.
[96] Richard G. Darman and Craig L. Fuller to Participants at Camp David Meeting on February 5, 1982, "Briefing Materials," February 4, 1982, File: Book for Long Range Planning, Camp David, Feb. 5, 1982, 1 of 2, Box 1, Series I: Subject Files, Richard G. Darman Files (RDFSF), SMOF, RRL.
[97] Dale Tate, "Congress Balks at '83 Budget with Cuts and Huge Deficits," February 13, 1982, *Congressional Quarterly Weekly Report*, 223–24.

debt, and high interest rates. Reagan pledged to forge a bipartisan compromise through a round of meetings with responsible Republican and Democratic lawmakers to accomplish these goals "in the national interest."[98]

In the process of the budget resolution, the HBC, SBC, CWM, and SFC negotiated with the Reagan administration to legislate the size of the revenue increase through the revenue-enhancement provisions. In the SBC, a plan drafted by Domenici envisaged $125 billion in higher revenues over three years, and possibly some alteration of the third year of Reagan's ERTA. After Reagan met with his key advisers to provide new budget guidelines, a meeting among the White House Chief of Staff James A. Baker III, the Director of the Office of Management and Budget David Stockman, and Domenici took place on Capitol Hill. Baker and Stockman required Domenici to withdraw the modification in the ERTA implementation. Domenici agreed with the requests in exchange for a cut in the size of the revenue increases. The SBC revised the Domenici plan by reflecting this negotiation. Reagan pledged his support for it.[99] To pass the budget through the House, Regan maintained that the Reagan administration and the Treasury would consider changing controversial "leasing" provisions of the 1981 law, the existing 10 percent investment tax credit, and new business depreciation benefits during the budget reconciliation phase. The CWM and SFC also maintained that they might consider the exchange of withholding taxes on interest and dividends—which met heavy opposition—for other major loophole-closing measures. Rostenkowski introduced a similar tax compliance package on May 6.[100] The HBC could not recommend specific provisions to raise these revenues.

[98] Dale Tate, "Budget Battle Erupts on Hill as Compromise Talks Fizzle," May 1, 1982, *Congressional Quarterly Weekly Report*, 967–69.
[99] Dale Tate, "Senate Republicans, Reagan Press a New Budget Package," May 8, 1982, *Congressional Quarterly Weekly Report*, 1037–38, 1040.
[100] Pamela Fessler, "Tax Issue Still a Big Threat to Budget Effort," May 8, 1982, *Congressional Quarterly Weekly Report*, 1039.

The SBC's final budget bill included major proposals such as tax increases of $20 billion in fiscal 1983, $35 billion in 1984, and $40 billion in 1985, and $2 billion in new user fees each year. The SBC's plan would raise $52 billion less in revenues than the House panel's—$95 billion over the next three fiscal years. The HBC and SBC approved the fiscal 1983 budget resolutions. The plan would increase tax revenues by $30.7 billion in fiscal 1983, $50.65 billion in fiscal 1984 and $65.5 billion in fiscal 1985—a total of $147 billion.[101]

In the budget reconciliation phase, both key Congressional Republicans and Democrats worked on the details of the revenue-enhancement provisions. In the SFC, Dole intended to justify the urgency to implement them by arguing that Congress could no longer count on an automatic revenue windfall from the ERTA's supply-side stimulative effects. Dole also legitimized them as measures to improve what he called "a universal perception" of the existing federal tax system's defects: "too complicated, too vulnerable to the change of inequity" because of the proliferation of tax preferences. He repeated the same arguments as Hall and Rabushka had made to advocate for a flatter income tax system. He also pointed out that tax preferences largely made the tax base a "Swiss cheese" and undermined $228.6 billion, or 8.0 percent of GNP, of tax revenues in 1981. Furthermore, he emphasized that further changes in the tax reform program could come only by reexamining the tax base through eliminating or modifying tax preferences. He believed that tax equity and simplicity were important in a system of voluntary compliance to ensure that everyone paid a fair share of tax and to convince taxpayers of the system as fair. He emphasized that they would also enhance the efficiency of raising tax revenue and public acceptance of the tax system. Dole suggested the improvement of the compliance record, the strengthening of minimum taxes, and closing unnecessary loopholes, such as safe

[101] Dale Tate, "Party Conflicts Threaten 1983 Budget Plans," May 15, 1982, *Congressional Quarterly Weekly Report*, 1091, 1094, 1096.

harbor leasing and the tax break for contributions to private pension plans. Dole maintained that Reagan agreed to these tax reform measures and the three tax-reform principles. He legitimized his plan as "will take a concerted effort to restore public confidence in the tax code as a fair and straightforward device for raising revenue to meet the needs of our people."[102]

Revenue-enhancement programs resulting from measures to broaden the tax base were consistent with the flat tax debate that had been garnering attention in Congress, and they gained momentum. The Chairman of the Democratic Economic Policy Committee, Senator Bill Bradley (Democrat—New Jersey), believed that it was crucial to address not only the need to reduce budget deficits but also to reform the federal tax system for the same reasons pointed out by Hall, Rabushka, and Dole. Bradley and Gephardt pointed out that the trend set by the ERTA would lead the federal tax system to require only the people who earned wages and salaries to pay income taxes in the future. They argued that that prospect "is simply unacceptable in a democracy." Bradley recommended what he called "comprehensive income tax reform" that was a result of Bradley having huddled with tax experts, Wall Street sages, the Treasury, and the Brookings Institution. This recommendation requested that lawmakers lower tax rates, make the rate structure flatter, and broaden the tax base by eliminating many tax preferences drastically. This proposal would maintain federal tax revenue while cutting the tax burden of 60 percent to 70 percent of taxpayers and increasing it for those who made the greatest use of tax preferences. He expected that the "comprehensive income tax reform" would enhance horizontal equity, simplicity, and neutrality of the tax system, which allows taxpayers to make their economic decisions based on real value in the marketplace. To legitimize this recommendation, Bradley claimed that the existing tax system made a majority of taxpayers perceive it as unfair because

[102] Robert Dole, "Where We Are Headed in Tax Policy," May 17, 1982, *Congressional Record—Senate*, S5344–46.

the wealthy and those with the same income avoided paying their fair share. Bradley also emphasized that it would enhance U.S. competitiveness in the international market and adapt it to rapid technological changes based more on knowledge than on physical labor. To ensure fairness for lower-income taxpayers, the reform plan included an increase in the personal exemption and the zero bracket amount for joint returns.[103] Representative Richard Gephardt (Democrat—Missouri) expressed his support for Bradley's "comprehensive income tax proposal" as "the best, most equitable and simplest bill which will provide sufficient revenue to run the government and encourage economic growth."[104]

The notion of a flat income tax and the Bradley–Gephardt proposal gained momentum among both parties on Capitol Hill. Their proposals led Dole to announce on May 27 that the SFC would hold hearings late 1982 "on the advisability of a flat rate tax to replace the current income tax on individuals." He expected that the idea might become a focal point for the country's next great tax debate.[105] Simplification would in and of itself go a long way toward enhancing the equity, simplicity, efficiency, and extractive capacity of the federal tax system. The most dramatic fresh start, without changing the total amount collected, would be a flat-rate 12 percent tax levied on a greatly broadened income tax base proposed by Senator Jesse Helms (Republican—North Carolina). Representative Leon Panetta (Democrat—California) also proposed a 19 percent flat tax rate while retaining a few preferences.[106] There was a growing

[103] Bill Bradley, "A Statement on Tax Policy by Sen. Bill Bradley to Members of the Washington Press Club," May 27, 1982, File: Tax Reform–Folder 3, July 1982–December 1982, CFOA 846, Box 6, Eugene J. McAllister Files (EJMF), Staff Members and Office File Collections (SMOF), Ronald Regan Library (RRL).
[104] "Congressman Richard A. Gephardt's Statement on Comprehensive Individual Income Tax Proposal," May 27, 1982, File: Tax Reform–Folder 3, July 1982–December 1982, CFOA 846, Box 6, Eugene J. McAllister Files (EJMF), Staff Members and Office File Collections (SMOF), Ronald Reagan Library (RRL).
[105] Albert P. Hunt, "Notion of Lowering Income-Tax Rates, Curbing Write-Offs Builds on Capitol Hill," *The Wall Street Journal*, May 28, 1982, File: Tax Reform–Folder 3, July 1982–December 1982, CFOA 846, Box 6, Eugene J. McAllister Files (EJMF), Staff Members and Office File Collections (SMOF), Ronald Reagan Library (RRL).
[106] Editorials, "Simplified and Fair Taxes," *St. Louis Post–Dispatch*, June 5, 1982, File: Tax Reform–Folder 3, July 1982–December 1982, CFOA 846, Box 6, Eugene J. McAllister Files (EJMF), Staff Members and Office File Collections (SMOF), Ronald Regan Library (RRL).

temptation among business lobbyists to offer up each other's tax breaks for sacrifice. Dirk Van Dongen, the executive vice president of the Wholesaler-Distributors, argued that "Various organizations that were formerly opposed to any tax increase are getting into the mode of, 'Don't tax me, tax thee.'" John Albertine, the president of the American Business Conference, also saw a lobbyist-eat-lobbyist mood developing.[107] Many Americans kept saying that the existing federal income tax system was a "poison in the body politic." They believed that it allowed many wealthy citizens to pay little or no tax while claiming close to half the marginal earnings of the middle class. They also believed that the tax system was so complicated that even the most educated family needed a professional to identify how much they had to pay. The price of simplicity in such a flat-rate tax was an enormous redistribution of income.[108] Many congresspersons, including Dole and Helms, evaluated that the Bradley–Gephardt package would pay for the price by correcting tax expenditures. In Congress, Kemp, the champion of the ERTA, applauded Bradley for trying to lower the rates for individuals and to bring the people from the sheltered economy into the productive and taxpaying economy.[109] The argument that expanding the tax base would enhance the redistributive effects of the tax system, along with the potential for tax reforms — including deficit reduction — to lower interest rates and stimulate investment, was used to legitimize tax revenue measures based on a broader tax base.

The CWM and SFC attempted to pass each committee's tax reform program by emphasizing it would respond to the "common interest": a return to fairness and faith in the tax system laid at the heart of responsible government. Rostenkowski and Dole designed their

[107] Bill Keller, "With Tax Hikes in Prospect, Lobbyists Revert to Form: 'Don't Tax Me, Tax Thee,'" June 5, 1982, *Congressional Quarterly Weekly Report*, 1328–30.
[108] New York Times, "Yes, There Is a Better Income Tax," *New York Times*, June 6, 1982, 207.
[109] Tim O'Brien, "A Sweeping Tax Proposal by Bradley," *Sunday Star-Ledger*, June 20, 1982, File: Tax Reform–Folder 3, July 1982–December 1982, CFOA 846, Box 6, Eugene J. McAllister Files (EJMF), Staff Members and Office File Collections (SMOF), Ronald Reagan Library (RRL).

committees' tax bill to reduce tax non-compliance by increasing penalties, IRS enforcement powers, and the use of tax withholding. Although the two bills generally received broad support, the specifics raised opposition from those affected, ranging from restaurant workers, securities and commodities brokers, to insurance companies. They complained that the stricter compliance measures would impose substantial paperwork and financial burden. Representatives of hotel and restaurant workers charge the bills would hurt lower-income taxpayers and encourage "IRS harassment."[110] Energetic lobbying efforts over the past few months had whittled away at many of the revenue-raising plans. However, for many Congressional members, faced with a mandate to reduce the federal budget deficit, raising revenues by clamping down on those who did not pay their tax bills was politically more palatable than trying to find new taxes to raise.[111] Consequently, the SFC approved a package of approximately $98 billion in new taxes and other revenue raisers for fiscal 1983–85 on July 2. After some back-room bargaining, as dozens of lobbyists waited in the halls, the SFC adopted the 10-percent withholding provisions to all interest and dividend payments, except those made to elderly and low-income individuals, corporations, and tax-exempt institutions. The bill also included a lower, long-term capital gains tax intended to appease banks and other groups that long had opposed withholding. After the withholding vote, the SFC approved an amendment to a minimum income tax on both corporations and high-income taxpayers, the limited leasing provision, and the IRS's enforcement powers and tax administration. The SFC also made several changes in business tax breaks, including cutting back the Accelerated Cost Recovery System. In exchange, the SFC agreed to increase several deductions, including deductions for unreimbursed medical and

[110] Pamela Fessler, "Stricter Tax Compliance Seen as Easy Way to Lift Revenues," June 26, 1982, *Congressional Quarterly Weekly Report*, 1521–22.
[111] Congressional Quarterly, Inc., "Finance Committee to Begin Tax Markups," June 26, 1982, *Congressional Quarterly Weekly Report*, 1522.

casualty. The SFC bill offset the loss of revenue-enhancement effect by the increases in the federal unemployment tax, Social Security taxes for Medicare coverage, and excise taxes on telephone, cigarettes, and aviation.[112]

Although the SFC proposals were less restrictive than the administration's proposal, they supported it. Regan notified Rostenkowski that the Reagan administration supported the SFC bill and expected that it would reduce deficits while maintaining the integrity of Reagan's economic recovery program. Regan evaluated that the SFC's tax increases were carefully crafted to preserve the incentives for saving and investment contained in the administration's economic program. Most importantly, Regan emphasized that the bill preserved the basic features of the ERTA and meshed with the fiscal restraints in Congress' budget resolution. The Reagan administration also supported in principle the SFC's proposal designed to limit the combined benefits of the Accelerated Cost Recovery System and the investment tax credit to that available from immediate expensing. While the Reagan administration supported the SFC-passed bill, they wanted to work with the CWM to refine a revenue-raising package that would improve the fairness of the tax system and to preserve the incentives necessary for economic recovery.[113] On July 23, the Senate passed the largest peacetime tax increase in history. The passed tax bill would raise $20.9 billion in new revenues for fiscal year 1983 and about $99 billion over the next three years. Despite strong pressure from lobbyists and general unwillingness among Congressional members to raise taxes during an election year, the package put together by the SFC was kept largely intact.[114]

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[112] Pamela Fessler, "Divided Finance Committee Approves Tax-Increase Plan," July 3, 1982, *Congressional Quarterly Weekly Report*, 1575–76.
[113] Donald T. Regan to Daniel Rostenkowski, July 12, 1982, File: Tax Issues [3], OA 14862, Box 1, Frederick McClure Files (FMF), Staff Members and Office File Collections (SMOF), Ronald Reagan Library (RRL).
[114] Pamela Fessler, "Spending Cuts, Record Tax Hike Pass Senate," July 24, 1982, *Congressional Quarterly Weekly Report*, 1747–49.

The Senate-passed tax-increase bill generated a shot of political questions in the CWM panel. Republicans hoped that the loophole-closing measures and the enhancement of tax collection through the Internal Revenue Service would blunt the perception of the Republicans as the party of the rich. Republicans feared that the tax increase might destroy their image as tax-cut providers through the ERTA. More importantly, Republicans and Democrats hoped the tax bill would be seen as a symbol of their accomplishment in tough political times. In the CWM, Democrats obtained Republicans' support in two ways. First, they promised the measure would leave the ERTA's individual income-tax rates intact. In Exchange, Republicans agreed to the SFC bill's revenue-enhancement provisions, including cuts in business tax breaks provided by the ERTA. Second, they convinced Republicans of the necessity of tax revenues to narrow federal deficits, ease financial-market fears, bring down interest rates, and restore the health of the economy. These arguments prevailed on the final vote.[115] This result was endorsed by the statements of tax experts' testimonies on how urgent it was for the Reagan administration to consider a proposal for broadening the tax base and revising the rate structure in terms of equity among income classes, simplicity, and neutrality of the federal tax system. Tax experts such as Joseph J. Minarik, the Congressional Budget Office's Deputy Assistant Director of the Tax Analysis Division and the Treasury's Under Secretary for Economic and Tax Policy, Norman Ture, appealed for a broad-based system with lower tax rates without being completely flat, making it more efficient, simpler, and fairer.[116] The administration's staff, Franz Schumann, stated

[115] Robert Merry, "Senate Tax-Boost Bill Poses Hard Political Problems for House Democrats and Candidates in November," *Wall Street Journal*, July 26, 1982, 3.
[116] "Testimony of Joseph J. Minarik, Deputy Assistant Director, Tax Analysis Division, Congressional Budget Office Before the Subcommittee on Monetary and Fiscal Policy," July 27, 1982, File: Tax Reform–Folder 3, July 1982–December 1982, CFOA 846, Box 6, Eugene J. McAllister Files (EJMF), Staff Members and Office File Collections (SMOF), Ronald Regan Library (RRL); Norman B. Ture, "Reforming Our Tax System: The Flat Rate Tax and Social Security Financing, Testimony Presented to the Joint Economic Committee," July 27, 1982, File: Tax Reform–Folder 3, July 1982–December 1982, CFOA 846, Box 6, Eugene J. McAllister Files (EJMF), Staff Members and Office File Collections (SMOF), Ronald Reagan Library (RRL).

that Reagan introduced renegotiation of the social contract by "tentatively endorsing calls for a flat-rate tax…the proposals now floating around Congress for a flat-rate tax seem to be designed to head off a national debate on taxation by giving a sop to the taxpayers."[117]

During the House–Senate conference, Reagan powerfully convinced many opponents over the tax reform bill. 80 House Republicans signed a letter to Reagan warning that they would not support the bill. Several Senate Republicans who backed the measure also became reluctant to vote for the final passage of unpopular tax hikes.[118] Ardent supply-siders such as Kemp continued to argue that the "country simply cannot stand up to such a dramatic tax increase in its depressed condition." Powerful business groups such as the Business Roundtable and the National Association of Manufacturers continued campaigns against cuts in business tax breaks because they would significantly scale back the business benefits of the ERTA. Norman E. D'Amours (Democrat—New Hampshire) had signed up 104 House members to oppose a provision that would require the withholding of taxes on interest and dividend income. Reagan countered these arguments in dozens of meetings with House members. He pressed them to consider whether they would choose to "reduce deficits and interest rates by raising revenue from those who are not now paying their fair share…Or would you rather accept larger budget deficits, higher interest rates and higher unemployment? I think I know your answer."[119]

The House–Senate conference reached an agreement on August 17. The conference report mirrored the Senate-passed bill closely. Conferees agreed to one of the most controversial tax increases—the withholding of taxes on income from interest and dividends. The conferees

[117] Franz Schumann, "Taxation and the Social Contract," August 4, 1982, File: Tax Reform–Folder 3, July 1982–December 1982, CFOA 846, Box 6, Eugene J. McAllister Files (EJMF), Staff Members and Office File Collections (SMOF), Ronald Reagan Library (RRL).
[118] Pamela Fessler, "Tax Bill Conferees off to Sluggish Start," August 7, 1982, *Congressional Quarterly Weekly Report*, 1879.
[119] Dale Tate, "President Hawks Tax Increase as Conferees Haggle Over Bill," August 14, 1982, *Congressional Quarterly Weekly Report*, 1947–48.

resolved the welfare problem and major reductions in projected spending for health programs. Conferees dropped Senate provisions that liberalized the treatment of capital gains by reducing the holding period that distinguishes long-term from short-term capital gains and losses from one year to six months. They also dropped Senate floor amendments that would have indexed long-term capital gains taxation to account for inflation and limited deductions for business meals. The House accepted most of the Senate's tax compliance provisions that would increase penalties for faulty filing and require more stringent reporting requirements for companies and institutions that paid interest, dividends, and capital gains. The conference agreement would also increase excise taxes on telephones, tobacco, and airplane tickets, and medical deductions, while eliminating the current $150 deduction for health insurance premiums. Federal unemployment taxes would increase. Conferees strengthened the minimum tax for the wealthy. The House–Senate conferees' bill included the halved Accelerated Cost Recovery System and investment tax credit, speeded up collection of corporate tax payments, and the repeal of a tax break allowing oil and gas companies. The bill included the repeal and restriction of medical expenses, health care insurance premiums, and casualty deductions; restriction of pension contributions deductions; the introduction of a new federal unemployment tax for Medicare coverage; and a more comprehensive alternative individual minimum tax. The legislation would raise an estimated $20.7 billion during fiscal 1983–85 through strengthened tax enforcement and collection procedures, including measures to enhance tax compliance such as the requirement of additional reporting of income by strengthening IRS enforcement powers. Furthermore, the final bill required the Secretary of the Treasury and the Reagan administration to promote a further study

of a tax reform to simplify the federal tax system simplification of the tax system.[120] Consequently, Reagan signed this tax reform bill into law as the TEFRA on September 3, 1982.

The TEFRA provided the $98.3 billion tax increase in exchange for the reduction in Medicare, Medicaid, government pensions, farm programs, food stamps, federal home loans, and veterans' benefits. The tax increase and the spending cuts were designed to reduce the federal deficit by about $130 billion by 1985. Closing business tax loopholes would directly provide almost half of the $98.3 billion over the next three years. The TEFRA repealed or cut back several of the large business tax breaks enacted by the ERTA. It also imposed significant new taxes or administrative requirements on the banking, restaurant, and insurance industries. A faster write-off of capital investment that was scheduled to go into effect in 1985 and 1986 was eliminated. In addition, Congress approved limits on the 10-percent investment tax credit that businesses received on capital investments. It also eliminated controversial "safe-harbor leasing" provisions and cut oil firms with foreign holdings. By comparison, new taxes on individuals were minimal. High-growth firms, represented by the American Business Conference, nevertheless supported the deficit-reducing measure because they expected that it would lead to lower interest rates that might swamp the negative effects of the tax increases. The largest loss for the business community was in the changes made to business investment incentives included in ERTA. Business groups were concerned that a further business tax increase would prove a disincentive to new investment.[121] The 1982 tax increase marked the first time in the Reagan presidency that he had to turn to the Democratic leadership to help him push through a major economic initiative. Although there were many Republican defections on the TEFRA, the

[120] Dale Tate, with Elizabeth Wehr and Judy Sarasohn, "Congress Clears $98.3 Billion Tax Increase," August 21, 1982, *Congressional Quarterly Weekly Report*, 2035–46.
[121] Pamela Fessler, "Business Ponders Losses in New Tax Bill," August 28, 1982, *Congressional Quarterly Weekly Report*, 2119–20.

leadership machinery of both parties, especially the Democrats such as Bradley, Gephardt, and Rostenkowski, was effective and essential to Reagan's success.[122]

5. The Populist Correction: Reconstructing Tax Reform, 1985–1986

White House political officials were concerned at that time that the Democrats would take the lead on tax reform and make it a major issue in the 1984 election campaign. In this context, Reagan emphasized that he would "oppose any efforts to undo the basic tax reforms" enacted until 1983. He also followed the requirement of the TEFRA by initially proposing a study plan to simplify the tax code and make it fairer for all taxpayers in his 1983 State of the Union address on January 25, 1983. He called it "a goal that every American who's ever struggled with a tax reform can understand.[123] In response to the address, Regan and his staff paid serious attention to the adoption of lower, flatter tax rates and significant broadening of the income base by eliminating the tax privileges enjoyed by the few during 1983.[124] Rostenkowski criticized that it would make little sense for Congress to raise additional taxes at the same time ERTA's tax cuts would be effective. Instead, Democrats pushed for the delay or repeal of the indexing provisions in ERTA and a possible cap on the tax cut scheduled in July 1983.[125] Dole crafted alternative tax increases, including the elimination of the deduction for state and local taxes, a stretch-out of the depreciation schedule for business, and restrictions on deductions for non-business mortgages.[126]

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[122] Dale Tate, "Members' Mixed Motives Obscure Message of Tax Bill," August 28, 1982, *Congressional Quarterly Weekly Report*, 2121–22.
[123] Ronald Reagan, "Address Before a Joint Session of the Congress on the State of the Union," January 25, 1983, Online by Gerhard Peters and John T. Woolley, *The American Presidency Project* (https://www.presidency.ucsb.edu/node/263103).
[124] Donald T. Regan, *For the Record: From Wall Street to Washington* (London: Arrow Books, 1988), 196–207.
[125] Pamela Fessler, "Reagan Asks Standby Tax Hike as 'Insurance for the Future'," February 5, 1983, *Congressional Quarterly Weekly Report*, 255.
[126] Dale Tate, "Congress Decries Deficits, Weighs '84 Budget Revisions," February 5, 1983, *Congressional Quarterly Weekly Report*, 243–44.

Within the Reagan administration, Feldstein supported the "cash-flow" method as a combination of base-broadening measures and rate cuts to enhance saving incentives. He believed that the Reagan administration and Congress could collect the same amount of revenue through the cash-flow consumption tax as with the current income tax. Congress could adjust the tax rate to reflect the needed amount of revenue and the desired degree of progressivity to reflect social and economic goals. At the SFC hearings, a Congressional Budget Office staff member, Rudolf Penner, also supported a progressive consumption-cash flow approach based on the same argument that Bradley, Gephardt, and Dole made in 1982.[127] This momentum led to a consensus emerging among the House, the Senate, and the Reagan administration on how much revenue to raise and on who should pay in 1984, resulting in the legislation of the DEFRA. The SFC unanimously approved a $48 billion tax-increase package covering fiscal 1984–87 on March 21. The CWM agreed to a similar form of bill on March 1. Both packages included proposals from the Reagan administration's fiscal 1985 budget to curtail a wide range of tax shelters. The two bills focused on tax abuses and loopholes. Both bills included loophole-closing measures, such as stricter taxation of the life insurance industry and the use of tax-exempt industrial development bonds, and increased liquor and telephone excise taxes. The Reagan administration supported the two bills. Treasury officials had worked closely with both committees in drafting tax legislation. The unusual harmony on the DEFRA also resulted from the concerted efforts by Rostenkowski and Dole.[128]

The opening round of congressional debate on simplifying the federal tax code began on August 7, 1984. Amidst general agreement that the tax code was too complex and had too many

[127] Dale Tate, "Mounting Deficits Could Spur Total Overhaul of Tax System," December 24, 1983, *Congressional Quarterly Weekly Report*, 2731–37.
[128] Pamela Fessler, "Congress Displays Rare Harmony Over Taxes," March 23, 1984, *Congressional Quarterly Weekly Report*, 683–85

loopholes, Dole cautioned against hasty action. He added that fundamental tax revisions would have to wait until after the political dust from the November elections had settled. The hearings opened as tax issues continued to dominate the early skirmishing between Reagan and the Democrats' presidential candidate Walter Mondale (Democrat—Minnesota). Mondale claimed that taxes would rise in 1985 regardless of who would be in the White House, and charged Reagan had a "secret plan" to increase revenues. Reagan repeatedly denied a rumor that he had a tax increase plan. The two candidates, Congress, and the Treasury unanimously believed that the federal government needed to implement a fiscal reform to address the persistently large budget deficits and the federal tax system that undermined the confidence of many Americans. Jerome Kurtz, the former commissioner of the IRS, repeated the same argument made by Dole, Bradley, and Gephardt. Dole claimed that another route would be a continuation of recent efforts to close existing loopholes, broaden the tax base, and clamp down on tax avoidance, with an eye toward reducing rates in the future. Lobbyists and several witnesses also sought to protect or insert special tax treatment for clients, including deductions for home mortgage interest payments and charitable contributions. Charles E. Grassley (Republican—Iowa) said that he was "pessimistic" about a tax overhaul because of "each loophole having its advocates." However, Mondale met with Bradley and Gephardt to discuss the legislation they had sponsored to simplify the tax code and institute just three tax rates on August 6, although he did not endorse the plan.[129]

The immediate reaction to the Treasury I had cast doubt on the prospects for enactment. The reaction from Congress was lukewarm. Dole evaluated that it was "a good product but it may be too tough for us to swallow." Dole and the new SFC chairman Robert Packwood (Republican—Oregon) called for action on the deficit to precede tax revisions. Rostenkowski

[129] Pamela Fessler, "Senate Panel Convenes Tax Revision Sessions," August 11, 1984, *Congressional Quarterly Weekly Report*, 1958.

agreed with them, although he prioritized tax reform over deficit reduction. Many economists and members of Congress praised the package as a good attempt to bring greater fairness to the tax code and an endeavor that would set the tone for upcoming tax debate. Pechman called it a "serious attempt to rationalize the tax law." John Albertine, the president of the American Business Conference, a coalition of fast-growing and high-technology firms that had been pushing for lower corporate tax rates, also had some praise for the package. Robert McIntyre, the director of tax policy for Citizens for Tax Justice, a labor-backed group, said he was pleased with the elimination of the generous 1981 investment tax breaks. Many on Capitol Hill believed that how serious Reagan was about simplifying the tax code would be crucial in accomplishing the tax overhaul. At this point, Reagan repeatedly declared that he would recommend no more tax increases. He maintained that the White House would attempt to cut the government deficit through spending cuts alone. Regan repeatedly emphasized that the Treasury I was not "a tax increase in disguise." However, some of Congressmen and businessmen feared that tax increases would be necessary. Others had argued that unless the tax system was made fairer and more efficient, it would be difficult to raise additional revenue. Not surprisingly, special-interest groups' vehement opposition to many components of the Treasury I gave a clear signal of the difficulty of any massive restructuring of the tax system. Many business groups and economists criticized that the elimination of depreciation tax breaks might stifle investment. State and local government officials complained that the repeal of the state and local tax deduction would make it more difficult for them to raise needed revenues. The real estate industry argued that limits on mortgage interest deductions would hamper the housing market. Lane Kirkland, the president of the AFL–CIO, complained that the package was "unfair to working people and their families" because of proposals to tax certain health and jobless benefits and workers' compensation.

Others argued that some of the components, including ones to index many provisions in the law to offset the effects of inflation, would not add simplicity but complexity to the tax system.[130]

After swapping jobs with the White House chief of staff, James A. Baker, in January 1985, Regan repeatedly met with interests to find what kind of tax preferences they wanted the administration to retain. The political reconstruction of these traditions became possible partly because opposition to tax privileges did not uniquely determine a particular distributional program. Tax loopholes could be criticized as violations of horizontal equity, distortions of economic incentives, sources of revenue loss, or manifestations of unfair privilege. Different political actors could therefore endorse their elimination while continuing to disagree about the ultimate purposes of taxation. The administration's emerging language of tax reform exploited this potential overlap. The elimination of special preferences could be presented not simply as a means of raising revenue or restoring comprehensive income taxation, but as a way to finance lower marginal rates, simplify the tax code, and establish a fairer system for ordinary taxpayers. Richard Darman's April 1985 memorandum, "'Historic' Tax Reform: The Populist Correction," offers a particularly important point of entry into this political reconstruction. Darman used the language of a "populist correction" to describe the administration's tax reform as an effort to address the political vulnerabilities of the administration's earlier economic program without repudiating its central commitments. The significance of this formulation lies in the relationship it proposed between continuity and change. The Reagan administration could continue to defend lower marginal rates and economic growth while identifying tax preferences and special privileges as problems requiring correction. In this interpretation, comprehensive reform did not represent a retreat from the Reagan tax revolution. It became a means of renewing its political

[130] Pamela Fessler, "Treasury Tax Overhaul Excites Little Interest," December 1, 1984, *Congressional Quarterly Weekly Report*, 3016–17, 3019.

legitimacy. The resulting language also had potential implications for coalition formation. Democrats concerned with distributive fairness could support restrictions on corporate preferences and tax shelters, while Republicans committed to lower rates could defend the same measures as necessary for neutrality, simplicity, and growth. Their shared language did not eliminate differences over redistribution, revenue, or the legitimate purposes of taxation. Instead, it provided a political framework that temporarily accommodated some of those differences.[131]

Republicans and Democrats alike believed that the litmus test to judge whether the administration's tax reform package would be "a populist bill" would be whether Reagan would back too far away from the Treasury I to eliminate symbolic tax advantages, such as a tax preference for the oil and gas industry. Without strong public backing for a tax reform, many doubted Congress could withstand the pressures from special interests to retain the existing system. Rostenkowski claimed that Congress would achieve the tax overhaul "[I]f Ronald Reagan can stir the latent frustration over tax fairness among millions of low- and middle-income taxpayers." The Reagan administration responded to this Rostenkowski's claim by "selling" his tax reform package as the solution to many of the frustrations taxpayers had expressed in recent years with "an increasingly complex, loophole-ridden tax code." They also maintained that Reagan would recommend it as a program that would focus on the "average" working Americans who felt burdened with high effective tax rates and cheated by the current tax system, the wealthy, and the corporations who took advantage of the many tax breaks. Republicans expected that Reagan's appeals would help cement support from the thousands of traditionally Democratic blue-collar and low-income white-collar workers who voted for Reagan in 1980 and 1984. Like Republicans, many Democrats were eager to win political points from

[131] Richard G. Darman, "'Historic' Tax Reform: The Populist Correction," April 15, 1985, Folder 22:4: 1985 Fundamental Tax Reform, Box 22, Charles E. McClure Papers (CEMP), The Hoover Institute Archives (HIA).

tax reform. Mondale's campaign vow to raise taxes to reduce the deficit proved a devastating setback. Bradley emphasized that "it allows [for Democrats] to argue for a specific policy that is a growth initiative and, at the same time, addresses the issue of fairness." Rostenkowski also tried to convince Democratic House colleagues that the tax overhaul would provide a political payoff, although they would lose the advantage on tax reform by backing a separate proposal pushed by some Democrats to enact a minimum tax on corporations to help reduce the federal deficit. Rostenkowski also emphasized that the Democrats' first order as "a good Democratic position" was "to reduce rates for the people."[132] Using the Treasury's study and the political language of Darman, Reagan, and Congresspersons, the Treasury amended the Treasury I to the "Treasury II." Treasury II retained the principles of Treasury I while incorporating a component necessary to win Reagan's support—a further reduction in the top tax rate.

On May 28, 1985, Reagan finally announced his tax proposals for "the sake of fairness, simplicity, and growth." The proposal replaced 14 tax-rate brackets ranging from 11 percent to 50 percent with a simple three-bracket system of 15, 25, and 35 percent. While raising the personal exemption, reducing the tax rate on capital gains, and maintaining other tax preferences "central to American values," the proposal simplified the complex federal tax system by closing loopholes that benefited a privileged minority. To promote business formation, it reduced the maximum corporate tax rate from 46 percent to 33 percent while cutting back tax preferences for some businesses such as the investment tax credit. "Restoring confidence in the federal tax system means restoring and respecting the principle of fairness for all," Reagan stated. "There is one group of losers in the tax plan—those individuals and corporations who did not pay their fair share or … any share." In the address, however, Reagan most emphasized the effect of reducing

[132] Pamela Fessler, "Successful Tax Code Overhaul Dependent on Reagan's Pitch," May 25, 1985, *Congressional Quarterly Weekly Report*, 980–81.

the tax burden on all taxpayers. He also maintained that the proposal would radically reform the structure of the federal tax system in ways of making it both easier to invest and more equitable horizontally.[133] The next day, Reagan released his tax reform recommendation entitled "The President's Tax Proposals to the Congress for Fairness, Growth, and Simplicity." Reagan pointed out that while most Americans labor under excessively high tax rates that discouraged work and cut drastically savings, many Americans were able to exploit the tangled mass of loopholes that had grown up around the tax code to avoid paying their fair share. He also pointed out the present tax system was not only unfair but also slowed economic growth and job creation and hindered technological advancement by interfering with free markets and diverting productive investment into tax shelters and tax avoidance schemes. The recommendation aimed at overhauling the existing tax system, changing the federal tax system into a model of fairness, simplicity, efficiency, and compassion, to remove the obstacles to economic growth, and encourage innovation and achievement. His tax reform proposal intended to remove a source of ridicule and resentment included in the tax system, "violating the nation's most fundamental principles of justice and fairness." He emphasized that the tax reform would help fulfill "America's commitment to fairness, hope, and opportunity for all its citizens."[134]

Most of the House Democrats and Republicans were hostile toward the tax reform proposal. In the CWM, almost all members favored tax preferences that benefited individual taxpayers and intended to stimulate productivity and subsidize US firms.[135] In response, Rostenkowski decided to retain and expand existing tax preferences in favor of supportive

[133] Ronald Reagan, "Address to the Nation on Tax Reform," May 28, 1985, online by Gerhard Peters and John T. Woolley, *The American Presidency Project* (https://www.presidency.ucsb.edu/ws/index.php?pid=38697&st=&st1=).
[134] Ronald Reagan, *The President's Tax Proposals to the Congress for Fairness, Growth, and Simplicity*, May 29, 1985.
[135] Conlan, Wrightson, and Beam, *Taxing Choices*, 86–88.

members and key constituencies to build a bipartisan coalition. He also applied an additional fourth higher tax rate to achieve the commitment to revenue neutrality.[136] Based on Rostenkowski's recommendations, the CWM completed its crafting of the "tax overhaul bill," and approved it on December 3. The bill provided larger average reductions for all income classes under $75,000 than the Reagan proposal did. It also retained or expanded the popular middle-class deductions, including deductions for state and local taxes and employee fringe benefits. To help pay for these benefits, it would raise more taxes from corporations through higher corporate tax rates of 36 percent and substantial cuts in tax preferences for banks, heavy industry manufacturers, natural resource industries, and defense contractors than those proposed in Reagan's proposal.[137] On the House floor, however, the unenthusiastic Representatives almost successfully killed the bill on December 11 by 202 to 223 votes. To help win support, the House added to the CWM bill a provision for a 100 percent deduction of state and local taxes, credit of up to $100 a year in contributions to congressional candidates in each taxpayer's home state, and a number of special tax breaks for selected projects. The House finally passed the bill on December 17, by a huge majority of 426 to 99.[138]

Before discussions in the SFC began, panel members of the Senate recommended that the SFC craft a bill that would raise the same amount of revenue as the current law did while retaining a number of tax breaks that had been removed from the House bill.[139] In the face of political reality, Robert Packwood (Republican—Oregon), the chairman of the SFC, released a

[136] Pamela Fessler, "Panel Votes Breaks for Banks, Charitable Gifts," *Congressional Quarterly Weekley Report*, October 19, 1985, 2102–03.
[137] Pamela Fessler, "Ways and Means Finishes Tax Code Overhaul," *Congressional Quarterly Weekley Report*, November 30, 1985, 2483–85.
[138] Pamela Fessler, "House Reverses Self, Passes Major Tax Overhaul," *Congressional Quarterly Weekly Report*, December 21, 1985, 2705–11.
[139] Pamela Fessler, "Search for Senate Tax Plan Proceeds," *Congressional Quarterly Weekly Report*, March 1, 1986, 492.

tax-overhaul plan on March 13, 1986. The Packwood proposal contained individual income tax cuts that equalled those Reagan was hoping for. To accommodate members of the SFC and the Senate, it retained numerous tax advantages for everything from the timber and oil industries to employer-provided fringe benefits.[140] After only three weeks of mark-up sessions, the panel approved a wave of amendments that would basically retain or expand current tax breaks for special interests. By April 18, as a result of a series of defeats on the loophole-closing measures, the reform bill faced a $29 billion loss of revenue and the prospect of a much larger shortfall. In response, Packwood suspended the committee's mark-up.[141]

In a series of closed meetings, SFC members agreed to stop trying to preserve or expand tax benefits enjoyed by their own constituents and supporters. They also agreed to revise all amendments to make the bill revenue-neutral again. The revised SFC proposal would reduce the individual tax rate structure to two brackets of 15 and 27 percent while increasing the benefits of the EITC. Capital gains would be taxed at the same rate as regular income. The top corporate tax rate would be reduced from 46 to 33 percent. Furthermore, the proposal would also provide more generous deductions for depreciation while additionally abolishing many tax preferences, including deductions and exemptions for interest on consumer purchases, as well as loans and tax shelter investments.[142] It would yield a $103 billion shift in taxes from individuals to businesses over the next five years, compared to a $144 billion shift provided by the House-passed bill. The revised bill would result in a $21.2 billion loss of revenue because of the

[140] Pamela Fessler, "Markups to Begin March 19: Packwood Draft Cuts Rates, Retains Selected Tax Breaks," *Congressional Quarterly Weekly Report*, March 15, 1986, 591–94.
[141] Pamela Fessler, "Final Panel Suspends Markup of Tax Bill," *Congressional Quarterly Weekly Report*, April 19, 1986, 840–42.
[142] Eileen Shanahan, "Finance Panel OKs Radical Tax Overhaul," *Congressional Quarterly Weekly Report*, May 10, 1986, 1007–13.

revenue shift. The SFC approved the revised bill on May 7.[143] On June 24, the Senate passed the bill agreed upon almost unanimously (97-3).[144]

The House–Senate conference could no longer enact the tax reform bill that reduced the overall level of tax revenues in the face of massive deficits and the need to cut the budget deficit to comply with the Gramm–Rudman–Hollings law of 1985 (GRH). After a one-month discussion that progressed slowly in the face of loud congressional criticism, the House–Senate conference resolved the differences between each bill—the rate structure, top tax rates, and the restoration or elimination of tax breaks—and agreed on a final version of the bill on August 16. It reduced the individual tax rate to 15 and 28 percent, and the top corporate rate from 46 to 34 percent. In addition, it restricted state and local tax bonds and tax shelter investments and repealed the special exclusion for capital gains. Furthermore, the final bill slashed corporate tax preferences, including the deduction of bad debt reserves for banks and the write-offs of oil and gas drillers. In total, the final bill reduced the taxes paid by individuals by $121.7 billion over six years (1986–1991), while increasing corporate taxes by $120.4 billion.[145] On October 22, Reagan finally signed the final version as written in the House-Senate conference committee, into law as the Tax Reform Act of 1986.

As many previous studies unanimously evaluated, the 1986 Act accomplished the most dramatic reform of the federal tax system since World War II. A bipartisan group of political entrepreneurs had successfully championed an approach to tax reform that was difficult to achieve previously: broadening the income tax base and creating a more horizontally equitable

[143] Eileen Shanahan, "Christmas Presents' Beginning to Pile Up: Panel's Tax Bill Largely Intact as Senate Nears Final Passage," *Congressional Quarterly Weekly Report*, July 21, 1986, 1377–79.
[144] Eileen Shanahan, "Tax Conferees Decide to Tackle Big Issues First," *Congressional Quarterly Weekly Report*, July 26, 1986, 1677–79.
[145] Eileen Shanahan, "Congress Expected to OK Tax Overhaul Bill," *Congressional Quarterly Weekly Report*, August 23, 1986, 1947–51.

tax system by eliminating and restricting tax preferences. The 1986 reform also succeeded in increasing capital gains taxes for higher-income taxpayers for the first time since World War II. Many individuals, corporations, and industries lost tax preferences that were greater than their gains from the reduction of the top tax rates. Among businesses, the biggest winners were investment bankers, high-technology industries, service industries, and some multinational firms. Moreover, the 1986 reform took millions of poorer Americans off the tax rolls by increasing personal exemptions, standard deductions, and the EITC. These achievements should not be equated with the realization of all the objectives historically associated with comprehensive-income taxation. Although the reform substantially flattened the statutory rate structure, its effects on the overall progressivity of the federal income tax depended on changes in exemptions, deductions, credits, and the distribution of tax burdens. Moreover, the reform was designed to be broadly revenue-neutral rather than to restore the federal tax system's extractive capacity.

Giving a tax cut—cutting tax rates while retaining or expanding other tax expenditures—to millions of Americans significantly contributed to the exceptional success of the Reagan administration in 1986. Reagan put on the tax reform the image that it would involve tax reductions beneficial to the public, and in particular to corporations. Reagan and Regan believed in the importance of bringing down marginal tax rates to "sell" the tax reform to taxpayers as it would reduce their tax burden of almost all taxpayers and promote economic efficiency. As Ronald Pearlman, who served at the Treasury as Assistant Secretary for Tax Policy, explained, "Once the politicians saw this [tax reform proposal] they said, 'Aha! This is the way we're going to sell tax reform. It's a tax reduction for individuals.'"[146] Political entrepreneurs, especially

[146] Conlan, Wrightson, and Beam, *Taxing Choices*, 45–80.

Rostenkowski and Packwood, consequently succeeded in passing each committee's bill in exchange for other tax breaks and bringing down tax rates. This exchange enabled the Reagan administration to achieve the base-broadening tax reform.

What the Treasury and political entrepreneurs assumed when they did the exchange was the constraints imposed by the Gramm–Rudman–Hollings Act, the revenue-neutral principle, and interest politics. The 1986 act largely flattened the rate structure by drastically reducing the tax rates and the number of brackets. The revenue-neutral framework of TRA86 was crucial to the political reconciliation of base broadening and marginal-rate reduction. Rather than using the additional revenue generated by restricting tax preferences primarily to increase the federal government's overall fiscal capacity, tax reformers could use it to finance lower statutory rates and redistribute tax liabilities across taxpayers and economic sectors. In this respect, TRA86 selectively incorporated the comprehensive-income reform tradition while subordinating its revenue-raising objectives to a policy framework centered on lower marginal rates, economic incentives, and revenue neutrality by using the idea of a flat tax. Through this incorporation, the Treasury and political entrepreneurs could also attempt to convince the opponents to accept the base-broadening measures they wanted to accomplish. Only on the assumption of the revenue-neutral principle and GRH could they make this compromise in the face of the largest budget deficit in history. At that time, while attempting to meet the requirements of GRH and "revenue-neutrality," they did not consider the tax reform as restoring the financing ability of the federal tax system for federal government programs, such as entitlement programs. The Reagan tax reform thus preserved important elements of the comprehensive-income tradition, particularly base broadening, horizontal equity, and the restriction of tax preferences, while giving less priority to its historical emphasis on progressive taxation and the financing of public purposes.

Rather than restoring the comprehensive-income ideal in its entirety, TRA86 reconstructed selected elements of that tradition within a fiscal policy program centered on lower marginal rates, economic incentives, and growth.

The transition from ERTA to TRA86 thus represented neither the abandonment of the Reagan administration's central economic commitments nor the straightforward restoration of the comprehensive-income tradition. Rather, it involved the selective reconstruction of fiscal ideas and policy instruments through which base broadening, horizontal equity, and lower marginal rates became components of a politically viable reform program. This process was accompanied by a populist language of tax fairness that contrasted ordinary taxpayers with privileged beneficiaries of the existing tax code. The Reagan tax reforms therefore illustrate how ideational domestication and political legitimation could contribute to substantial institutional change without requiring policymakers to repudiate the fundamental commitments of their governing economic program.