

when he was reluctant to make too many movies in one year because more than 90 percent of his pay would go to the government. All other concerns paled in the presence of this obsession; on his list of domestic priorities, cutting personal tax rates ranked first, second, and third. If closing loopholes and raising corporate taxes was the only way to pay for lower rates, then so be it.

It was that unswerving dedication to lower rates that compelled the president eventually to embrace reform. And it was his staunch support for the bill, despite his sometimes surprising ignorance of its details, that enabled tax reform to overcome countless obstacles and become the law of the land.

Chapter 2

The Beginnings

In the spring of 1982, a young senator from the industrial Northeast met with a ragtag group of reporters to discuss an unusual idea. The meeting took place in the Black Horse Tavern, a dimly lighted restaurant on the edge of downtown Washington. The lawmaker was former basketball great Bill Bradley of New Jersey. His idea was to overhaul the federal income tax by shearing away the most coveted tax breaks enjoyed by the nation's industrial giants and its influential well-to-do.

Politicians had suggested reforming the tax system before, to be sure, but Bradley had a new twist. He proposed a marriage of two ideologies, one traditionally Democratic, the other Republican. His plan would not only close loopholes, it would also provide a dramatic drop in the top tax rate. It melded his party's concern for fairness with the new drive among Republicans to promote economic opportunity. It offered a rare chance for the goals of social equity and economic efficiency, which usually were in conflict, to work hand in hand.

"We should have a tax code in which all citizens with equal incomes are treated essentially the same way," he said in his plodding monotone.

We should have a tax code that is simple enough for all citizens to have at least a basic understanding of how the system works and how their own tax obligations are determined. We should have a tax code which allows taxpayers to make their

economic decisions on the basis of real value in the marketplace—with little, if any, regard for tax implications.

The lighting was so poor in the back-street eatery that the towering Democrat had to strain to read his speech. He vaguely remembers that a dog wandered aimlessly through the crowd as he delivered it, and that a man and woman sat quietly near the front without taking notes.

"The couple over to the left of me were there for lunch; they weren't there to hear my speech," Bradley remembers. "They kept looking up and wondering, 'What is this guy?'"

After Bradley finished, the lone television reporter in the group walked up to the senator, stuck a microphone in his face and said: "Now senator, we're both grown men. We know politicians are always talking about tax reform and never doing anything about it. Why should we think you're any different?" The public and Bradley's fellow politicians were equally unimpressed. The story was ignored by *The New York Times*, *The Washington Post*, and the three major networks.

It was an unaccustomed situation for the neophyte senator. Though he was not yet forty years old, he had been a national idol for nearly two decades. As an undergraduate at Princeton University, he was acclaimed as one of the greatest college basketball players of all time. But he was more than that. He was an athlete-scholar, the classic profile of a leader of men. He graduated from the Ivy League school with honors and went on to study at Worcester College at Oxford University, as a winner of the prestigious Rhodes scholarship.

He was, in short, a model youth. He was religious, claiming that much of his strength of heart and mind came from his belief in God; he taught Sunday school at the First Presbyterian Church even after the sleepless nights that followed big Saturday night games. The time between the game and Sunday classes was often spent in the library, where he would cloister himself for study. He was the picture of determined intelligence, with luminescent green eyes and wing-tipped eyebrows, the left of which arched upward on his forehead like that of *Star Trek's* Mr. Spock.

Even his modesty was legendary. He liked to say he lacked natural athletic ability, that he was too short, not very fast, and not much of a leaper; yet, he was the most-storied amateur athlete of his time. He also was fond of saying he was not as bright as his Princeton classmates and had to work twice as hard to keep pace, but those who know him well are convinced that he remembers everything he reads.

Great things were always expected of Bradley, and he almost always delivered. In 1964 he was a member of the United States Olympic basketball team that won the gold medal in Tokyo. As a senior in college the next year, he led his team to the "final four" by winning the eastern regional championship in the National Collegiate Athletic Association tournament, a feat that Princeton had not accomplished previously and has not repeated

since. Although the team lost its bid to become national champion, Bradley was elected the tournament's most valuable player.

After his stint at Oxford, he became one of the most touted players in the National Basketball Association. He helped to bring the New York Knickerbockers to two national championships over a decade-long career. Once again, he proved himself to be more than just an athlete. In the midst of his pro-ball years, he wrote the highly regarded *Life on the Run*, a thoughtful autobiography about the itinerant life of a professional basketball star. A year after he retired from the Knicks, he was elected to the Senate as its youngest member.

Everyone who had contact with the talented and driven Bradley believed there was no limit to his attainments. For his memorable book about the college-aged Bradley, *A Sense of Where You Are*, published in 1965, John McPhee asked several people where they thought Bradley would be when he turned forty. "With the help of his friends, Bill could very well be president of the United States," answered his high school principal, Edward Rapp. "And without the help of his friends, he might make it anyway."

In 1982, however, at the age of thirty-nine, it looked as though Bradley would need a lot of help just to stay where he was. Political sentiment had turned away from him and away from his Democratic party. Bradley was elected to the Basketball Hall of Fame that year—but at the same time, he found himself locked in a losing battle against the rising tide of the Reagan revolution. It seemed possible that the New Jersey senator might be remembered best for his former life as a basketball star, not for his new life as a politician.

The year before, Bradley had been the sole member of the Finance Committee to vote against the deep business and individual tax cuts that were the centerpiece of Reaganomics. He took the view that the president's program of tax cuts, combined with increases in military spending, would lead to burgeoning budget deficits. He was also convinced that cutting rates without closing loopholes compounded the unfairness already in the code. Bradley took to the Senate floor in 1981 to offer a long series of amendments to limit the tax cuts and to reshape them to help middle- and lower-income families more than high-income individuals, but the amendments all went down in flames.

When the smoke from the 1981 battle cleared, Bradley was undaunted. He did not want to remain on the defensive; he wanted to play offense, make a positive statement. He needed a new approach, a new idea that he could stand behind, both politically and substantively, an idea that did not deal with the symptoms of the problem, but with its root causes. He decided to pursue a subject that he had been examining since his days as one of the highest-paid players in the NBA: a top-to-bottom revision of the federal income tax.

As a professional basketball player, Bradley had developed a healthy disdain for the U.S. tax code. He made big money, and that forced him

to wrestle with the complexities of taxation. During his first contract negotiations at the age of twenty-three, Bradley was asked by his attorney a question that startled him: "How much do you want to pay in taxes?" The attorney went on to explain that Bradley could take his pay as property, as a long-term consulting contract, as employer-paid life insurance and pension plans, or even as payment to his own corporation.

"I just want to play basketball and be paid well," the young Bradley said.

"It's not so simple," the attorney replied.

Bradley never lost his distaste for the complicated tax system and was appalled by the economic contortions it forced his teammates to endure. In *Life on the Run*, Bradley records the inordinate amount of time and energy he and his teammates spent trying to avoid the tax man and their unalloyed contempt for the Internal Revenue Service. "I don't pay taxes, period," crowed Jerry Lucas, a teammate with a penchant for mental games and high-stakes business dealings. "But I do it legally. I'm not stupid."

(Years later, Bradley found kinship on such matters with another formerly highly paid professional—ex-Hollywood actor Ronald Reagan. During a meeting in the cabinet room between the president and the Finance Committee, Bradley said, "Mr. President, you came to this [tax reform] because you were an actor who paid at the 90-percent rate; that's why you want a lower rate. I came to this because I was a depreciable asset.")

On the long road trips during his pro-basketball career, Bradley had plenty of time to think things over, and he spent many off-court hours visiting local politicians and reading widely. He read Milton Friedman, the University of Chicago economist, and was fascinated to learn that a flat-tax system with a rate of just over 20 percent would raise as much money as the existing high-rate system. He also read about the largely fruitless efforts of Stanley Surrey, the Harvard Law School academic who worked to reform the income tax during the 1960s.

Bradley brought these ideas with him when he ran for the Senate. During his 1978 campaign, he wanted to advocate a broad-based, low-rate tax as one of his campaign stands, but he lacked the sophisticated tools to put the idea into practice and abandoned the effort. Instead, he suggested a targeted, one-year tax cut to counter the three-year cuts recommended by his Republican opponent, Jeff Bell. When the campaign was over, and Bradley was safely in the Senate, he looked back and marveled at how well his conservative opponent had exploited the voters' intense dislike of the federal income tax. He saw that he was not alone in thinking the tax code was unfair. "This is an issue the voters care about," he thought.

In 1979, Bradley met with his senatorial staff and said he wanted to draft a major tax-reform bill that eliminated loopholes and imposed a lower, flatter tax-rate system. They poured cold water on the plan. It was too ambitious, they chided him. But after the debacle in 1981, when his efforts to trim back the oversized tax cuts were thwarted, Bradley renewed his

pursuit of tax reform. He was searching for a politically palatable alternative to the Republican tax cuts. So he plowed ahead to devise a wholly restructured tax system.

True to his nature, Bradley did not take the enterprise lightly. He applied to his legislative endeavors the same dedication to detail and devotion to fundamentals that were the hallmarks of his success in basketball. During his teen years in Crystal City, Missouri, not far from St. Louis, Bradley, the only child of a banker, maintained a maniacal practice schedule. According to McPhee, Bradley would work out on the court for

three and a half hours every day after school, nine to five on Saturday, one-thirty to five on Sunday, and, in the summer, about three hours a day. He put ten pounds of lead slivers in his sneakers, set up chairs as opponents and dribbled in slalom fashion around them, and wore eyeglass frames that had a piece of cardboard taped to them so that he could not see the floor, for a good dribbler never looks at the ball.

In college, he could analyze every shot and every move down to its smallest components. A hook shot, he would explain, has five distinct parts: the crouch, the turn of the head toward the basket, the step, the kick, and the follow-through with the arms. He also would not quit until he got things right. He would never complete his daily practice routine until he had made at least ten out of thirteen of each of his shots from every location on the court.

In 1981 and 1982, his drive for tax reform reflected all of the traits of his basketball days: discipline, painstaking analysis, and patience.

During this period, Bradley could be seen loping wide-eyed through the halls of Congress, laden with books and briefing papers. He would breeze through volumes of tax tracts and reach out to a brain trust of tax experts both inside and outside of government. While other senators left details to their staffs, Bradley remained intimately involved in the minutiae of his income-tax proposal. He demanded explanations and would not relent until he understood. He wanted to know which tax breaks he was eliminating, how they got there to begin with, and why they should go. He took careful notes in spiral-bound notebooks. He sometimes spent eighteen-hour days at his task, studying and refining the proposal for a year and a half.

The Bradley brain trust was led by Gina Despres, Bradley's own hard-nosed legislative counsel, who would continue for years as a guiding force behind the scenes. She was assisted by a lanky, bearded economist named Joe Minarik, who worked for one of Congress's information-resource agencies, the Congressional Budget Office. James Wetzler and Randy Weiss, two top-flight economists from the Joint Committee on Taxation, and Tom Troyer and Bob Klayman, two tax lawyers from Despres's old law firm Caplin and Drysdale were also part of the team. Despres called these and other tax experts together for long lunches in Bradley's office. They adhered

to an agenda devised by Wetzler. During these gatherings, Bradley, in effect, was treated to a comprehensive course in federal taxation, in which he learned the most basic and arcane facets of the existing code, as well as the most widely discussed alternatives.

Bradley used these ideas to compose his plan, but he did not rely on them exclusively. He drew his own judgments and rejected some of the common academic wisdom that declared the income tax obsolete. He also talked about his plan to anyone who would listen: farm groups, Wall Street moguls, town-hall meetings back home in New Jersey. He tested people's reactions to the idea of trading off deductions that help the few in order to provide lower tax rates for the many. Slowly, and from these grass-roots encounters, he learned arguments to beat back attacks, and he came to believe that his plan would sell.

Bradley's colleagues in the Senate saw little of his touch for the common man. Many considered him aloof and dogmatic. To them, he came off more like a professor of political history than a politician. They would say they liked him, thought him quite able, and admired his hard work; but some also resented his wunderkind reputation, his rapid rise to their exclusive debating society. His dry, cerebral wit was not funny to them, and at times he seemed condescending and arrogant. He was often moody, and not quite a member of the club.

At home and on the road, Bradley conveyed a very different persona. Though he was a dull, even pedantic, speaker, he was warm and engaging one-on-one. When giving a greeting, he would wrap his long fingers around the hand of the greeted, bring down his face from its six-foot five-inch height, and look the person in the eye. This sudden attention was both a treat and a shock. Here was Bill Bradley, the legend—and a nice guy, too.

Bradley was searching for something elemental in the American psyche, a message that struck a chord. He thought his tax bill would help achieve the American dream. When a taxpayer got a raise in salary, moved up the ladder of success, Bradley's bill would allow him to keep more of the extra cash in his pocket. The top tax rate would be lower than it had been in half a century and far lower than proposed in any previous Democratic tax-reform effort—that was the opportunity it promised. In addition, when a taxpayer looked around at friends and neighbors, he could feel certain that they too were paying their share of taxes, unable to hide behind loopholes or shelters—that was the Bradley plan's essential fairness.

Like a growing number of young Democrats, Bradley was skeptical of the traditional big-government doctrine of his party. Instead, he laced his rhetoric with "Republican" talk about "free markets" as the "most efficient allocator of capital." Lower rates and fewer distorting tax incentives would allow those markets to work, he reasoned, and lead to unfettered economic growth. He hoped to call the bluff of Republicans who spouted similar free-market rhetoric, while jealously guarding tax breaks that tilted the playing field toward their friends and constituents.

At the same time, Bradley saw the populist attraction of tax reform. The fight would pit the special interests, who would struggle to keep their loopholes, against the general interest—lower rates for everyone. A central goal of tax reform must be to give the lowest possible rate to the greatest number of Americans, he said.

At the start, Bradley made three key political decisions that determined the character of his plan and that distinguished it from previous tax reform efforts:

First, he decided that his plan should not be used as a solution to the growing deficit problem. It must be "revenue neutral," raising neither more nor less revenue than the current tax system. Previous tax bills had always either raised revenue or cut it, but Bradley wanted to avoid the harsh ideological battles that would undoubtedly follow if he pushed his measure in either direction.

Second, Bradley decided not to change the distribution of the tax burden among income groups, except to provide some relief to the working poor. He believed that earlier reform plans had been dismissed out of hand by Republicans and moderate Democrats because they were Robin Hood-like redistribution schemes, taking more money away from those at the top of the income scale and giving more to those in the middle and at the bottom. He meant to avoid that pitfall.

Third, Bradley decided not to raise taxes on corporations to pay for tax cuts for individuals. Such a shift, he feared, would label the plan as anti-business and help ensure its defeat.

A key challenge for Bradley's plan—and for all the plans that followed—was how to sharply reduce the top tax rate without providing a windfall to the wealthy. Bradley sought a top tax rate as low as 30 percent—a twenty-percentage-point drop in the tax rate for high-income taxpayers. He had to find some way to guarantee that those at the top did not reap excessive benefits from the change.

The solution to Bradley's problem came from Joe Minarik, the Congressional Budget Office economist. In 1981, Minarik had done some work for Representative Stewart McKinney, Republican of Connecticut, who like Bradley was interested in an alternative to the supply-side tax cuts. Minarik drafted a plan with a bottom rate of 14 percent and a top rate of 28 percent, but the originality of the plan was the way it treated deductions and exclusions. Under existing law, a deduction is worth more as a taxpayer moves into higher tax brackets. A \$100 deduction for someone in the 11-percent bracket, for instance, saves only eleven dollars in taxes; but a \$100 deduction for a person in the 50-percent bracket saves a full fifty dollars in taxes. Minarik's idea was that deductions should have equal value to all taxpayers, regardless of the person's bracket. He rigged his two-rate scheme so that a \$100 deduction could only be taken against the bottom rate, thus saving only fourteen dollars in taxes, regardless of a person's income. High-income taxpayers, who would enjoy big

tax rate cuts under the plan, would also lose much of the value of their deductions.

Minarik was excited by his research. "I was surprised how low you could get the rate" by using this device, he recalls. But McKinney lost interest. Over lunch sometime later, Gina Despres enlisted Minarik and the McKinney plan as part of the senator's quest for tax reform.

Doubts ran high about the prospects for the effort, even among those working on the plan. "I remember it as an interesting exercise, and wishing them all godspeed and all that," said the Joint Tax Committee's Randy Weiss, who made important refinements in the Minarik scheme. "But I thought it was mostly pie in the sky."

At the conclusion of the plan's laborious preparation, Bradley chose Democratic Representative Richard Gephardt of Missouri to cosponsor the bill in the House. Gephardt was a fair-haired, serious, and inscrutable young legislator who had ambitions of rising rapidly in the House hierarchy and of perhaps running for president. He served on the House Ways and Means Committee, the sister panel to Bradley's Finance Committee in the Senate. If Bradley's Fair Tax Plan had any chance of becoming law, it would first have to win the approval of these two tax-writing committees. Indeed, since under the Constitution, revenue measures must originate in the House, a foothold in Ways and Means was especially important.

Bradley had known Gephardt casually since the early 1970s, when the then professional basketball player was flirting with the idea of running for treasurer of Missouri, his native state. Gephardt was a young alderman in St. Louis at the time, and Bradley sought his advice. Gephardt remembers that Bradley wanted to talk to a local politician near his own age. Bradley remembers Gephardt as clean-cut and hard working—not unlike himself.

Their paths crossed again in Congress at the end of the decade. Gephardt was elected in 1976 from a district that, ironically, would later include Bradley's hometown of Crystal City, along the Mississippi River. Bradley came to the Senate from New Jersey, his new home, in 1978. Both became part of a group of up-and-coming Democrats, who were being flagged as the vanguard of the party. They occasionally would go out together to make speeches intended to display the Democrats' new face. They also both had an interest in new styles of taxation. Gephardt says he was studying income-tax revision independently of Bradley, but when told of the senator's plan, he was glad to join the enterprise and lend it his name. Bradley was trying to do a favor for his House colleague, but events would later show that Gephardt was, in the end, only a fair-weather friend of tax reform.

The final version of the proposal had a simple, progressive rate structure with three rates: 14 percent, 26 percent, and 30 percent. About 80 percent of all taxpayers would pay at the lowest rate. The plan would increase the personal exemption and the standard deduction in order to remove many

low-income families from the income-tax rolls. To pay for this, the plan would repeal many deductions, exclusions, and credits. It would keep a few preferences that Bradley judged to be too politically sensitive to remove: deductions for home-mortgage-interest payments, charitable contributions, payments to individual retirement accounts and payments of state and local income and property taxes. These, however, would be limited as Minarik had envisioned: they would be deductible but only against the 14-percent rate, making their value the same for taxpayers in all income brackets. For corporations, the top rate was dropped to 30 percent from 46 percent.

The Bradley-Gephardt bill contained the basic principles that would later become the Tax Reform Act of 1986, but when Bradley and Gephardt introduced their bill on August 5, 1982 (a second and final version was introduced the next year), most of Washington paid little heed. It was one of 2,151 bills introduced in the House during that session and 1,119 introduced in the Senate. At best, only a few hundred of those bills would ever become law. The Fair Tax Act of 1982 seemed to be one of the forgotten proposals, a noble but unrealistic idea.

While Bradley studied tax reform, many of his colleagues in Washington focused on the deficit. Within a few months after the 1981 tax cuts were passed, the prospect of skyrocketing budget deficits was readily apparent. Projections showed that if left untouched, the nation's fiscal shortfall would soon approach \$250 billion a year—*four times* the largest deficit in the Carter years. President Reagan had promised to eradicate deficits, but now it looked like he might quadruple them. The situation was serious, and a profound embarrassment. It led to a series of tax-increase bills that were the precursors of tax reform, but also proved how tough it was to close even a limited number of loopholes in the face of interest-group opposition.

Although the U.S. economy was mired in a recession in 1982, the president was compelled to accept and eventually work for the passage of the biggest tax increase in peacetime history. The measure, known in the argot of Washington as the Tax Equity and Fiscal Responsibility Act (TEFRA), raised \$98 billion in revenue over three years, half of it from corporations.

The legislation was largely the handiwork of Senator Dole, the chairman of the Finance Committee. Dole was a respected legislator with a reputation for a quick wit. A traditional Republican, Dole had little patience for the supply-siders who dominated the agenda in 1981 with their Kemp-Roth tax cut. Joking in early 1982, Dole told a group that he had good news and bad news: "The good news is that a bus full of supply-siders went off a cliff. The bad news is that two seats were empty."

Dole wanted to be president, and he was eager to demonstrate his leadership abilities in the Senate to help his cause. The deficit problem offered

him that opportunity. The White House was reluctant to push for tax increases, and the Democrats were reluctant to cross the White House on such a controversial issue. So Dole stepped in and took the lead. Although the Constitution said that tax bills must originate in the House, Dole put together a package of miscellaneous revenue-raisers and "loophole closings" in his Finance Committee. He then tacked them onto a minor House-passed tax bill that had been stripped of all its original provisions, passed it through the Senate, and sent it to the House.

The 1982 tax bill kept the hallway outside the Finance Committee room filled with lobbyists, who feared they would lose some of the generous tax breaks that they had been given in 1981. It was then that the hallways first took the name of the expensive Italian shoes that were worn by lobbyists. Toward the end of the committee's drafting sessions, someone commented to Dole, "There's wall-to-wall Guccis out there," to which the chairman retorted, "Well, a lot of them are going to be barefoot after this is done."

In the House, special interests rose up to stifle action. Ways and Means Chairman Rostenkowski was unable to get his committee members to agree on a formula for a tax increase, because of resistance by the formidable oil-and-gas interests on his panel. It was a source of resistance he would never forget. In the end, he was compelled to go to conference committee—the forum where differences between House and Senate measures are resolved—without a bill of his own. It was a rare and humiliating position for the reputedly powerful chairman.

Dole claimed that the bill finally signed by the president in 1982 was tax reform of a sort, but it was only a small step toward reform. It eliminated or curtailed a number of major tax breaks, but it did not offer lower tax rates in return. Supply-side Republicans like Representative Newt Gingrich of Georgia complained that Dole was merely serving as "tax collector for the welfare state." Nevertheless, Dole clung to his abhorrence of the deficit. He was also convinced that small or "incremental" efforts to close loopholes were the only way to go about reform. Broad, sweeping measures like that advocated by Bradley, he believed, would never work.

Dole's bill was a defeat for many powerful interests, but it was not long before they rallied again. Infuriated by the bill's plan to require banks to withhold taxes from the dividends and interest they paid to customers, banks and other financial institutions launched a massive grass-roots lobbying campaign in 1983 that flooded the Capitol with postcards demanding repeal of the offending provision. Republican Senator Robert Kasten of Wisconsin led the successful campaign for the banks, and Dole was forced to accept repeal.

As the budget deficit continued to rise, Dole and Senate Budget Committee Chairman Pete Domenici persuaded President Reagan in 1984 to ask for yet another tax increase, which they soft-pedaled as a "down payment" on the budget deficit. The three-year, \$50 billion tax hike, much like the 1982 bill, was a collection of odds and ends. But again, the debate

over the bill demonstrated the impressive power of the interests who backed certain tax breaks. Dole originally hoped to cut back the tax benefits of the real estate industry, which had benefited enormously from the 1981 bill and was responsible for most of the growth in tax shelters. The realtors' lobbyists filled the hallways outside the hearing room as Dole completed his bill, and when the chairman stepped outside, he faced a phalanx of them clustered around their leader, Al Abrahams of the National Association of Realtors. "We weren't treated fairly," Abrahams complained, twitching nervously but speaking with conviction. Dole shook his head in disagreement. On the Senate floor, the Kansan continued to battle the realtors, but he was eventually overwhelmed by their lobbying power and forced to accept a compromise. Angry and vengeful, Dole complained: "They have been camping on our doorstep. They have been in the gallery. They have been in the lobbies. They have been in the elevators. . . . I know the precise office this storm has been created by. There will be another day." (Indeed, there was to be another day, just two years later, but neither Dole nor the realtors imagined in 1984 how severe the retribution would be.)

Even after the 1984 bill, large deficits remained. The deficit in each of the following three years was expected to hover in the \$170 billion range. Deficit reduction was still the top issue; tax reform was widely considered to be a luxury that the nation could not afford. Senator Long, for example, derided the Bradley bill as little more than "an attractive conversation piece."

"Most of us realize that Bradley-Gephardt conceptually is good, but it will never become law," said Representative Robert Matsui of California, a Democratic member of the Ways and Means Committee. "You will never eliminate all those deductions you have to eliminate. It would be like pulling teeth out of a lion. Bradley-Gephardt isn't doable."

As the 1984 election campaign approached, several advisers to the Democratic front-runner, former Vice President Walter Mondale, argued that the Bradley-Gephardt plan provided a much-needed solution to his party's problems. Whatever its practical failings, the Bradley-Gephardt bill had a certain political appeal. Polls showed that the Democrats were still viewed favorably by the American people as the party of fairness and compassion, attributes that held together the party's foundation among poor people, city dwellers, and the labor movement. But they had allowed Ronald Reagan's Republicans to become the standard-bearers for opportunity and growth—terms that appealed to the postwar baby-boom generation just coming of age. The trick for the Democrats in 1984 was to try to claim the mantle of growth and opportunity without abandoning the high ground as the party of fairness and the friend of the disenfranchised.

Bradley-Gephardt offered a rare chance to do that: It promised that no one would escape carrying his or her share of the tax burden, but it also

offered sharply lower tax rates. What better promise, what better incentive to give a young middle-class American, with eyes looking eagerly up the economic ladder, than to say that no matter how far up that ladder you climb, the federal government will take no more than thirty cents out of any dollar you earn?

In a speech in May of 1983, Mondale told a group of businessmen meeting in Washington that he liked the general outlines of the Bradley-Gephardt plan. The speech was reported in *The Wall Street Journal* the next day. It was the candidate's first public flirtation with reform during the campaign, and the results were scarcely encouraging. The phones in the candidate's headquarters rang ceaselessly, as Mondale supporters with tax breaks to defend called and registered their complaints. "The next forty-eight hours were hectic ones in the Mondale camp," recalls Bill Galston, the candidate's issues adviser. "The list of people we heard from was a long one." Campaign workers insisted the *Journal* story had exaggerated Mondale's comments, and tax reform quickly disappeared from the candidate's rhetoric.

Bradley, eager to sell his plan to Mondale, tried for months to arrange a meeting with campaign chairman James Johnson to reignite interest in his plan, but his entreaties were ignored. He finally managed to schedule a breakfast with Johnson in his Senate office in early 1984 and spent an hour there, waiting over coffee and doughnuts for Johnson to arrive. In a gesture that seemed to illustrate the campaign's regard for the Bradley-Gephardt plan, Johnson never showed. He never even called to say he could not make it.

"The meeting was shortly after our defeat in the New Hampshire primary by Gary Hart," explains Johnson. "I've known Bradley for years, I felt badly about it, but I wasn't thinking of seminars on tax policy at the time. I was in Georgia or Alabama or somewhere trying to keep us alive."

Bradley never really got a chance to make his case to Mondale until August of 1984, when much to his surprise, he and Gephardt were asked to meet with the candidate in the living room of the Mondale home in North Oaks, Minnesota. They talked about taxes with Mondale and a few of his campaign advisers for nearly two hours. (One of these aides, ironically, was Dick Leone, the man Bradley had beaten in a Democratic primary in 1978.) Bradley made an impassioned plea for his proposal, saying that he had traveled around the country talking to groups of voters and that the idea appealed to many of them, but his arguments never sank in. Mondale offered a few throwaway lines about the virtues of Bradley-Gephardt to reporters waiting at the base of his wooded driveway, and that was the end of it.

By the time of that meeting in North Oaks, the tone of the Mondale campaign was set in concrete. The candidate had already delivered his infamous speech at the Democratic convention that resonated through the final three months of the campaign and sealed his fate:

Let's tell the truth. It must be done, it must be done. Mr. Reagan will raise taxes, and so will I. He won't tell you. I just did.

Dan Rostenkowski, standing next to the candidate in front of the cameras and the cheering crowd at the convention after the fateful speech, whispered to Mondale, "You've got a lot of balls, pal." According to Rostenkowski, Mondale whispered back, "Look at 'em, we're going to tax their ass off."

Mondale's bold step to back tax increases rather than tax reform turned out to be the biggest blunder of his campaign. The statement, for all its honesty, reinforced the voters' worst fears about Democrats. The candidate's lame retort that Reagan had a "secret plan" to raise taxes never made a dent in the president's support. Mondale lost the election by a landslide, winning only 13 electoral votes to Reagan's 538. Whether an endorsement of tax reform would have helped Mondale's cause is unclear. But the truth is that other than the brief flirtation in May of 1983, tax reform never came close to being adopted by Mondale. At the highest levels of his campaign, where the political advisers and fundraisers held sway, it never even got serious consideration. It just did not fit into the Mondale game plan, for a number of reasons.

First, although Mondale had fought to close loopholes as a member of the Finance Committee in the 1970s, he had met with little success. The Democratic chairman of the panel, Russell Long, was uninterested in such efforts, and Mondale had learned that it did not pay to cross Chairman Long. "I'd go up that hill and get knocked back down," Mondale recalls. "It was a dispiriting environment." As Jimmy Carter's vice president, Mondale once again watched reform fail utterly and was not eager to repeat the performance.

Second, as a politician with roots in Minnesota's progressive Democratic-Farmer-Labor Party, Mondale was clearly uncomfortable with the sharp cut in the top tax rate proposed by Bradley-Gephardt. "I thought there ought to be an additional bracket for high-income taxpayers," he said later. Lowering the top rate so drastically, he and other liberals believed, would give the wealthiest Americans an undue break.

Third, Mondale was convinced that the budget deficit was the "central problem in the American economy." Bradley-Gephardt was not a solution to that problem; indeed, Bradley, unlike Gephardt, believed any effort to turn the proposal into a revenue-raiser would spell its doom. Thus for Mondale, tax reform was a sideshow, an attempt to distract voters from the real economic problem that faced them.

A fourth reason that Mondale avoided tax reform, according to some in his camp, was campaign contributions. Although Democrats considered themselves the party of the little man, they had been far less successful in building a base of small contributors than their Republican counterparts had. They depended on a relatively small group of large contributors, and

among those, real estate developers loomed large. Real estate magnates like Nathan Landow of Bethesda and Thomas Rosenberg of Chicago were kingpins in the Mondale fundraising apparatus. Any version of tax reform would undoubtedly take a swipe at the generous tax breaks for real estate, and a move to embrace reform could have thwarted the campaign's fundraising efforts.

Mondale vigorously denies that campaign contributors had anything to do with his decision to steer clear of tax reform. "There's absolutely no basis to that at all," he says. He even recalls that Landow once told him he liked the Bradley-Gephardt bill because it would drive the get-rich-quick charlatans out of real estate and leave more room for serious developers like himself.

The ultimate reason that Mondale avoided tax reform, a reason that was rooted in the nature of the campaign itself and that overshadowed all other reasons, was this: Mondale's was a campaign of the special interests. Its goal was to build a coalition by attracting organized groups one at a time. Tax reform was the antithesis of that strategy: It tossed out special interests in favor of the general interest. The legislation offended groups that ranged from real estate to labor to heavy industry. It would have hurt his efforts to build a coalition of special interests in a dozen different ways.

"Mondale had served on the Senate Finance Committee, and he knew that losers in tax changes are intense and aware, while the winners are for the most part not intense and unaware," says campaign chairman James Johnson. "That meant . . . you potentially pay a high price with the people who are hurt." It was a price Walter Mondale was not willing to pay.

In retrospect, Mondale has few regrets. "I made a decision which in hindsight may not have been correct, but I still think I would have done the same thing at the same time again, which was to emphasize the budget deficit," he says. "I thought Bradley-Gephardt was a good idea. It made sense to me. But I didn't emphasize it in the campaign because it was a revenue-neutral objective.

"What might have been done, what should have been emphasized more, was the record of outrageous loophole beneficiaries during the Reagan administration," he adds. Why didn't he do at least that? "I don't know," he says with a touch of wistfulness. "You get into these things, and you get awfully tired, and your mind doesn't work."

While Bradley's tax-reform ideas were ignored by the Democrats in the Mondale campaign, they found growing acceptance at the opposite end of the ideological spectrum, among Republican supply-siders.

In August of 1983, a group of about twenty supply-side journalists, politicians, and intellectuals gathered on the slate patio next to the swimming pool in the rear of the suburban Washington home of Jack Kemp.

It was a sparkling evening, and the group conversed in animated fashion as Kemp's wife Joanne served them food and beer. They were a small band of fellow travelers, conspiratorial in nature, and often split by factional disputes. Their differences were at times so severe that they refused to speak with each other, and this evening was no exception. But they had gained inordinate influence in the Republican Party and within the Reagan administration. They were the moving force behind the Kemp-Roth tax cuts of 1981, and they were looking for new policies to push during the second Reagan term.

The purpose of the poolside meeting, in the words of one of the group, was "to plot how to dominate the Republican platform" in 1984. Among those attending, in addition to Kemp, were the leading lights of the supply-side movement: Irving Kristol, the neoconservative New York University professor who was publisher of a journal called *The Public Interest*; Lewis E. Lehrman, who had launched and lost a supply-side bid for the New York governorship in 1982; Paul Craig Roberts, who had served as Reagan's assistant Treasury secretary for economic policy during the first year of the administration; Richard Rahn, chief economist for the Chamber of Commerce of the U.S.A.; Jeff Bell, who had run against Bradley in the 1978 New Jersey senatorial race on a supply-side platform; Jude Wanniski, an economic consultant who was forced to leave his job as an editorial writer at *The Wall Street Journal* because of his active campaigning for Bell; and Alan Reynolds, Wanniski's partner in his consulting business.

For the supply-siders, tax cuts always ranked at the top of the list of preferred policies. The problem with the American economy, they believed, was that tax rates were too high and were suffocating incentives to work, save, and invest. But since their surprising success in 1981, the supply-siders had been forced to lay low. The tax cuts enacted that year had not led to an economic boom, as they had predicted, but to a bust. Budget deficits had not disappeared, but had skyrocketed. For the supply-siders to simply endorse further tax cuts in the face of such problems would have been viewed by the public as highly irresponsible (although many in the camp would have favored just that course).

During the poolside meeting, Kristol made an unusual proposal: Why not endorse Bradley-Gephardt as stage two of supply-side efforts to get tax rates down? Sure, the plan would hit some important big-business constituents of conventional Republicans, but it offered the only chance, in the face of prolonged budget deficits, of getting tax rates down further.

The idea was appealing to many in the group. Endorsing a Democratic tax bill would certainly attract attention, which the supply-siders always craved, and it would undermine efforts by the Democrats to make tax reform an election issue. Wanniski was intrigued by the proposal, as was Bell, who had become an admirer of the former basketball player who had trounced him in his Senate bid. "We came to the conclusion," Kemp said later, "that Kristol was right, that Reagan and Kemp should endorse Brad-

ley-Gephardt. That would have thrown the Democratic party into a state of real confusion."

Others in the group expressed their opposition to the Bradley bill. In particular, Rahn and Roberts, who both had close ties to the corporate community, were disturbed by Bradley's proposal to trim back investment incentives for business. Lehrman argued that for political reasons, it would be wiser for the group to have its own bill, rather than simply embrace the Bradley measure. The discussion continued for some time, and twilight fell over the patio. In the end, Lehrman won out: The group agreed that Kemp should draft a new version of tax reform that Republicans could rally behind.

Thus began one of the most unusual, and most important, alliances fostered by tax reform. Bradley had argued fiercely against the supply-side agenda in his 1978 campaign against Bell, and his interest in tax reform had been born out of his strong opposition to the 1981 supply-side cut. But now, as his own party was deserting him, Bradley found supply-siders turning to adopt his concept, and he welcomed them.

Shortly after that meeting in Kemp's backyard, Bell telephoned Bradley, to whom he had not spoken since their heated debates during the campaign of 1978. Bell requested an audience, and Bradley consented. The two met in September at Bradley's Union, New Jersey, office. It was a busy time for Bell, who was to be married within the week, but he was glad for the opportunity to talk to Bradley. "Bradley was very friendly and very gratified," says Bell, and out of the meeting grew a new partnership. Bradley says he was happy for the vote of confidence and was equally glad to have Bell as a resource for him in the supply-side camp. Bell kept Bradley apprised of what Kemp and company were up to; and Bradley used Bell to send messages to the supply-siders and their friends in the Reagan administration.

Kemp, in the meantime, went to work developing a Republican version of Bradley-Gephardt. Unlike Bradley's plan, the Kemp proposal sought to enhance business investment incentives by allowing rapid write-offs for equipment purchases. The Kemp plan also contained a \$2,000 personal exemption to help families; it retained the full deduction for mortgage interest, maintained the full deduction for charitable contributions, and kept low capital-gains tax rates. As his Senate cosponsor, Kemp chose Robert Kasten of Wisconsin, whose successful effort in 1983 to defeat Dole and repeal the interest-withholding provision attracted Kemp's attention. Kemp and Kasten introduced their version of tax reform in April 1984.

Because of the Kemp plan's generosity in retaining tax breaks that were curbed by Bradley, Kemp-Kasten faced a serious shortcoming from the start. The original version was not revenue neutral by the calculations of either the Treasury Department or the congressional Joint Committee on Taxation. Had it been enacted into law, it would have added tens of billions to the nation's budget deficits. Nevertheless, the Kemp-Kasten tax bill

helped make the quest for tax reform bipartisan, and only as a bipartisan effort did reform stand a chance. Tax reform was too big, too complex, and too controversial to be pushed through Congress by one party alone. With the power in Washington clearly split between the Democrats, who had consolidated their control of the House in the 1982 elections, and the Republicans, who still controlled the Senate and the White House, support from both sides was needed to provide even a small chance for success.

The Reagan administration focused its sights on tax reform in late 1983, as work got under way to prepare for the president's 1984 State of the Union address. White House aides were coming under pressure from the supply-siders to advocate reform, and they were also convinced—wrongly—that Walter Mondale was about to make Bradley-Gephardt the centerpiece of his election campaign.

Still, Chief of Staff James Baker was reluctant to support reform. He had heeded the advice of pollster Richard Wirthlin, who warned that "tax reform" would mean "tax increase" to many voters. He felt it would be a dangerous policy to push during an election year.

Tax reform had been discussed in the White House before. In September of 1982, Treasury officials met with the president on three occasions to review their upcoming testimony on reform at a hearing before the Finance Committee. That same year, Secretary of State George Shultz, a former Chicago economist who was intrigued by the "flat-tax" proposals of economists Robert Hall and Alvin Rabushka, tried to interest the president in the idea. In a golf match described by former Budget Director David Stockman in his book *The Triumph of Politics*, Shultz told the president that a low-rate tax system would end the inefficiency caused by tax loopholes and cause the economy to grow faster. By the eighteenth hole, the president was convinced, Stockman writes, and soon, "everyone around the White House was talking flat tax." After the golf match, then-Treasury Secretary Regan received a short note from the president extolling the idea, scrawled in the margin of an article on the issue.

But the pragmatists in the White House—including Baker, then-presidential assistant Darman, Stockman, and Economic Adviser Martin Feldstein—thought talk about the benefits of tax reform sounded like more of the supply-siders "voodoo economics," to use a phrase coined by George Bush before he became Reagan's running mate. The real problem, in their view, was the deficit, and tax reform offered no solution to that.

Before the 1983 State of the Union address, Stockman and Darman worked on a scheme that would combine long-term tax reform with a "temporary" short-term tax increase. The tax increase, they thought, could then be sold to the public and to Congress as merely a "bridge" to raise revenue until the new tax plan took effect. In Stockman's words, it was

"a perfectly disingenuous plan" to convince the president to back a tax increase.

But the Stockman-Darman compromise never got off the ground. White House officials disagreed about what tax reform should look like and feared that the idea might not sell well to the public. Out of this confusion came the vague, two-pronged plan that the president pushed in his 1983 State of the Union address. He called for a "standby" tax that would be triggered only if Congress first approved the administration's budget—an unlikely condition. After that, he said, the administration would "continue to study ways to simplify the tax code and make it more fair for all Americans." The standby tax was quickly forgotten, and discussions of tax reform did not surface again in the White House until the end of that year.

As the 1984 State of the Union address approached, Baker finally decided that the best strategy was to defuse the tax issue by having the president call for a "study" of reform, without delineating any specifics. This would take the wind out of any Democratic plans to endorse the Bradley-Gephardt bill and avoid the risks of angering specific voters by putting out details of a plan. The promise of a "study" also would help the president duck the question of raising revenue to reduce deficits. The move was political, as most election-year White House decisions are, and it was based largely on a mistaken judgment about the Mondale campaign.

Treasury Secretary Regan, spurred by the handwritten note from the president, had by that time grown fond of reform, seeing it as a way to regain center stage in the Reagan administration. But his entreaties were rebuffed by White House aides. "I insisted that we had to have tax reform, that the system was crazy," he recalls. "They agreed to let me study it. Like a pat on the head for a little child, they sent me off to go and play."

On January 25, 1984, the president appeared before a joint session of Congress to deliver his annual State of the Union address. He stood on the speaker's podium, with Vice President George Bush and House Speaker Thomas P. "Tip" O'Neill seated behind him, the House members and senators spread out in the audience before him. The House chamber was a majestic room, with a stained-glass eagle on the skylight soaring overhead and symbols of each state emblazoned on the ceiling. As he spoke from the high, altarlike podium, the president was flanked by giant portraits of George Washington and the Marquis de Lafayette, a French general and early friend of the Republic. The legislators sat quietly as he spoke the following words:

Let us go forward with an historic reform for fairness, simplicity and incentives for growth. I am asking Secretary Don Regan for a plan for action to simplify the entire tax code, so all taxpayers, big and small, are treated more fairly. And I believe such a plan could result in that "underground economy" being brought

into the sunlight of honest tax compliance; and it could make the tax base broader, so personal tax rates could come down, not go up.

It was an impressive performance, and those watching the president might have been convinced by the president's sincerity, had it not been for the very next line: "I have asked that specific recommendations, consistent with those objectives, be presented to me by December 1984."

December 1984: To the members of Congress seated in the House chamber, the date conveyed tremendous irony. The presidential election was in November, and the president's promise seemed no more than a cynical ploy to deflect the issue until the election had passed. Given the date, few of those who heard the speech believed the president was serious; few thought that the same president who had filled the tax code with huge new loopholes in 1981 was now ready to turn around and rid the code of those same preferences.

In a rare display of disrespect, the Democrats in the solemn chamber erupted into derisive laughter. "Did I say something funny?" Reagan asked with a smile.

Tax reform seemed no more than a joke.