

Reagan's Supply-Side Warriors Blaze a Comeback Under Trump

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On a Tuesday evening earlier this month, several dozen Washingtonians gathered in a ballroom at the Trump International Hotel, ostensibly to enjoy an open bar and watch a new PBS documentary about money. In reality, the event also served as a rally for a small clique whose fierce devotion to supply-side economics made them influential figures in the 1980s, and has won them renewed clout and access under President Donald Trump.

Invitations listed the hosts as Stephen Moore, a habitué of conservative think tanks, and Art Laffer, the supply-side economist, who did not end up attending. Larry Kudlow, the director of Trump's National Economic Council and one of the president's closest advisers, showed up in a pinstriped suit. "Larry Kudlow is my best friend in the world," gushed Moore in opening remarks, noting that Laffer and Kudlow served as co-best men at his wedding to his second wife, Anne, who sat in the front row. Taking the floor next, Kudlow gazed out at the room and offered a shoutout to Adele Malpass, a RealClearPolitics reporter and former chairwoman of the Manhattan Republican Party, whose husband, David, has just taken over as president of the World Bank on Trump's say-so.

Next up came publishing executive Steve Forbes, co-author of the book that inspired the evening's documentary, "In Money We Trust," which lays out a case for a hard money system, such as the gold standard, that its devotees believe is less susceptible to government manipulation. Forbes thanked Kudlow, adding, "We've been co-conspirators now for about 35 years."

Those decades of free-market machinations are now paying off, as a quintet of Ronald Reagan administration alumni — Kudlow, Laffer, Forbes, Moore and David Malpass — united by undying affection for each other and for laissez-faire economics, have the run of Washington once more. Members of the tight-knit group have shaped Trump's signature tax cut, helped install each other in posts with vast influence over the global economy, and are working to channel Trump's mercantilist instincts into pro-trade policies. Blasted by their critics as charlatans and lauded by their acolytes as tireless champions of prosperity, there's no denying that the quintet has had an enduring impact on decades of economic policy.

Most recently, in late March, and partly at Kudlow's urging, Trump announced his intention to nominate Moore to one of two open seats on the Federal Reserve Board of Governors, the body that sets the tempo of the global financial system.

The announcement prompted protests from economists across the ideological spectrum — George W. Bush's top economist, Harvard's Gregory Mankiw, said Moore lacked the

“intellectual gravitas” for the job — who warned that appointing Moore, a think-tanker with no Ph.D., would politicize the Fed. Soon, it emerged that Moore had made a mistake on a 2014 tax return that led the Internal Revenue Service to place a disputed \$75,000 lien against him, and CNN dug up scathing comments Moore had made about Trump during the presidential primary.

Whether Moore can survive the scrutiny and pass muster with the Senate will be a test of the supply-siders’ renewed cachet. They believe they can pull it off.

“I understand there are imperfections,” Kudlow told POLITICO. “I think it can be worked out.”

While he undergoes vetting, Moore, over coffee at the Kimpton George Hotel on Capitol Hill, held forth with surprising candor about his pals and their relationship with Trump.

In the past, Moore has been openly critical of Trump’s trade and immigration stances, and as late as last fall wrote that Trump could be “sophomoric, impulsive and hurtful,” in a book, “Trumponomics,” that was co-authored by Laffer and featured a foreword by Kudlow.

Why could he get away with such criticism, when others in the president’s orbit often face reprisals?

“Because it’s true!” exclaimed Moore, who mostly lavished praise on Trump, and credited the president with bringing him around to a more confrontational approach to trade policies with China and Europe.

Moore described some of his recent conversations with Trump, which often turn to Fed Chairman Jerome Powell.

“I think his criticism of Powell is excessive and could be counter-productive,” Moore said, because it could actually provoke Powell to prove his independence by defying Trump’s wishes. Generally speaking, Trump wants Powell to keep interest rates low to decrease the chances of any economic slump before the president faces voters again next November.

Moore also recounted how he and Laffer, who began advising Trump in 2016, helped place Kudlow in his current posting.

Roughly a year into Trump’s term, as Trump’s first NEC director, Gary Cohn, prepared to depart the post, the duo sprang into action. Moore said that during this period, whenever he and Laffer engaged in their semi-regular consultations with Trump, they would have some version of the following exchange:

“You know, Mr. President, you’re missing one thing,” Laffer or Moore would say.

“What is that?” Trump would ask.

“Larry Kudlow,” Laffer or Moore would tell him.

“We just drilled the message over and over,” Moore recalled. “Larry, Larry, Larry, Larry.”

Laffer declined to detail his discussions with Trump, other than to confirm the pro-Kudlow campaign. “I don’t think Steve should’ve told you that,” he said. “But that’s true, yes.”

At the same time, Moore said, the pair worked the press. “We made a concerted effort to make it seem like a fait accompli that Larry would get the job.”

That included knifing a few of Kudlow's rivals. "We had a campaign to say 'this person's completely unqualified,'" he said, though he declined to name their targets. "I think we took them down," he added.

"It proves that in Washington, appearance is reality, sometimes," Moore continued. "So that was highly effective."

In various combinations, the group has been pushing the same agenda for decades.

Laffer, 78, said he first befriended Forbes, 71, in the 1970s at a series of weekly discussion gatherings at restaurants in New York that featured then-Wall Street Journal associate editor Jude Wanniski, a late apostle of supply-side theory.

During that same period, following the 1974 midterms, Laffer first drew his famous Laffer Curve — a representation of the idea that at a certain level of taxation, lowering taxes would theoretically spur enough growth that government revenues would actually rise — at a meeting near the White House with Wanniski, Dick Cheney, then an aide to President Gerald Ford, and Grace-Marie Arnett, another free marketeer active in Republican politics.

Reagan would go on to fully embrace supply-side theory, a shift from the party's traditional emphasis on fiscal discipline, appointing Laffer to his Economic Policy Advisory Board.

Then as now, supply-side economics was criticized for favoring the rich and derided by critics as unrealistic "Voodoo Economics." The critics got an early boost from a 1981 Atlantic cover story in which Reagan's budget director, David Stockman, aired his doubts that this novel theory was working in practice.

The piece ruined Stockman's standing with Reagan — Laffer calls him "the traitor of all traitors" — but Stockman's young aide, Kudlow, now 71, remained a loyal supply-sider and struck up a relationship with Laffer.

Reagan would go on to appoint Forbes as the head of the Board of International Broadcasting, which oversaw Radio Liberty and Radio Free Europe, and Moore worked as the research director for Reagan's privatization commission. Malpass, meanwhile, worked in Reagan's Treasury department. Representatives for Forbes and Malpass said they were not available for interviews.

In the 1988 presidential primary, another supply-sider, the late New York congressman Jack Kemp, lost out to George H.W. Bush, curtailing the crew's influence within the party.

But they stuck together. Moore, now 59, first became close with Laffer and Kudlow in 1991, after he recruited them to participate in an event celebrating the 10-year anniversary of Reagan's first tax cuts for the libertarian Cato Institute.

In 1993, Kudlow and Forbes teamed up to craft a tax cut plan for New Jersey gubernatorial candidate Christine Todd Whitman, who went on to unseat incumbent Democrat James Florio.

Meanwhile, Kudlow hired Malpass to work for him at Bear Stearns, where he had been flying high as the investment bank's chief economist.

The next year, Kudlow crashed to earth—he left the bank and entered rehab for alcohol and cocaine addiction. Laffer stuck by Kudlow, hiring the investment banker to work for his consulting firm in California when he emerged.

In 1996, Forbes, backed by Moore, entered the Republican primary and lost out to Bob Dole, but the group takes credit for getting Kemp picked for the bottom half of that year's ticket, which lost to incumbent Bill Clinton.

At some point, Forbes, Kudlow, Moore and Laffer became inseparable in the eyes of their peers.

"You could call them the Four Musketeers of the supply side movement," said Avik Roy, an editor at Forbes involved in some of the group's advocacy. Or you could call them the "the supply-side Beatles," as Moore does — or "the four amigos," as anti-tax crusader Grover Norquist does. "There's a fourthness to them," observed Jack Fowler, vice president of the conservative National Review.

Malpass, 63, who has maintained a lower public profile over the years, qualifies as something of a fifth musketeer.

"They're a little rat pack. There's no doubt about that," said one New York financial world player who keeps in touch with the group. "They're all pretty straight guys. They're not criminals. They don't do anything weird, outwardly. You know what I'm saying? They like talking about supply-side economics. They get hard talking about tax cuts."

Whatever you call them, there's no denying their impact on American society. The group has argued that the best way to manage the economy is to make life easier for the producers of goods and services — by limiting taxes and regulations — so that producers are incentivized to supply more of these goods and services to the market, and that taming deficits is less important than spurring growth.

Before Reagan took office and empowered the supply-siders, the top marginal federal income tax rate in the U.S. had remained somewhere north of 60 percent since the Great Depression. Under their influence, Reagan briefly pushed the top rate below 30 percent, and it has not returned to the anything near the pre-Reagan status quo since then.

Before Reagan, the national debt-to-GDP ratio had been declining since World War II, thanks in large part to the old Republican school of fiscal discipline. Since Reagan, the debt ratio has been climbing back towards its wartime peak. Trade and migration barriers have also come down. American society has become both wealthier in real GDP terms and more unequal. These trends have persisted thanks to a post-Cold War, bipartisan free market consensus, and to the bipartisan Keynesian response to the last financial crisis — but it was the supply-siders who really got the party started.

And they have not stopped partying since. Members of the group have continued to actively socialize with each other over the decades, with some spending New Year's eves together. At one birthday party for Laffer in New York, they presented the aging economist with a signed poster of the Jedi master Yoda. "I'm short, a little bit fat. I've got big, green ears," Laffer explained. "I look sort of like Yoda."

In 2015, Forbes, Laffer, Kudlow and Moore created the Committee to Unleash Prosperity, a group intended in part to counter the emergence of the "Reformicons," a rival gang of Republican eggheads who felt the party had gone too far in the direction of laissez-faire policies favoring the rich.

Among the other 29 committee members listed in a press release were both Malpasses, Kevin Hassett, now chairman of Trump's council of economic advisers, and Andy Puzder, who was Trump's initial pick for labor secretary until allegations of domestic abuse unearthed by POLITICO derailed his nomination.

The group sought, with considerable success, to vet Republican presidential candidates for their supply-side credentials and to influence their platforms, holding large private dinners at Manhattan venues such as the Four Seasons and the 21 Club, so that committee members and other notable invitees — like Rudy Giuliani and Roger Ailes — could feel out the candidates.

Before meeting with the larger group, candidates would huddle with the committee's founders to receive economic tutorials. Or in the case of Ohio Gov. John Kasich, to give one. "We were all sitting there, and he would talk for an hour," Moore recalled. "We're like, 'No, we're supposed to be talking to you,' and he's talking to us." Moore called the episode "Classic John Kasich."

Though the events were supposed to be off the record, journalists often attended, and an otherwise lackluster February 2015 dinner for Scott Walker made headlines when Giuliani barged in, proclaimed he did not believe that Barack Obama "loves America," and insisted a POLITICO reporter could print the quote.

Almost every serious Republican candidate participated in the dinners — but when Trump's campaign first came calling early in the mogul's bid, Moore said the committee passed.

"It just seemed like a joke to me that he was even running. I was like, 'No, we're a serious organization,'" he recalled. In hindsight, Moore said, "That was stupid."

Meanwhile, Trump defied the committee's free market orthodoxy on issues like trade and immigration, drawing public criticism from both Moore and Kudlow, and feuded with the laissez-faire Club for Growth, which Moore had co-founded in the late '90s.

At the same time, Kudlow — who spent two decades in media as a National Review editor and CNBC host — was also eyeing a 2016 Senate run in Connecticut, but he did not jump in.

As the voting started, it became clear that Trump was emerging as the likely nominee, but he continued to have trouble attracting experienced advisers. In March 2016, then-campaign manager Corey Lewandowski invited Kudlow and Moore to meet with Trump at the candidate's Midtown office. (Laffer — who moved from California to Tennessee in 2006 for tax reasons — had already met with Trump and begun advising the campaign on a tax plan.)

The duo hit it off with the apparent nominee, and Trump asked them to help refine his tax proposal, which he had first unveiled in September 2015. According to "Reagonomics," Trump wanted the pair to make his plan "bigger and more beautiful" than Reagan's tax cut, but he also needed to trim the projected cost of his original proposal, which was about \$9 trillion. The populist Bannon, the book says, pushed Trump to trim the cost by jacking up his original plan's top income tax rate. The supply-siders fought back, making charts for Trump that showed when Reagan slashed taxes on the wealthy, the share of tax revenue paid by the top 1 percent actually went up. Ultimately, Trump's new proposal reflected a compromise position between the two camps, with a top tax rate that was higher than the original plan's, but lower than the current effective rate.

At the March meeting, Trump also mentioned he was planning a trip to Capitol Hill to confer with congressional Republicans. Moore had heard a similar recent meeting with lawmakers had gone badly — they complained Trump was “arrogant” — and suggested that he and Kudlow, who personally knew much of the caucus, accompany the candidate to help “break the ice.”

Apart from a confrontation between Trump and Arizona Sen. Jeff Flake, Moore said the approach “worked like a charm.”

After Trump won, the trio continued to advise on the tax plan. Kudlow and Moore pushed the plan on Capitol Hill, drawing on the same relationships with Senate Republicans that they hope will ensure a smooth nomination process for Moore. Malpass, who had begun advising Trump during the campaign and then went into the Treasury Department, also helped craft the plan.

After the tax bill’s passage in December 2017, Laffer and Moore turned their attention to their campaign to install Kudlow in the White House, which succeeded last March. (Two other members of the Committee to Unleash Prosperity, the grocery and real estate billionaires John and Margo Catsimatidis, were dining with Kudlow and his wife at the Italian restaurant Cipriani when Trump called to formally offer Kudlow the job.)

Once inside, Kudlow returned the favor, ensuring that Moore’s and Laffer’s writings regularly made their way to Trump’s desk.

The supply-siders began pushing Trump on trade, advising him to encourage a lowering of trade barriers on all sides, rather than raising them. Last June, Kudlow convinced Trump to float the idea of the world governments eliminating all tariffs at a G-7 summit in Quebec.

Last month, Kudlow showed Trump an op-ed co-authored by Moore in the Wall Street Journal that criticized Powell. The op-ed reportedly pleased Trump so much that it prompted him to offer Moore the Fed job.

Kudlow also championed his former Bear Stearns protege’s World Bank ascension. “For Malpass, I worked very, very hard,” he said.

Moore has predicted that Malpass will gradually bring the supply-side gospel to the World Bank, which influences the economic policies of governments around the world.

To their friends, the prospect of the rat pack getting back at the economic levers is wonderful. “The economy is the best it’s been in a long time!” John Catsimatidis exclaimed.

But critics deride the group as intellectually inconsistent, water-carriers for the rich, and just plain wrong.

“At least Trump, [Senate Majority Leader] McConnell, and [House Minority Leader Kevin] McCarthy will have one less thing to have to worry about—whether their economists will be sufficiently supportive of what they decide the plan that holds their political coalition together will be,” wrote the U.C. Berkeley economist Brad DeLong, who served in Clinton’s Treasury Department, in an email.

DeLong described Moore as “execrable,” saying he has changed his tune on interest rates since the Obama administration to accommodate Trump’s agenda.

Critics also contend that supply-side is little more than a euphemism for “pro-rich” economics. “They all have the same line of thinking and they all support the same line of argument,” said Hank Sheinkopf, a veteran Democratic consultant in New York. “The end result has been the greatest level of toxic inequality since the Great Depression.”

And proof of the group’s core claim — that slashing taxes and regulations is the best path to growth — remains elusive.

The fund manager Doug Kass, president of Seabreeze Partners Management, has long been friends with Kudlow, who attended his son’s wedding. “I’m a great fan of Larry ‘Kuddles’ Kudlow,” said Kass, alluding to the former investment banker’s warm personality. But he is not impressed with the predictive power of the group’s ideas.

“The core foundation, the concept of supply-side economics, at least based upon the empirical evidence,” Kass said, “is something between no success and a disaster.”

Though the group has failed to win over most academics and practitioners, it has had far more luck with its constituency of one inside the Oval Office. Part of the group’s success stems from its tendency to play nice with all sides of the president’s fractious orbit.

Kudlow has butted heads with Peter Navarro, Trump’s director of the Office of Trade and Manufacturing Policy, over Navarro’s anti-Wall Street rhetoric and hawkish approach to trade negotiations with China. But in general, the supply-siders get high marks for affability, even from those who believe their theories are baloney.

Laffer and Kudlow thank both Steve Bannon and Ivanka Trump in the acknowledgement of “Reagonomics.” And though Bannon’s populist impulses clash with the musketeers’ pro-market views, Bannon’s public relations manager, Republican operative Alexandra Preate, has simultaneously been instrumental in running the Committee to Unleash Prosperity.

“I don’t do factions, man,” Kudlow explained. “We’re the faction that’s in favor of Trump’s policies. That’s the faction I identify with.”