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Gingrich Grandiosity and Supply-Side Economics

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A *Washington Post* headline [proclaims](#), "Supply-siders find an ally in Gingrich."

Art Laffer endorsed Newt last month, but that is not news. What accounts for the plural in "supply-siders" is one of Gingrich's policy advisor (a libertarian lawyer) plus two more (an investor and a self-described economist) who are refugees from Herman Cain's campaign. The same article goes on to mention Columbia Business School Dean Glenn Hubbard, whom I would certainly count as a supply-side sympathizer. The article also counts former Congressman Vin Weber in Romney's camp, and Weber was a long-time ally of our mutual friend the late Jack Kemp.

Some supply-siders evidently find an ally in Romney, while others were more inclined to support Cain or Perry in the past and perhaps Gingrich or Santorum today. If it was simply about who can dream up the lowest tax rate, it's hard to beat Ron Paul's comment in a recent debate: "What's wrong with zero?" But zero won't get the bills paid, so cutting one tax to zero (such as the tax on dividends or capital gains) means increasing some other tax to fill the gap. We have to find credible ways of funding the government that will do the least possible damage to the economy. Repeatedly borrowing trillions more just to pay for unsustainable tax giveaways ("to put money in people's pockets") is not what supply-side economics was ever about.

Whenever Newt Gingrich has been asked to explain why he is supposedly more "conservative" than other Republican presidential candidates, Newt has repeatedly replied that he "helped Ronald Reagan and Jack Kemp develop supply-side economics." If that were true, I think I would know about it.

I was jointly responsible (with Jude Wanniski) for bringing the phrase "supply-side" economics into popular parlance in 1976. I helped write the tax chapter in Jack Kemp's book 1978 *An American Renaissance*. I spent nine years as chief economist with Wanniski's consulting firm Polyconomics. I worked with David Stockman and Larry Kudlow in the first Reagan transition team in 1981.

Kemp arranged for me to meet with Gingrich in 1982, because Jack was worried that Newt had been seduced by OMB Director Dave Stockman's arguments that the Reagan tax cuts must tax a back seat to deficit reduction. Stockman was arguing that deficits would absorb savings, crowd

out investment and abort the recovery. That argument (and Alan Greenspan's advice) had already inspired some crippling policy mistakes, such as waiting until mid-1983 to phase-in the tax rate reductions, and keeping the top tax on labor income at 50 percent. Incentives for business investment were also curtailed in a 1982 law, which I believe Newt opposed. Unfortunately, Gingrich also opposed the Kemp-Kasten tax reform in 1986, but all was forgiven in 1990 when he tried to block the counterproductive "read my lips" tax hikes of the first President Bush.

If Gingrich had simply said that he (like many others) supported the original Kemp-Roth tax rate reduction plan and the watered-down version of 1981, that would have been accurate and appropriately unpretentious. To suggest instead that the underlying logic and evidence was "developed by" by Gingrich, rather than by numerous economists allied with Jack Kemp, is simply preposterous. The true story is ably retold in several books, most recently *Econoclasts* by historian Brian Domintrovic, and earlier in *The Seven Fat Years* by former Wall Street Journal editor Robert L. Bartley. One looks in vain for any mention of Newt Gingrich in any history of supply-side economics.

The phrase "supply-side" dates back to April 1976 -- two years before Gingrich came to Congress. With some effort, I then persuaded former *Wall Street Journal* editorial writer Jude Wanniski to embrace a label that Nixon economist Herb Stein coined at a conference I attended. Yet several of us had been talking and writing along similar lines since about 1971, including Art Laffer, Nobel Laureate Bob Mundell and former Treasury Underscretary Norm Ture. As conservative radio talk show host Mark Levin rightly [put it](#),

Newt Gingrich... had nothing to do with the development of supply-side economics. ...It pre-dated his election to the House by several years. So he didn't help Ronald Reagan develop supply-side economics. He wasn't even on Ronald Reagan's radar at the time.

With more justification, Gingrich gives himself great credit for "cutting taxes, cutting spending and balancing the budget for four years" as Speaker of the House from 1994 to 1998. Many taxes went way up in 1993, of course, but Gingrich does deserve credit for persuading President Clinton to reduce the top capital gains tax to 20 percent from 28 percent in 1997. Revenues from capital gains soared to \$89.1 billion in 1998 and \$127.3 billion in 2000. But Newt can't have it both ways.

If he takes credit for the revenue windfall from capital gains tax of 20 percent -- which contributed mightily to the balanced budget in those years -- then Gingrich cannot then turn around and promise a similar fiscal miracle from his proposed capital gains tax of zero.

What about spending? Nondefense spending was cut from 17 percent of GDP in 1993 to 16 percent in 1998, and Gingrich surely deserves credit for that. But defense spending fell from 4.4 percent of GDP to 3.1 percent in the same period, which had more impact on the deficit.

Newt Gingrich's alleged role in the development of supply-side economics sometimes looks like a deliberate distraction from deeper questions about why he claims to be more "conservative" than other candidates. For many years, Gingrich advocated federal legislation making health insurance compulsory, something Romney never did. Gingrich has enthusiastically supported federal subsidies for ethanol and other green energy boondoggles. And he dismissed a thoughtful plan from Paul Ryan (who Kemp greatly admired) to slow the growth of entitlements as "right wing social engineering."

For Newt Gingrich to toss out strikingly bold and obviously unworkable ideas about scrapping many taxes and slashing others is certainly not moderate. But being immoderate is not the same as being conservative. And voicing flippant disregard for budget problems of the magnitude we face is not the same as being any sort of economist, supply-side or otherwise.

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