

THE INFLUENCE OF CONSERVATIVE THINK TANKS: 1970S CAPITALISM
AND THE RISE OF CONSERVATIVE THINK TANKS

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ABSTRACT OF THE DISSERTATION

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The early 1970s saw a series of events that led to significant changes to the US economy. The year 1971 marked the end of the Bretton Woods global monetary system. 1973 was the start of the Arab oil embargo. 1974 marked the beginning of a deep recession and the start of high inflation that would dominate the decade. These events were the catalysts for change that would start to move the US from a mixed Keynesian economy to a more aggressively capitalist economy that was characterized by tax cuts, deregulation and military spending. This study is an examination of the ideas, policies and issues that led to this change. It argues that while elites in business, finance and politics argued for policies based on free markets, free trade and unfettered capitalism, the policies in fact worked to strengthen the influence and wealth of these elites. One of the main driving forces of this push for capitalism was the newly emerging conservative think tanks of the 1970s. Without these think tanks, conservatives could not have created the positive messages and perception of the policies they were able to sell to the American public. Think tanks exerted influence through the books, journals

and reports they published. They pushed their message in Congress and in the media where they positioned themselves as defenders fighting liberal excess, big government and a social welfare state. They created a powerful connected network that advocated for what seemed like useful ideas in a time of economic trouble. The changes to capitalism in the 1970s and early 1980s was driven by think tanks whose funding came from wealthy donors who sought to exert their influence over the US economic and political system. This study explains how Conservatives won the war of ideas with a version of capitalism that had little to do with free markets. It shows how their success would not have been possible without conservative think tanks. Finally, it identifies the winners and losers in this battle that started 40 years ago and continues today.

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Introduction

Inequality is a topic that is in the news frequently. There are reports of a growing gap between the haves and the have-nots. We can read about the stagnation of the middle class and there are frequent stories about greater poverty and more people living from paycheck to paycheck. The high unemployment that accompanied the Great Recession of 2007 has receded but the jobs that have returned pay less than those that were lost.

Where did this inequality spring from? The Great Recession may have brought this issue into the light but it did not create it. What is striking about the growth of inequality is the advantages that the wealthy enjoy. Corporate welfare is prominent with corporations earning billions in profits and paying no taxes. Wealthy taxpayers can afford to hire the best tax accountants in order to pay the lowest tax rates. Military contractors have profited greatly over the last decade with the War On Terror and the invasions and occupations of Iraq and Afghanistan. The US has had bank bailouts and corporate bailouts and it has a Federal Reserve Board that is extremely mindful of the needs of the financial community and the stock market. Where did these profound advantages come from? Was it the free market or was it something else?

The first clues are in the Carter and Reagan administrations with their attempts to grow the nation's economy in light of the recessions, inflation and poor economic prospects of the 1970s. Both administrations used personal and business tax cuts,

deregulation and increases to defense spending to bolster the economy. I wanted to go back further and find out where this philosophy and this mindset developed.

These policies that Reagan and Carter put forward were part of a conservative economic philosophy and there were many reasons why a conservative response would present itself in the 1970s. Culture, politics, demographics and other forces can help explain the popularity of the conservative philosophy that gained prominence in the 1970s. Beyond that, I was interested in understanding the ideas that influenced and fueled the conservative movement and the parallel rise of conservative think tanks. The conservative think tanks of that era provide a window into the ideas, the policies and the advantages that the wealthy sought to acquire and when we understand the roles that these institutions played then we can start to understand the rise of inequality which exists today.

The US economic system has undergone a significant change since the mid-1970s. Prior to the administration of Jimmy Carter and Ronald Reagan, the US had a mixed Keynesian economy¹. This meant that the government was involved in an active way in the economy; it contributed in part to create jobs, promote industry and foster demand in order to spur the economy. Jimmy Carter was elected president in 1976 and this was the beginning of a trend that would move the country away from this form of a Keynesian economy to a more free market, laissez-faire version of capitalism. Government intervention in the economy through creating jobs, fostering economic

¹ Harry Magdoff and Paul M. Sweezy, *The Deepening Crisis Of US Capitalism* (New York: Monthly Review Press, 1981), 188.

demand, placing regulations on business and rising taxes had come to be seen as a negative force in the health of the economy and there was a decade long push to limit the government's reach and impact on the private sector. Jimmy Carter initiated this with an agenda of industry deregulation, corporate and personal tax cuts along with cuts in discretionary spending in an attempt to balance the federal budget and limit the role of government in the economy. Reagan accelerated these trends when he was elected president in 1980 and worked for tax cuts, smaller government and fewer restrictions on business.

This thesis looks to give an account of the changes surrounding the economy and the policies that characterized the US during this era. It examines the push behind these changes – views about inflation and business regulation and the role of government in the economy. This paper looks at the groups that drove these changes. Specifically, the groups it looks at include the business community, the wealthy and economic elites, conservatives and the emerging conservative think tanks of the 1970s which helped promote a conservative agenda which served these groups. It explores how these think tanks were able to get their message out to those in government, to the media and eventually to the public. It seeks to identify the people who funded these conservative think tanks and what they hoped to gain in the process. Finally, it examines the paradoxes within the arguments that the conservative think tanks used which claimed to be about free market reforms but which in effect served to benefit certain groups at the expense of others.

It is important to look at the conservative movement and the emergence of conservative think tanks because the repercussions of the changes they helped to bring about to the US version of capitalism in the 1970s remain with us today. The large-scale US debt that exists today started with the tax cuts and the military spending increases of the Carter and Reagan administrations which led to a tripling of the US debt from \$1 trillion-\$3 trillion². The growth of inequality, so prevalent today, has its roots in the policies of this era which privileged finance, business and wealthy taxpayers at the expense of the middle class, workers and the poor. Since the 1970s, the role of government in the economy has been shrinking while the power and influence of those who are part of the elite has increased.

This paper looks to fill a void in the scholarship on the US in the 1970s. A great deal has been written about the challenges and the changes to the US economic system at this time. Also, there has been an exploration of the role of conservative think tanks in these changes. What does not exist is an effort to tie these economic changes and the efforts of conservative think tanks to a broader understanding of the forces of capitalism and the influence of elites who worked behind the scenes to shape policy to their advantage. So, while conservative think tanks worked to push a conservative agenda, I would argue that their free-market rhetoric was an attempt to distract the public while it worked to improve the earnings, wealth and advantages of the wealthy

² Historical Debt Outstanding - Annual 1950 - 1999, US Department of the Treasury, http://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt_histo4.htm

and business interests through lower taxes, fewer business regulations and smaller government. The conservative think tanks efforts centered around arguments which claimed to be about free markets and economic liberty but which, in fact, looked to advance special interests and the agenda of the wealthy and business elites.

This is the central argument of this paper, that the economic changes the US underwent in the 1970s were not about free market capitalism but, rather, about special interests of economic elites. The think tanks took the lead in creating arguments that helped to underpin these changes: arguments about the causes and effects of inflation and government regulation of business. The conservative think tanks were part of the push for answers to these economic challenges which the nation faced in the 1970s. Their answers centered around recommendations to cut spending, cut taxes, cut regulations and cut the size of government. The conservative think tanks were able to promote these ideas to the government, the media and the public and this was essential in helping these ideas gain acceptance.

The major theme of this paper, in conjunction with this argument, is that changes in policy which were labeled as free market reforms guided by the principle of laissez-faire economics were intended to be fair and impartial for everyone; however, these changes primarily benefited the wealthy, business and finance. This is the paradox of capitalism; the invisible hand of the marketplace is meant to privilege no one, but capitalism — the US version of capitalism — is characterized by the aforementioned elites who work to manipulate the political system to their advantage behind the veil of

free market principles. Conservatives and elites were able to do this through the media and politicians who were connected to elites through their economic and financial interests as well as through class connections. Conservative think tanks were a key institution in this push by conservatives, business interests, politicians and conservative thinkers. These think tanks served as a central location where these groups could come together and work towards their common interests. Liberals, in contrast, were unable to use their think tanks and create a similar successful model.

Evidence for these arguments and themes comes about in the following way. Chapter 1 looks at the state of the US economy and capitalism in the 1970s. The US version of capitalism at that time was a mixed Keynesian economy that was experiencing a number of problems. These problems included inflation, recession, an energy crisis and rising unemployment.³ In debating these difficulties, those on the right and the new conservative think tanks argued that these problems were caused by government intervention in the economy, increasing government deficits and growing government regulations.⁴ Their solution was an end to these government involvements through budget cuts, tax cuts and cuts to regulation. This chapter examines the rhetoric of these arguments, who put them forward and who benefited from them. It asks the

³ Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle Between Government And The Marketplace That Is Remaking The Modern World* (New York: Simon and Schuster, 1998), 64.

⁴ Herbert Stein, *Presidential Economics: The Making of Economic Policy from Roosevelt to Reagan and Beyond* (New York: Simon and Schuster, 1984), 221.

question, were these free market reforms or were they reforms prescribed by the elite to benefit the elite?

The second chapter examines the role of the emerging conservative think tanks in these debates. The think tanks were the leading force in promoting the ideas of smaller government and lower taxes. This chapter looks at the strategies and tactics of the think tanks and who provided their funding. These new conservative think tanks were created and organized by those with connections to the wealthy and to business.⁵ They were funded by these elites who subsidized the production of knowledge and pushed an agenda that claimed to be free market capitalism but was in reality was a series of policies that gave advantages to specific groups. This chapter examines who those groups were, what they looked to accomplish and the rhetoric they used to accomplish it. Again, the central question is, were these free market reforms that the conservative think tanks advocated or were they policies designed to benefit business and elites.

The final chapter looks at a specific think tank, the Heritage Foundation, in order to provide a case study and examination of think tanks on a more detailed level. The Heritage Foundation is important because of its popularity and its subsequent ties to Ronald Reagan's presidency and it reveals the connections to business and the wealthy who were the key drivers of these institutions as well as the beneficiaries of the policies

⁵ Alice O'Connor, "Financing the Counterrevolution" in *Rightward Bound*, ed. Bruce Schulman and Julian E. Zelizer. (Cambridge: Harvard University Press. 2007), 152.

they recommended. The workings of the Heritage Foundation are unique because we can see their ties to business, their links to Congress and eventually their connection to the presidency of Ronald Reagan through the policies he put forward and the people he put in his administration. Like the other chapters, this section focuses on the rhetoric, the reality and the beneficiaries of these policy prescriptions.

I use publications from the Heritage Foundation in the 1970s in order to see how they hoped to influence politicians and provide arguments for conservative policies. I examine their policies through the publication, the *Backgrounder*, which sought to provide an analysis to current topics and legislation. I also look at the quarterly publication, *Policy Review*, which provided articles on conservative issues. Finally, I give an in-depth analysis of their 3000 page report, *Mandate for Leadership*, which was prepared for incoming president Ronald Reagan by the Heritage Foundation in 1980 in order to help his administration to quickly prepare conservative legislation to present to Congress.

We can see how the conservative movement pushed for ideas that they claimed were about free markets and less government interference in the economy by looking at these documents. A close inspection of these documents allows for an interpretation that these policies were not about helping the economy and providing impartial free market solutions. Instead the real beneficiaries of these proposed policies were the business community and the wealthy.

Three concepts – capitalism, laissez-faire economics and free markets – are typically conflated together by conservatives who would go on to argue that the Adam Smith ideal of an invisible hand that guides the marketplace is impartial to all the participants. The reality of capitalism is that those in power make the rules that govern these market and economic operations and by their very nature these rules benefit some and disadvantage others. Therefore, those making the rules help to determine the economic winners and losers and, by extension, capitalism and free market economics can never be fair and impartial as claimed by their advocates.

The timeframe for this paper covers the second Nixon administration, Jimmy Carter's presidency and Ronald Reagan's first term as president. This is the era of the greatest changes to the US version of capitalism and those changes continue to impact the US today. In Nixon's second term we see the start of the economic difficulties that would dominate the decade. Carter's administration underwent continued high inflation and slow growth and in his administration there was a critical shift to a more aggressive style of laissez-faire economics in the form of tax cuts, deregulation, austerity and increased military spending. The Reagan administration represents the culmination of this push and the conservative think tanks achieved their greatest influence and visibility during his administration.

In order to understand the changes that the US version of capitalism was undergoing in the 1970s it is important to understand it in a broader context and, therefore, it is necessary to examine a movement that was occurring globally in the

1970s and which is still with us today. Neoliberalism is a term that refers to capitalism within a global context and in the 1970s neoliberalism started to gain momentum. The main principles behind neoliberalism are free trade, open markets and privatization of government services. Neoliberalism at its core is about privileging business and the private sector at the expense of other groups. The rationale for this type of policy is that by promoting business and trade a nation's economy will grow and there will be economic opportunities and jobs for citizens.

Neoliberalism made significant gains in the 1970s. Milton Friedman and economists from the University of Chicago were able to introduce neoliberal reforms in Chile under the dictatorship of Augusto Pinochet. The economic reforms in China, under Deng Xiaoping during the 1970s are considered by David Harvey to be part of the global neoliberal movement.⁶ The rise of Margaret Thatcher and Ronald Reagan in Great Britain and the US are seen as major events in the global evolution of neoliberalism. Neoliberalism continued to expand in the 1970s and 1980s with the help of institutions like the IMF, the World Bank and the World Trade Organization.

The major actors in the rise of neoliberalism are the same major actors that are the subject of this paper so this is an appropriate point to close with. Elites, in US capitalism or global neoliberalism, are the leaders, the politicians, the wealthy, business leaders, financial leaders, and the people in general who can exercise economic influence within society. When I refer to elites in this paper I am primarily referring to

⁶ David Harvey, *A Brief History of Neoliberalism*, (New York: Oxford, 2006).

leaders in business and banking, the wealthy and the politicians who are closely aligned to these groups through their financial interests, their class ties, as well as through their political fortunes. These groups are generally aligned with the conservative movement. These elites push an agenda that is beneficial to themselves and it is an ever shifting alliance among these groups and various conservative factions. They may portray their motivations in different ways but the results are the same. They seek to gain influence and advantage in the political system which regulates the rules of the nations businesses and economy.

One of the main arguments that elites use is that capitalism is the best economic system and the fairest. What is not discussed in their argument is that this description refers to an idealized version of capitalism, an ideal that has never been realized and one that can probably never be realized. This is the paradox of capitalism – the argument that capitalism is about economic freedom and fairness and the reality that it is about power, influence and money. These perspectives about capitalism, its contradictions and the elites who argue for it are the central focus of this paper.

Chapter 1: Crisis or Opportunity:

1970s Economic Problems and Capitalism

This chapter is about the economic turmoil of the 1970s and how conservatives responded to the political opportunities this presented. Many of the themes we hear today from Washington politicians were prominent in the 1970s and have continued on through the ensuing decades. Lower taxes, smaller government, fewer regulations on business and concerns about the nation's budget were important then as they are today.

Those themes started to take root in the 1970s because of important events and policies from the 1960s. The war in Vietnam and the military defense budgets of the Cold War era had a significant impact on the nation's economy. The dollars that were spent on the military were funds that were diverted from other uses and taxes that could have been spent differently. Spending on the war contributed to increased deficits and helped in part to fuel the inflation that came to characterize the 1970s.

The 1960s were a time of bright economic prospects for many Americans. The era from the end of World War II until 1974 is known as "The Golden Age of Capitalism". It was a time of rising wages for workers, more education, more opportunities and increased expectations. Business thrived as the US dominated the global economic scene. However, expansions do not last forever no matter how carefully the

government tries to cushion the blow of an economic downturn. It was only a matter of time before the boom turned into a bust; the boom of the 1960s turned into a decade long bust in the 1970s. Additionally, while America dominated the world economically and financially in the post-World War II era, the rest of the world was catching up. Germany and Japan were starting to close the gap of America's industrial superiority and this posed a challenge to America's corporations.⁷

The country changed socially and culturally from the 1960s to the 1970s as well. The 1960s are remembered for the student anti-war movements, civil rights, women's rights, gay rights and the counterculture. Released from the social straitjacket of the 1950s the country seemed to burst wide open. There would be a backlash to these changes. Mainstream Americans felt out of tune with the conflict of the 1960s. Nixon ran on a platform of law and order. He also claimed to represent the "the silent majority". These were the average Americans who went about their business, their jobs, their responsibilities quietly, who obeyed the laws and who felt that the values of the liberals and protesters of the 1960s were not their own.

This conservative backlash is a key component of this chapter. Conservatives of all types were able to find common cause and push for their common interests. The economy, because it was in turmoil, became a key battleground. Conservatives wanted to push back the tide of what they considered to be a growing government: a government that interfered in the economy, raised taxes, regulated business and spent

⁷ David P. Calleo, *The Imperious Economy* (Cambridge: Harvard, 1982), 65.

money trying to solve social problems. This chapter illustrates the problems the economy encountered and the conservatives' answers to these problems. It follows the growing and changing political power of the business community. The high point comes with the presidency of Jimmy Carter from 1977 to 1980 when he instituted many of the conservatives' most important economic policies. He cut personal and business taxes, regulations and the country's budget. He increased the military and sought to create a smaller, less intrusive government. He helped the conservatives to achieve significant economic victories. More would come with the presidency of Ronald Reagan.

This chapter looks at the conservative movement and how it took advantage of the crisis to capitalism in the 1970s. The second chapter highlights the new and emerging conservative think tanks that helped to shape and spread this conservative message but this chapter lays out the players and the problems involved in this ongoing struggle. This chapter shows how conservatives fought for free market reforms and looked to take advantage of the nation's economic difficulties.

Business

One of the great champions of free market capitalism in the second half of the 20th century has been Milton Friedman. The University of Chicago economist was a constant voice advocating for free market reforms in the US and around the world. Friedman's mentor was Friederich Hayek, an economist from Austria who sought to keep the principles of capitalism alive in the 1940s and the 1950s through the organization of a group of conservatives and economists called the Mount Pelerin

society. This group was prominent as an advocate for capitalism and as a critic of communism and socialism. Friedman became Hayek's most celebrated disciple and he went on to gain much more influence than his former mentor. He developed and trained many academic economists while he taught at the University of Chicago and these economists helped to spread his ideas regarding unfettered capitalism as the answer to society's economic problems. More importantly, Friedman went on to influence many foreign leaders and governments with his views on capitalism and free markets.

Naomi Klein in her book, *Shock Doctrine*, identifies many of the global economic interventions that Friedman and his followers were able to influence over the last 40 years. Klein refers to Friedman's tactics as shock therapy and disaster capitalism. This is the principle that when economic difficulties present themselves there is an opportunity to institute free market reforms. Because the economy and the country's citizens are in disarray and temporarily shocked it is easier to affect the change that Friedman believes the people and the country need. Klein evaluates the tactics of Friedman in the following way:

In one of his most influential essays, Friedman articulated contemporary capitalism's core tactical nostrum, what I have come to understand as the shock doctrine. He observed that "only a crisis – actual or perceived – produces real change. When that crisis occurs the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable". Some people stockpile canned goods and water in

preparation for major disasters; Friedmanites stockpile free market ideas.⁸

The idea that something that was politically impossible becoming politically inevitable has an interesting connotation. The fact that something was politically impossible implies that it could not be done democratically under normal circumstances. The crisis situation provides an opportunity for those supporting more free market reforms to make an argument for their policies. They are looking to influence people with their ideas and those ideas do not always provide solutions to the crisis at hand. A major theme of this paper is how these ideas are marketed and presented to the public by conservatives as something that is beneficial to the country as a whole but, which in reality, primarily serves the ideological interests of the conservatives.

Crisis capitalism and shock therapy has never been credited with the changes to the US economy that occurred in the 1970s but the changes that did occur were implemented in part as a response to the economic crisis of the 1970s: the oil crisis, a debt crisis, rampant inflation, recession, high unemployment and declines in industrial output and trade. These problems were opportunities to conservatives and the shock doctrine paradigm helps to explain the process that is at work. Conservatives saw the economic crisis as opportunities for more capitalism, more privatization, more deregulation and more cuts to social spending. This pattern fits the model of shock doctrine and crisis capitalism that Klein formulated and helps to explain the changes in

⁸ Naomi Klein, *The Shock Doctrine: The Rise Of Disaster Capitalism* (New York: Picador, 2007), 7.

capitalism and the arguments for those changes. This chapter looks at the ideas put forth to fix the US economy and it attempts to disentangle the economic arguments from the people who stood to benefit from changes to the status quo.

The economy of the 1970s was starting to develop fault lines and weaknesses at the same time that the business community was becoming aware that it needed to assert itself more forcefully in the political realm. Business had reached a low point in its political power at the start of the 1970s and they proceeded to reverse this process and attain a high level of prominence in the nations legislative process by 1980.⁹ This perception, whether accurate or not, served as a useful rallying point for the nation's business leaders. It was leaders in the political realm that noticed these shortcomings in the business world, leaders like Lewis Powell, a future Supreme Court Justice; William E. Simon, a future Secretary of the Treasury; John Connolly, Nixon's Secretary of the Treasury; and Frank Burns, head of the Federal Reserve during the 1970s.

The reason the business community and economic elites felt beleaguered in the 1970s was because of declining popularity with the public and smaller profits. Corporations were being associated with the Watergate affair, illegal campaign financing operations and bribes to foreign officials. They had been linked to the military and the war effort in Vietnam because they provided materials and chemicals that were used in the war. There was increasing legislation that had been passed in the 1960s and 1970s that required compliance regarding workers, consumers and the environment. In

⁹ Thomas Byrne Edsall, *The New Politics of Inequality*, (New York; WW Norton, 1984), 107

addition, public confidence in corporate leaders had dropped from 50% in 1966 – 1967 to 20% in the 1974 – 1976 time frame according to Seymour Martin Lipsett and William Schneider in their work, *The Confidence Gap*. This drop was greater than that experienced by any other public institution.¹⁰

The business community and elites were concerned for another reason as well. Their wealth was dropping precipitously. David Harvey notes in his book, *A Brief History of Neoliberalism*, that after World War II those at the top had a smaller share of the national wealth but so long as the economy was growing this was acceptable, but then things changed:

To have a stable share of an increasing pie is one thing. But when growth collapsed in the 1970s, when real interest rates went negative and poultry dividends and profits were the norm, then upper classes everywhere felt threatened. In the US the control of wealth (as opposed to income) by the top 1% of the population had remained fairly stable throughout the 20th century. But in the 1970s it plunged precipitously (figure 1.2) as asset values (stocks, property, savings) collapsed. The upper classes had to move decisively if they were to protect themselves from political and economic annihilation.¹¹

The statistic that Harvey refers to as figure 1.2 shows that the share of wealth of the top 1% had dropped from just under 40% in 1965 to a little over 20% in 1975. The economic elite had good reason to be concerned as Harvey illustrates and the graph shows that they would be rewarded for their efforts at organizing and lobbying. That figure held

¹⁰ Edsall, *The New Politics of Inequality* 112 – 113

¹¹ David Harvey, *A Brief History Of Neoliberalism* (Oxford; Oxford University Press, 2005), 15.

steady from 1975 until Ronald Reagan took office and from that point forward it started to climb and reverse all the previous losses.

These were strong motivations for those at the top and those in business to come together, to plan, organize and to work to change their situation. They concentrated on politics and the public and the conservative think tanks they created provide an important nexus for these efforts as they produced and distributed ideas in the same way consumer goods have national campaigns to promote their products. Ultimately, the election of Jimmy Carter in 1976 was in part a result of these efforts. That success would continue with the election of Ronald Reagan in 1980.

Lewis Powell, who would go on to become a justice on the US Supreme Court, initiated the call for business to assert itself and fight for greater free enterprise and less government intervention. On August 23, 1971 Powell sent a memo to the US Chamber of Commerce entitled, *Attack on American Free Enterprise System*. Powell stated the problem facing business.

No thoughtful person can question that the American economic system is under broad attack. This varies in scope, intensity, and the techniques employed, and in the level of visibility . . . But what now concerns us is quite new in the history of America. We are not dealing with episodic or isolated attacks from a relatively few extremists or even from a minority socialist cadre. Rather, the assault on the enterprise system is broadly based and consistently pursued. It is gaining momentum and converts.¹²

¹² Lewis F. Powell, "Attack on American Free Enterprise System," (Private Memorandum, Aug. 23, 1971), 1.

Powell believed that those who were attacking capitalism and the free enterprise system were extremely numerous and well financed. He believed the attack was coming from "the college campuses, the pulpit, the media, the intellectual and literary journals, the arts and sciences, and from politicians."¹³ The answer for Powell was for business to become involved politically, to donate money, to organize and to fight for the free market system wherever it was under attack.

The overriding first need is for businessmen to recognize that the ultimate issue may be survival – survival of what we call the free enterprise system, and all that this means for the strength and prosperity of America and the freedom of our people . . . If our system is to survive, top management must be equally concerned with protecting and preserving the system itself. This involves far more than an increased emphasis on "public relations" or "governmental affairs" – two areas in which corporations long have invested substantial sums.¹⁴

Powell saw the US Chamber of Commerce as a key bulwark in the fight to preserve capitalism. The National Chamber of Commerce was ideal for organizing the fight according to Powell and it was in the best position to lead the way:

Strength lies in organization, and careful long-range planning and implementation, in consistency of action over an indefinite period of years, and the scale of financing available only through joint effort, and in the political power available only through united action and national organizations.¹⁵

¹³ Powell, "Attack on American Free Enterprise System." 2.

¹⁴ Powell, "Attack on American Free Enterprise System," 10.

¹⁵ Powell, "Attack on American Free Enterprise System", 11.

For the Chamber of Commerce to be effective, Powell argued in his memorandum that they should take their message to those places where capitalism was under attack. They should take the fight to the campuses, to the faculties, to the nation's schools, to the media, to TV, to the nation's political leaders and to the courts. The fight should be done with organizing, funding, staffing, books, articles, speeches and, more generally, the promotion of capitalism at every opportunity.

Powell was not alone in his call for business to become more active in the political and economic fights that were shaping and deciding the nature of US capitalism in the early 1970s. John Connolly was Secretary of The Treasury for president Nixon in the spring of 1972 and he admonished businessmen as Powell had done before him. Connolly had a discussion with Frederick Borch of General Electric and John D. Harper of Alcoa and from Connolly's advice they went on to create the March Group. This group consisted of corporate CEOs and it would an important source in the future of ideas, influence and coordination for the business community.

Connolly laid it on the line to his corporate visitors. Businessmen had to improve their political sophistication and techniques in Washington or else face political impotence. At about the same time as they met with Connolly, Borch and Harper heard Federal Reserve Board Chairman Burns reiterate the view that the leaders of the nation's largest companies were simply not well enough organized to advance their collective political and economic interests in Washington.¹⁶

We can start to see in these conversations between politicians, business leaders and elites that there were close ties and sympathies between these groups and this is one of

¹⁶ Kim McQuaid, *Big Business And Presidential Power: From FDR to Reagan*. (1st ed. New York: Morrow, 1982), 284.

the inherent characteristics of capitalism. Business and politicians are closely tied together. C. Wright Mills was able to illustrate these relationships over 60 years ago in his book, *The Power Elite*, and these relationships continue on today in varied and changing forms with politicians who fight for the interests of business and finance. We can ask ourselves, what is happening at this time that key political figures are imploring business to start to flex their political muscle? Why are the Treasury Secretary, Fed Reserve chairman and a future Supreme Court justice urging business to fight for themselves politically and to advocate for capitalism? We have seen how the US economic system was starting to develop stresses and strains in the early 1970s but with every crisis there is also opportunity.

The US economy was struggling in the 1970s and this acted as a catalyst in generating ideas on how to change to the US economic system. For conservatives, fixing high inflation and the over-regulation of business became the answer to what ailed the US. In order to understand the economic and political changes the US underwent in the 1970s we can look at the issues that were impacting the economy and what was causing concern for workers and business. The book, *Capitalism Since World War II*, by Philip Armstrong, Andrew Glen and John Harrison, gives a detailed list of these problems. The authors focus on the economic crash and recession of 1974, going on to list the factors that contributed to this crisis. One of the main issues at this time was the Arab oil embargo by the OPEC countries. During the 1973 Arab – Israeli war, the US supported Israel and the OPEC nations responded by placing an embargo on oil to the US. Other problems included a slow-growing economy, increasing unemployment, increasing

government deficits, declining corporate profits, increasing trade deficits and the end of the Bretton Woods international monetary agreement.¹⁷

These issues added up to a US economy that was facing multiple challenges. The 1974 recession marks an end to the Golden Age of Capitalism and understanding the US economy in the 1970s revolves around defining the sources of this decline. Different groups put forward different explanations in order to further their agenda.

Conservatives, such as Milton Friedman, Herbert Stein and George and Joan Melloan, argued that government induced inflation and government regulations were hurting the economy. Critics of capitalism, on the other hand, argued that these problems were inherent in capitalism in its search for larger markets and larger profits. In addition to these specific economic problems, the US was impacted by the costs and responsibilities it had in its adopted role as leader of the free world in a struggle against communism and the Soviet Union. That role may have served US policy interests but it had economic costs that came from increased military spending and foreign aid.

In the *Imperious Economy*, by David Calleo, the author examines the source of the problems the US economy faced in the early 1970s and the US' role as leader of the free world and military counterweight to the Soviet Union. Calleo does not fit into the normal categories of conservative or liberal. He recognizes that there are costs and benefits to all policies whether you are for them or against them. His argument is that

¹⁷ Philip Armstrong et al., *Capitalism Since World War II : The Making and Breakup of the Great Boom* (London: Fontana Paperbacks, 1984), 315

the US was an imperial economy; it was imperial in the sense the US was leading and defending the free world after World War II while at the same time it was attempting to aid and develop democracy and the economies of developing countries and these roles involved a number of extra costs.¹⁸ The primary factor in these extra costs were the Vietnam War and a large military budgets of the 1960s. The US paid to theoretically defend the free world from communism while the US allies, especially Germany and Japan, were able to avoid these costs; they were free riders in the thinking of Calleo. The allies did not have to divert taxes and pay to defend themselves because the US was doing it for them and this allowed them to use their economic resources in other ways.¹⁹ Their resources were devoted more directly to their economies allowing them to close the gap between themselves and the US. Their industrial output was increasing and exports were increasing and this was occurring while the US was experiencing slower growth. Additionally, US military spending had the effect of creating increased deficits and increased inflation.

The important point about Calleo's argument is that US foreign policy and military spending in the years leading up to the mid-1970s had a significant economic impact. No conservative writers I have come across from that era mention the downside of military spending and what it does to the overall economy. They do not mention it because it is something they support and, also, it allows them to blame the economies

¹⁸ David P. Calleo, *The Imperious Economy* (Cambridge: Harvard, 1982), 1-2.

¹⁹ Calleo, *The Imperious Economy*, 68.

troubles on what they would like to identify as liberal policies of high taxes, increased regulations and big government.

Economic difficulties and imperial overreach posed a serious threat to the US version of capitalism that existed in the 1970s. This provides the context for conservative solutions. They believed that their answer of smaller government, fewer regulations and lower taxes was the way to move America forward. The liberals had very little in the way of a response because they had become closely associated with the nation's post-war Keynesian economics. High deficits and budgets prevented them from calling for more demand from the government to improve the economy. The other alternative was for them to argue that downturns are a natural part of capitalism and that the only solution was to wait out the economic downturn. The problem with this approach is that voters want action and they want results. They may be willing to accept short term recessions but if capitalism requires something longer then that is a problem. The key question was, would Conservatives be able to convince the American public that more capitalism, increased free-market reforms, fewer regulations and balanced budgets that cut social spending were the answer to the problems of the US economy. The conservatives were going to have a new tool that would help them make their argument and help them win over politicians and the public. This tool would be the new conservative think tanks that started to emerge in the 1970s and which are the subject of this paper's second chapter.

In the summer of 1974 Alan Greenspan became the chairman of the Council of Economic Advisers to President Nixon. Greenspan had been a follower of the writer and philosopher Ayn Rand. Rand was an avid believer in free market capitalism and her life, as well as her writing, was dedicated to spreading that belief. Greenspan, while not as vocal, was a free market advocate as well and for that reason he was considered a hawk on inflation – the key economic issue at the time – by *New York Times* writer Soma Golden, who went on to characterize Greenspan:

The new advisor – like some of the president's old ones – thinks it's time for several lean years of slow economic growth; a time to cut government spending, run a budget surplus, and be patient.²⁰

Greenspan professed to be for free markets and free enterprise but the results he desired revolved around the idea of government intervention.

In order to fight inflation the government had to be involved because, while there exists a natural rate of inflation, in order to change this it takes government intervention. Government spending and government budgets were democratic decisions to allocate resources and determine taxes. When Greenspan advocated for less spending and less taxes he was putting himself in opposition to the principle of democracy; he was attempting to elevate a principle and a theory above the democratic will. Would the cuts to government spending fall on the military and supports for business or would they fall on programs for the middle class and the poor? The idea that

²⁰ Soma Golden, "Greenspan, Economist, Is Believer in Laissez-Faire Capitalism: He stresses Patience to Achieve Goals," (*New York Times*, July 24, 1974), 1.

the economy should have slow growth, which is mentioned in the quote, is a theoretical decision – it would also require government intervention as opposed to the operations of a free market.

The question is, was this about free markets or was it about a system of values? Was he for imposing his values or would he allow the markets to operate without intervention. Greenspan serves to highlight arguments of conservatives on how best to fix the economy. What is interesting is that those from the business and financial communities and those who advocate for less government and fewer regulations are not willing to leave the process to the markets – they urge the government to get involved which is contrary to their stated beliefs. Greenspan was urging a fight on inflation, cuts to social spending and free market reforms but were these prescriptions going to fix the problems that we have encountered? Would they fix the oil crisis or the debt accumulated by the Vietnam War and military spending? How would this help with the fact that other countries were catching up to the US in industry and trade? There is no clear answer that these policies would provide the necessary solutions.

This fight for capitalism and free market reforms started to move into a higher gear in the mid-1970s. Kim McQuaid notes in his book, *Big Business and Presidential Power*, that The Business Roundtable was becoming a force at this time. The group was made up of CEOs of the major US corporations in industry, commerce and finance. In order to organize and focus their energies, The Business Roundtable created task forces to press for their interests.

The major areas of the task force responsibility include: antitrust, regulatory reform, taxation, inflation policy, consumer interest, corporate constituencies, economic organization, energy, environment, international trade, national planning and employment, social welfare legislation, and labor relations policy.²¹

Increased organization of the nation's business community had the effect of capturing the attention of politicians and moving them to address their concerns. Jimmy Carter was elected president in 1976 and he was an ideal candidate to move the interests of business forward. Many remember Carter for his liberal social leanings but in fact he was economically conservative. He had been an officer in the U.S. Navy and he was a Georgia businessman who had his own farming business.

Economics

What is capitalism? It seems like a simple question, but the US has had many different versions of capitalism and free market economics over its 238 year history. The economic and political system that we know today as capitalism is different from the mixed Keynesian economic system that was in place during the 1970s when Richard Nixon was President. That version of capitalism was different from the one in the 1950s that C. Wright Mills wrote about in his book, *The Power Elite*. He described that era as a system of capitalism that linked together politicians, corporate leaders and the military who were able to work together and to dominate the economic and political decisions of the day.²² By the 1970s, the military was less involved in politics and the corporate

²¹ McQuaid, *Big Business And Presidential Power*, 284.

²² C. Wright Mills, *The Power Elite*, (New York: Oxford, 2000).

boardroom and the financial industry moved in to take a more prominent role in shaping direction of the country and the development of policy. Capitalism in the 1950s was different from the crony capitalism that characterized the 1920s and that ended with the Great Depression and FDR's New Deal in the 1930s. Capitalism differs from country to country as well as from era to era.

Capitalism exists along a continuum. It exists somewhere between the opposite poles of ideal communism, which would have the state manage and control all economic relationships and the opposite extreme of complete laissez-faire economics which would remove all government intervention in the economy and reduce its role to providing law and order. The US version of capitalism exists along this continuum because the ideal of capitalism can never be realized. The reason it can never be realized is because the government makes rules, and provides subsidies. It regulates industries, creates tax policy, spends money on military defense and creates monetary policy through the federal reserve system. The government is firmly embedded in the economic functions of the nation and it would be impossible to move to an ideal form of capitalism so long as democracy and competing interests exist in order to contest the rules, regulations and resources of the nation. What inevitably happens is that through various mechanisms the state provides limits on capitalism and some groups benefit from these rules while others lose out.

Those in favor of more free markets, smaller government and less regulation since the 1970s have pinned their arguments on several main points. They argue that capitalism – in its pure, less regulated form – provides the most wealth for the nation

citizens, provides the most efficient use of the nation's resources and it has the strongest moral claim of all economic systems because it respects private property and avoids the redistribution of wealth that characterize other systems. The idea of redistribution of wealth is a major theme throughout this paper but it does not look at wealth being redistributed from the top to the bottom. Instead, this paper focuses on how it gets redistributed to the top under the guise of capitalism and through state sanctioned laws, taxes and policies.

The Carter administration began in 1977 and conservative thinkers criticized him and attempted to discredit him by associating him with traditional economic liberals and Keynesians. The economy was suffering from high inflation, bouts of recession and greater unemployment. One of Carter's main critics was George Melloan, an editor for many years at the Wall Street Journal.²³

In 1978 Melloan wrote a book with his wife Joan, called *The Carter Economy*. Here they highlighted their view of what was holding back the US economy during that decade. They saw government intervention along with worker safety, environmental and consumer regulations making the economy inefficient. They argued that the Carter presidency was concerned with finding government solutions for the energy crisis, health care, welfare and social security. In their opinion they saw an activist government leading to fewer business startups, more litigation, government regulation and red tape

²³ Simon and Schuster, <http://authors.simonandschuster.com/George-Melloan/65281824>, He is past winner of the Gerald Loeb Award for Financial Journalism and the author of a current book, *The Great Money Binge*, written in 2009. In that book he argues for a return to the supply-side economics of the Reagan era.

which were replacing democratically arrived at laws. They offered a philosophical foundation for capitalism that has helped to sustain conservatives, libertarians and republicans over the last 40 years - one that they contrast with state intervention.

We prefer the "unseen hand" described by Adam Smith – the assumption that if people are free to make their own economic choices, they will make them efficiently and innovatively, with benefits to the total society. The quality of their lives will be enhanced by their political and economic freedoms. The state, on the other hand is likely to be inefficient, repressive and destructive as it expands its role in economic choices.²⁴

Freedom, choices, efficiencies and innovation are difficult ideas to argue against and those are the qualities they want to link to capitalism and the free market ideologies of Adam Smith. In contrast, the state and government policies are characterized by repression, destruction and inefficiencies.

The Melloan view does not address a number of issues surrounding the 1970s. They did not look at the economic effect of the large military expenditures during the 1960s, the Vietnam War and Carter's increased military budgets. They did not account for a US economy which had dominated for so long after World War II and was now facing increased competition from Western Europe and Japan. They did not explain how the Golden Age of Capitalism, which had been so successful for workers and business, came to a halt in the early 1970s. Their prescriptions did not address the growing power

²⁴ George Melloan and Joan Melloan, *The Carter Economy* (New York: John Wiley and Sons, 1978), ix.

of OPEC and its effect on the US economy. They were using the opportunity of an economy that was on a cyclical down-swing to push for their ideological vision of a smaller government and less regulated business sector. However, they did not show how the problems that affected the US would have been different with their policies. Rather, they want us to have faith that their ideas will lead to greater growth and prosperity. In hindsight, their call for smaller government, less interference and less regulation has not led to the economic success they believed in. Their reply would most likely be that the US has not gone far enough in cutting government and loosening restrictions on business.

Politics

Carter had numerous political and economic challenges, like any president who comes into office, and in Kim McQuaid's view he tried to be an effective and forceful leader? But who was Carter advocating for?

Carter began his presidency by offering businessmen corporate income tax cuts, federal spending controls, deficit reduction and selective deregulation. Meanwhile liberals were asked to remain content with human rights, welfare reform, labor law reform, stricter environmental and consumer protection, and efforts to strengthen federal sanctions against employment discrimination that particularly affected blacks and women. The key point in understanding this policy mix is that the things Carter offered liberals did not, by and large, cost very much money.²⁵

²⁵ McQuaid, *Big Business And Presidential Power*, 300.

Carter's emphasis was on fixing the economy but he believed that fixing the economy meant strengthening business on the one hand and having a balanced budget on the other. This is a view of US capitalism that considers that business is the heart of the economy, that its health is the most important element and that whatever can be done to strengthen business helps the nation. These ideas are expressed through the concept of trickle-down economics or supply-side economics which argues that helping those at the top eventually helps those beneath them who benefit from the theoretical increases in spending, investments and jobs.²⁶ While there is no proof that this happens, what is significant is the fact that Carter believed the government had to take steps to strengthen business and to strengthen capitalism.

How did Jimmy Carter plan to meet the challenges that his presidency faced? What were the implications for capitalism and free market reforms under the Jimmy Carter presidency? Carter provided insights to these questions when he accepted his party's presidential nomination on July 15, 1976 in New York City:

As an engineer, a planner, a businessman, I see clearly the value to our nation of a strong system of free enterprise based on increased productivity and adequate wages. We Democrats believe that competition is better than regulation and we intend to combine strong safeguards for consumers with minimal intrusion of government in our free economic system.

I believe that anyone who is able to work ought to work – and ought to have a chance to work. We will never have an end to the inflationary spiral, because we'll never have a balanced budget – which I am

²⁶ David Harper, "Understanding Supply Side Economics," <http://www.investopedia.com/articles/05/011805.asp>

determined to see – as long as we have eight or 9 million Americans out of work and cannot find a job.²⁷

Here Carter spelled out the principles that would guide him through his four years as president. He emphasized his business background, the need for increased productivity, competition rather than regulation and minimal government intrusion. He believed that everyone who could work should work in order for inflation to be brought down and the budget balanced. Here we have Carter's vision for America; he sees a country dominated by its economic concerns and he sees business and private enterprise as a force to be unleashed to create greater growth and prosperity. He believed that government intervention, regulations and spending were holding back business and private enterprise and he wanted to change that.

A key question for Carter during his term as president was how to move the country forward economically when there was little positive action remaining that the government could actually take due to budget constraints. Government deficits were a problem and Carter had run for president on the idea of being a fiscal conservative who was determined to balance the budget. The first way that Carter sought to grow the economy was through deregulation. Carter believed regulations and bureaucracy were an impediment to American free enterprise and that the government could not do everything nor could it solve all problems. He thought that the way to grow the economy was through private enterprise. Private enterprise would provide for

²⁷ Jimmy Carter: "Our Nation's Past and Future": Address Accepting the Presidential Nomination at the Democratic National Convention in New York City. The American Presidency Project, 15 July 1976. Web. 12 Dec. 2012.

competition, it would provide jobs and it would improve the living standards of American workers.

The reason that Carter and his administration were able to put in place many conservative economic policies was due to a lack of liberal economic alternatives. The conservatives had won the economic argument because they were able to associate the Democrats and liberals with Keynesian economics, the mixed economic system that the US had used since World War II. Conservatives had attempted to blame the economic difficulties of the 1970s on this Keynesian system. They failed to mention that this system was in place for the entire period from the end of World War II until 1974 and has subsequently been labeled as the Golden Age of Capitalism. They also failed to mention that all booms typically end in a bust. No one wants to say that as the public does not want to hear it. The decline of the economy in the 1970s allowed conservatives to label Keynesian economics as a failure. The reality is Keynesian economics had little to do with the problems that afflicted the US in the 1970s yet conservatives were successful in claiming that big government was the problem and that the only way to turn things around was through smaller government, tax cuts and fewer regulations – policies that would go on to help the wealthy and the business community.

Deregulation was a major focus of the Carter presidency. During his administration deregulation occurred in a number of industries: airlines, trucking, rail, banking, communications and natural gas. Stuart Eizenstadt was Carter's chief policy

advisor on domestic issues and he characterized Carter's efforts on deregulation during his exit interview from government in 1981:

One of the things for which he will long be remembered is the pioneering work that the President did in deregulating major sectors of the economy, airlines, trucking, rail, banking, communications. No one would've thought that could've been done in the four year period perhaps even an eight year period. It's the most substantial change in the relationship between business and government since the time of the New Deal.²⁸

Deregulation fit into Carter's belief system that the government could not and should not try to do everything. It also helped to cut costs through competition and fewer resources being directed to compliance. As a result, it raised productivity and profits while providing jobs to help grow the economy. This was a key component in Carter's attempt to pull the country out of the state of inflation and low growth which characterized much of the decade. What is not clear is who was the main beneficiary of these policies. Did business profit at the expense of workers and consumers? Corporate profits and stock exchange indexes have grown significantly since Carter's presidency. During the decade of 1970s the Dow Jones hovered near 1000 and lower while today it is over 16,000.²⁹ Wage increases and standards of living for workers have increased only

²⁸ "Stuart Eizenstat Exit Interview." *Jimmy Carter Library*. Jimmy Carter Library, 10 Jan. 1981. Web. 11 Nov. 2012.
<<http://www.jimmycarterlibrary.gov/library/exitInt/Eizenstat.pdf>>.

²⁹ Dow Jones Industrial Average (1900 - Present Monthly),
<http://stockcharts.com/freecharts/historical/djia1900.html>

marginally during that time. In 1972 average hourly wages were \$17.88 and in 2009 they were \$18.63 (calculated in 2009 dollars).³⁰

In Carter's 1978 State of the Union speech he emphasized the importance of a growing economy and he spelled out four principles that would guide his economic policy. First he emphasized that the economy must keep on expanding. Second, that private business rather than the government was a key to this expansion. Third, he continued to highlight the dangers of inflation and the need to bring it down. The fourth point was a belief that the US should contribute to the strength of the global economy. After outlining the goals of his economic policy Carter proceeded to explain how tax reform and tax cuts for individuals and business would help to achieve those goals:

I will announce detailed proposals for improving our tax system later this week. We can make our tax laws fair, we can make them simpler and easier to understand and at the same time, we can – and we will – reduce the tax burden on American citizens by \$25 billion . . . And we will also provide strong additional incentives for business investment and growth through substantial cuts in the corporate tax rates and improvement in the investment tax credit.³¹

Later that year, on November 8, 1978, Carter signed an \$18.7 billion tax cut bill. This was an important shift in US economic policy. Carter firmly linked the health of the nation to an expanding economy. He linked that growth to private enterprise and identified tax cuts as a key tactic in achieving that goal. This distinction, between wealth creation and

³⁰ U.S. Census Bureau, Current Population Survey, Historical Income Tables, Table H-5, <http://inequality.org/income-inequality/#sthash.6VpxljyG.dpuf>

³¹ Jimmy Carter: The State of the Union Address Delivered Before a Joint Session of the Congress. January 19, 1978 American Presidency Project, Web. 11 Nov. 2012. <<http://www.presidency.ucsb.edu/ws/index.php?pid=30856>>.

the nation's other interests, is a distinguishing characteristic of capitalism and Carter comes down firmly on the side of business and private enterprise. It is a path that the US has continued on through to the present time.

Carter wanted to increase tax cuts and government spending on defense but he was determined to hold the line on federal spending. He looked to cut the deficit and to eventually achieve a balanced budget. This position is part of Carter's philosophy. He was a fiscal conservative as governor of Georgia and he believed in the same principles for the federal government. His message throughout his speeches stressed personal responsibility, restraint and sacrifice.

The idea of balancing budgets while providing for tax cuts and increased government spending on the military without significant cuts elsewhere in the budget was problematic. Carter would lay out his vision of government, including its limits and direction, in his first State of the Union address in 1978. Carter warned the country of the economic hazards ahead:

We need patience and good will but we really need to realize that there is a limit to the role and the function of government. Government cannot solve our problems it cannot set our goals, it cannot define our vision. Government cannot eliminate poverty or provide a bountiful economy or reduce inflation or save our cities or cure literacy or provide energy and government cannot mandate goodness. Only a true partnership between government and the people can ever hope to reach these goals.³²

³² Jimmy Carter: The State of the Union Address Delivered Before a Joint Session of the Congress. January 19, 1978. American Presidency Project, Web. 11 Nov. 2012. <<http://www.presidency.ucsb.edu/ws/index.php?pid=30856>>.

Carter's main thrust was that government cannot solve our problems. This is a standard part of conservative doctrine and arguments for lower taxes and fewer regulations. It is a different view than one that sees government as a way for members of society to do more collectively than individually. Investments in infrastructure and research have long-term benefits that cannot be realized when budgets are cut back in order to increase military defense and tax cuts. When there is less money for education and healthcare those are costs that society will have to pay for in the future.

In the end, if we take a broad view of Carter's presidency, we see that he is in favor of all the principles of conservative economic policies and free market reforms. Tax cuts, deregulation, austerity for social programs and increased military spending defined Carter's presidency and they fit seamlessly into a capitalist framework that conservatives sought to create. In the Carter presidency there was a constant tension between private enterprise and government restraint, between greater economic growth and fewer obligations for the national government and ultimately between those who are better off than those who are not. Ronald Reagan may have been known for his belief in trickle-down economics, the idea that "a rising tide lifts all boats," but Carter put this idea into practice well before Reagan came along. The Reagan revolution started when Jimmy Carter fought for the business community and economic conservatives. In general, he was on the side of economic elites rather than the middle class, workers and the poor.

Conclusion

The 1970s conservative push for smaller government and lower taxes in the US is part of a global process. Around the world there was an attempt by those with economic power and political influence to extend their interests: in Great Britain under Margaret Thatcher, China under Deng Xiaoping, Chile under Pinochet, and through institutions like the IMF and World Bank. A longer view of the events surrounding the economic crisis of the 1970s is provided by Gérard Duménil, and Dominique Lévy in their book, *Capital Resurgent*. Their ideas provide a perspective that uses comparisons to earlier eras in order to understand the 1970s. They argue that a resurgent capitalism of the 1970s is related to the crony capitalism of the 1920s and the robber barons of the late 19th century. Their argument is that this resurgence is a version of capitalism that looks to tighten labor markets, loosen commercial markets and commercialize social interactions.³³ This is part of a global effort, one that is focused in the US and led by actors in the financial industry. These actors are able to assert themselves by contesting with labor management, governments and national and international institutions.

This critique of capitalism is useful because it helps to explain the political situation in the US. The financial industry and elites were able to exert pressure through political influence, campaign donations and lobbying. The emergence in the 1970s of conservative think tanks helped to provide a place for business and the wealthy to

³³ Gérard Duménil and Dominique Lévy. *Capital Resurgent: Roots of the Neoliberal Revolution* (Cambridge: Harvard University Press, 2004), 2.

invest money, coordinate activity and create a carefully constructed message to advocate for their interests. In addition to co-opting politicians, elites have also been able to dominate the Federal Reserve as well. How does this push for capitalism in the US and around the world work? The dynamics are explained by Dumenil and Levy as they look at the historical trajectory of capitalism.

Shifting the course of history in its own interests" means, for finance setting up the institutional frameworks for its power, which is that of the owners over the major portion of the group of managers: it also means reinforcing its alliance, it's fusion with the managing elites; it means breaking the rules that limit the discretionary power of the business world concerning hiring and firing and mergers; it means taking away from the state the means to guarantee the old social alliances; it means returning the central banks to their exclusive service of price stability and protecting the assets of creditors; it means making retirement and social protection into a profitable field of activity for retirement funds for private insurance companies (particularly concerning healthcare); it means breaking up the solidarity of wage earners in favor of a so-called partnership of workers and owners (the "everyone's a capitalist" approach); it means creating a comfortable cushion of unemployed and social outcasts, separated by flimsy barriers; and it means controlling the dynamics of the cost of labor.³⁴

This dynamic that they explain has little to do with the free markets which conservatives argue for. What it refers to is the exercise of power and influence on the political system to arrange the rules in a beneficial manner in order for capitalists to prosper. It is interesting to note that the nature and definition of capitalism is free markets and limited government intervention. However, by emphasizing the idea of getting the government out of the way in the day to day operations of the economy this allows

³⁴ Duménil and Lévy, *Capital Resurgent*, 16.

powerbrokers, the elites and the politicians to work behind the scenes and arrange the rules in ways that the average citizen does not understand. Monetary policy, labor relations and banking rules are part of the system that capitalists need to control in order to increase profits. The problem is that those areas are difficult to understand – inscrutable – and the average person cannot really come to have a clear understanding of them and therefore the field is left open for business, finance, economists and politicians – the elite – to determine the rules of the game.

Chapter 2: Conservative Think Tanks Make Their Mark: Policy and Public Opinion in the 1970s

In order to understand the role that the conservative think tanks played in the conservative movement and the changes to the 1970s US version of capitalism we need to look at the structure and workings of these institutions. This chapter examines how think tanks were funded and by whom. It looks at how the message of these think tanks was able to be disseminated. Think tank strategy and tactics were responsible for helping promote their message, agenda and in helping the conservative movement gather momentum in the 1970s and the 1980s.

Think Tank Funding and Influence

The 1970s were a time of economic crisis for the US with differing views on how to fix the problems that plagued the economy. The conservatives were most aggressive in putting forth different ideas for fixing inflation, recession, rising unemployment and the decline of American economic preeminence. Liberals, in contrast, seemed to lack new ideas for the challenges facing the country.³⁵ For conservatives it was a time of opportunity; the previous administrations had been run by the Democrats Kennedy and Johnson and the Republican Nixon, who was perfectly comfortable with the Keynesian economics that had been the standing economic philosophy for much of the postwar

³⁵ Gregg Easterbrook, Gregg Easterbrook, "Ideas Move Nations", *The Atlantic Monthly*, January 1986, 78.

era. Conservatives wanted to push back on this model of government involvement in the economy in order to further their own agenda of less taxes, regulations and oversight. The poor economic conditions of the day presented an opportunity.

At the same time there was a new set of institutions that were emerging. The 1970s saw the creation and expansion of numerous conservative think tanks which went on to become important players in this war of ideas. The Heritage Foundation (1973), the American Enterprise Institute (1967), the Hoover Institution (1946), the Cato Institute (1974), and the Center for Strategic and International Studies (1962) all grew rapidly during the 1970s with the help of wealthy donors and corporate sponsors.

We do not know whether the policy debates of the day created the need for the conservative think tanks or whether the think tanks accelerated the debates that were ongoing. A similar analogy exists describing the historical relationship of populations and food production. Jared Diamond notes in his book, *Guns, Germs and Steel*, that food production and population increases usually accompany one another throughout history. We don't know if one causes the other or if it is a synergistic response but they always appear together.³⁶ The same can be said for the rise of conservative think tanks and the debates they participated in. It is not possible to say if one caused the other but they helped to feed off of one another.

We do know that these think tanks were very well-funded and that they became influential. Money was at the heart of conservative efforts to get their message out.

³⁶ Jared Diamond, *Guns, Germs, And Steel: The Fates of Human Societies*, (New York: W. W. Norton, 1997).

Wealthy donors and corporations funded numerous foundations, institutions and individuals during the 1970s which were able to get their ideas of less government and fewer regulations out to policymakers and the public.³⁷

The business community saw themselves under attack in the 1970s and they needed to fight back. They were under attack in the 1960s by liberals, unions and by increased legislation to protect consumers, workers and the environment. Corporate profits and the economic elites share of the nation's wealth had been decreasing and business standing with the public had been in decline due to charges of illegal campaign financing and bribery.³⁸ They needed to change the public's perception and the economic difficulties of the 1970s provided the opportunity for them to create a message that would put their values and their goals in the best possible light. This chapter examines the rise of conservative think tanks and how money was central to what they were doing. It explores the messages that they developed and how they used intellectuals, academics and the media to advance that message. Finally, it looks at the strategies and tactics that made their money and message so successful.

This chapter argues that the money of these wealthy conservatives, along with others like them, was able to create institutions, specifically think tanks, and these think tanks pushed for policies that promoted smaller government, fewer regulations, lower

³⁷ Niels Bjerre-Poulsen, "The Heritage Foundation: A Second-Generation Think Tank," *Journal of Policy History* 3 (2) (04), 158.

³⁸ Financial Sense, <http://www.financialsense.com/contributors/rory-gillen/us-earnings-peaking-shift-into-defensive-growth-stocks>

taxes in general and cuts to social spending. These goals would reverse the declines and the attacks that business and elites had been under. What is unique about this argument is that it ties the rise of conservative think tanks and their success to the economic problems of the 1970s and that eras version of capitalism. The crisis was an opportunity for conservatives and they took advantage of it by spending and organizing to push for a more conservative version of capitalism: one that was more in line with their ideologies and their bottom line.

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He notes the way that institutions like conservative think tanks, academic research centers and advocacy organizations helped to create a conservative message and agenda. Those institutions were able to get their message out through conservative print, radio and television networks. This is what constitutes his idea of the "vast right-wing conspiracy". It is the institutions, the media and the message that conservatives worked to promote.³⁹

One of the key contributors to the conservative movement was Joseph Coors of the wealthy Coors brewing family. The family has been an active member and donor of

³⁹ Richard Meagher, "The 'Vast Right-Wing Conspiracy': Media And Conservative Networks", *New Political Science* 34, 4, 12, (2012): 469

conservative groups and institutions. They have been involved in the Heritage Foundation, Free Congress Foundation and the Council for National Policy. They have maintained close connections to other conservative groups, right-wing groups and the religious right through these affiliations.⁴⁰

Meagher explains how these conservative activists worked with their connections and helped to fund and create what would become one of the most important institutions for promoting conservative thinking and policy in the 1970s and 1980s, the Heritage Foundation. Here he describes how Joseph Coors made his mark in the conservative movement by donating to the former congressional staffer, Paul Weyrich, who created the Heritage Foundation along with Ed Feulner in 1973:

Weyrich turned an initial \$250,000 from Coors into The Heritage Foundation, the preeminent conservative think tank, which Weyrich envisioned as a counterbalance to the supposedly more liberal Brookings Institution. Weyrich himself went on to play a key role in building conservative networks according to his colleague Morton Blackwell, "the 1970s were filled with new institutions," and the chief architect of these institutions was Weyrich: "Paul is the single greatest institution creator in the conservative movement." 12 Thus, it might not be an exaggeration to claim that Coors wrote the check that launched the modern conservative movement.⁴¹

Meagher identifies some of the wealthy conservatives who funded institutions and foundations to promote their conservative ideals: Joseph Coors of the Coors Brewing Company, the Koch Brothers, The Lynde and Harry Bradley Foundation, the

⁴⁰ Russ Bellant, *The Coors Connection: How Coors Family Philanthropy Undermines Democratic Pluralism*, (Boston: South End Press, 1991), xiv

⁴¹Meagher, "The 'Vast Right-Wing Conspiracy', 471

Smith Richardson Foundation and billionaire Richard Mellon Scaife. Meagher saw their funding as a way for them to obtain their goals:

Conservative foundations saw their investment in institutions as a means of moving public debate to the right. In essence, they were funding not just institutions but ideas. Many conservatives have been themselves engaged in a "war of ideas,"¹⁷ one that they waged by "funneling money directly to the front lines of the intellectual battlegrounds."¹⁸ The institutions conservative foundation supported – think tanks, media outlets, university scholars and associations, and advocacy organizations – represent every facet of the knowledge production process.¹⁹ Liberal foundations, on the other hand, have often aspired to political neutrality and a more pragmatic agenda; funding for them was philanthropy, the doing of public good, rather than building alliances. As a result they were not able to compete with the Rights "movement consciousness."²⁰⁴²

Money was the key component in all of this. It allowed conservatives to accomplish their goals, to develop their message and to distribute that message. Their money was buying them significant free speech while liberal groups chose not to follow the same path or they were unable to. Money allowed for the creation of institutions and access to the media and it helped the wealthy to distribute their message and broadcast their views. Politicians need money to survive and to campaign and the conservative think tanks created a space where politicians, thinkers and wealthy donors moved within the same circles allowing for a stronger connection than what would have existed without these institutions.

Think tanks are concerned with the production of ideas. As an institution they start with the premise that ideas matter. As people we are constantly engaged in the exchange of ideas. We argue, debate and we persuade as we try to convince others that

⁴² Meagher, "The 'Vast Right-Wing Conspiracy' " 472.

our ideas have merit. Politics and policy creation is no different. In 1979 and 1980 when Ronald Reagan was running for president he was able to frame his campaign around the broad philosophical ideas that he thought would resonate with voters who he hoped would elect him and allow him to put his ideas into practice. Reagan believed in smaller government, lower taxes and fewer government regulations. He argued that these ideas would help fix an economy that was growing slowly and wracked by inflation which had dominated the decade. These ideas have been labeled "trickle-down economics" or "supply-side economics". These ideas center on the belief of cutting taxes and being business friendly. If the wealthy and corporations do well then there will be jobs and opportunities for everyone else.⁴³

Supply-side economics was in opposition to the reigning system of Keynesian economics. Keynesianism argued that strong demand from consumers, and the government when consumers were not able to spend, would provide for a strong economy and prosperity. Shifting attention and focus to taxes, regulations, and the costs of doing business was the goal of supply-side economics. By making business profitable and efficient their benefits would be passed on to the consumer while businesses would be able to expand, provide jobs and help grow the economy.

Ronald Reagan had numerous connections to think tanks and those ties will be explored in the next chapter. What is important at this point is to emphasize the influence of think tanks in helping create and market policy. In April 1986, well into his

⁴³ James D. Gwarthey, Supply-Side Economics,
<http://www.econlib.org/library/Enc/SupplySideEconomics.html>

second term, Reagan addressed a Heritage Foundation gathering. Reagan knew his audience and he mentioned several prominent conservative thinkers and economists: Russell Kirk, Friedrich Hayek, Ludwig von Mises and Richard Weaver. Weaver, who had taught at the University of Chicago, wrote a book in 1948 called *Ideas Have Consequences*. This was the same motto that The Heritage Foundation had adopted, "Ideas Have Consequences." President Reagan concluded his speech tying together the conservatives, the think tanks, his policies and the war of ideas that conservatives had been waging over the last decade: "It goes back to what Richard Weaver had said and what Heritage is all about," the president reminded them. "Ideas do have consequences, rhetoric is policy, and words are action."⁴⁴

This was the genesis of the conservative push for their ideas. The economist Friedrich Hayek had kept the flame of capitalism alive after World War II in spite of its tarnished reputation from the Great Depression. As noted earlier, Milton Friedman fought long and hard to push for his vision of capitalism, linking it to freedom, liberty and prosperity. Conservatives saw an opportunity to sell their ideas as the US economy was in turmoil in the 1970s. The conservative think tanks, created by wealthy donors, funded the expression of those conservative ideas and The Heritage Foundation pushed harder than anyone to give those ideas respectability and popularity in the 1970s. They advocated their policies and ideas to congressional aides, congressional committees, to the incoming president Reagan, the media and the public through their numerous publications and studies. They pushed through relentless efforts of marketing and self-

⁴⁴ James Allen Smith, *The Idea Brokers: Think Tanks and the Rise of the New Policy Elite* (New York: Maxwell Macmillan International, 1991), 20

promotion in order to magnify their importance and distribute their message more broadly.

How can we measure the influence of think tanks? The power of ideas is not easily quantifiable. When policies become law they have many individuals and groups that worked for their passage. Significantly, the wealthy donors who contributed to conservative think tanks must have believed that these institutions mattered and that they could make a difference. The media frequently quotes think tanks and acknowledges them as important sources. Legislators read their recommendations and put them forth as experts when advocating for their chosen policies. The views and the opinions put out in the media start to sink into the consciousness of those who are listening and those who are reading. But think tanks are just one source of where this information comes from. How important are they?

David M. Ricci writes about the evolution of conservative think tanks in his book *The Transformation of American Politics*. Ricci is a professor of Political Science and American studies at the Hebrew University in Jerusalem. He has also taught at the University of Pennsylvania and has been a visiting scholar at the Woodrow Wilson International Center for Scholars, the Institute for Advanced Study at Princeton and the Brookings Institution.⁴⁵ In his book he looks at the activity of think tanks and sees their functions as an attempt at marketing ideas. The ideas have an audience, the American public, but the people are not treated as a public to be informed. Rather, they are

⁴⁵ Paradigm Publishers, David M. Ricci,
<http://www.paradigmpublishers.com/books/contribDetail.aspx?id=19255>

treated as passive viewers who receive information the way people receive advertisements on television. Here he explains the growth of the power and influence of think tanks:

What does such growth signify? Power in Washington cannot be measured precisely, yet think tanks surely have a good deal of it, in a city where tens of thousands of consultants, journalists, lobbyists, lawyers, accountants, legislative assistants, and other policy minded people spend most of their working time trying to influence the course of government actions. In 1986, the national Journal identified 150 men and women in Washington "who make a difference" and included in its list 22 scholars and study groups from think tanks as opposed to only 20 people from the mass media, 17 from public interest groups, 16 lobbyists, and 15 lawyers.

⁴⁶

What separates a think tank from those numerous other groups that Ricci mentions?

The conservative think tanks had started their rise in the mid-1970s and saw themselves become one of the most influential groups in politics and Washington. Think tanks have the connotation of scholarly credibility. Consultants advise, journalists report, lobbyists push for their clients, but think tanks are supposed to be rigorous thinkers – academics, intellectuals, economists – who signify authority in a given field. They can provide credibility to the arguments of those in the arena of public policy. Institutions like the Brookings Institute employed academics and published scholarly works in the post-WWII era and this can be viewed as the typical think tank prior to the 1970s growth of conservative think tanks.

Perhaps it should go without saying, but there are good thinkers and others who are not so good. Many people achieve the medical degree of doctor but a person who

⁴⁶David M. Ricci, *The Transformation of American Politics: The New Washington and the Rise of Think Tanks*, (New Haven, Yale University Press, 1993), 2.

finished last in their class is still called doctor. The same holds true for the people who worked at think tanks. Some were excellent thinkers and rigorous scholars. Others, not so rigorous, may have been good at selling their message and convincing their readers about the validity of their ideas and arguments. This is the crux of the problem for someone weighing the words of the think tank scholar – are they rigorous thinkers or just good marketing minds? Have they thoroughly studied every angle of a problem or are they just looking to sell and market their ideology?

The growing importance of think tanks in the 1970s was part of a process that started with the decline of academics and universities as sources of public information and knowledge. The Brookings Institution prior to this time had been a liberal institution that relied on academics employed by universities to produce complex and detailed studies. With the advent of the conservative think tanks things started to change. The new conservative think tanks produced large quantities of information that was easy to read and simple to understand. The people who created these reports were not established academics but often young, newly minted PhD's who were advocating for a certain ideology.⁴⁷ Therefore, the techniques of the new conservative think tanks had changed but the general perception remained that they were academically and intellectually rigorous.

⁴⁷ Constance Holden, . "Heritage Foundation: Court Philosophers". *Science*, Vol. 211, March 6, 1981: 10.

The conditions that led to this change are explained in part by Don Harrell in his 1982 article for the *Christian Science Monitor*, entitled, "What's Read in the Corridors Of Power." Here he offers an explanation of what led to the rise of increased think tank publishing production.

One explanation for this margin of survival is that presses with public policy imprints are heavily subsidized by their parent centers. These institutions, in turn, received contributions from foundations and the public. Many are also supported by government grants that total in the millions. Another explanation is that, now more than ever, people are hungry for facts and figures. We are seeing a kind of crisis management in such areas as the national economy, unemployment, defense, and environmental problems. And readers want their answers stripped free of the philosophical and historical context a university press might emphasize. Authors are usually less interested in having the definitive last word than offering immediate, nuts and bolts alternatives. This emphasis on the quick remedy, far from being a drawback, is becoming an attractive feature to many think tank publishers.⁴⁸

Harrell identifies two possible causes, but the answer lies in both – it is not an either or proposition. Once again we have a synergistic response. The public is hungry for more information and the think tanks have funding from their wealthy donors to meet that need. As a think tanks put out more publications they advertise and promote their product and, subsequently, more people realize that they may be interested in what think tanks have to say. The result is that think tanks start to have much greater influence than they had in the past. There is a gap to be filled. Ultimately, the think

⁴⁸ Don Harrell, "What's Read in the Corridors of Power." *The Christian Science Monitor*, Sept. 10, 1982, 1.

tanks fill this need and provide information to congressional staffers, legislators, administrators, the media and the public that donates and subscribes to them.⁴⁹

Martin Anderson, a domestic policy advisor to Ronald Reagan during Reagan's first term, drove home the point that think tanks were relevant and that they had replaced academics in the public policy debates. Here he is quoted by John Hood in the *National Review*:

Similarly, the traditional sources of independent public policy research and analysis were universities. But as Martin Anderson, domestic policy advisor to President Reagan and currently a fellow at the Hoover Institution in California, explains, academic researchers have lost their ability to produce anything serious and relevant. Instead, they turn out work that is esoteric, often erroneous, and largely unreadable. "Nobody reads even prestigious academic journals anymore" he says. But policymakers do read the work of think tanks.⁵⁰

The fact that Reagan's advisor thought this change was significant goes beyond just his interpretation of what is happening to academics. The implication is that he values the new think tanks, the administration values them and they consider their reports useful and effective in shaping policy, convincing the public and passing legislation. It is only natural that a conservative administration looked to conservative think tanks, but when we examine the situation closer we see that it was money from conservatives who put these think tanks together and they stood to benefit from potential changes. Likewise, the authority of the people writing for the conservative think tanks was not at the level of an academic report. They were looking to persuade and convince their readers

⁴⁹ Niels Bjerre-Poulsen, "The Heritage Foundation: A Second-Generation Think Tank," *Journal of Policy History* 3 (2) (04), 163.

⁵⁰ John Hood, "Send in the Tanks." *National Review*, December 11, 1995, 1.

through rhetoric and selective use of the facts.⁵¹ In that light, they could not be expected to give opposing ideas a fair hearing and a reader would need to be more skeptical but due to the recent development of these conservative think tanks the public had not yet developed the necessary skepticism.

The production and reach of the think tanks was significant. Martin Anderson and Ronald Reagan's staff were not the only ones reading and being influenced by the ideas of think tanks in the late 1970s and early 1980s. The Heritage Foundation was created in 1973 by two former congressional staffers, Paul Weyrich and Ed Feulner. It was during Ronald Reagan's first term that they passed by the other think tanks in terms of influence as they reached a high point of production and popularity. At that time they were producing 60 to 100 publications every year in the form of books, journals and newsletters. Those publications ended up in the hands of over 1000 policymakers in Congress and the administration. This influence was amplified by these publications being mailed out to over 6000 journalists, editors, academics and contributors.⁵² That influence continued to ripple outward. All of those individuals had circles of people they came into contact with and the institutions they were associated with impacted millions of people as well. The spending of the think tank's wealthy donors had an impact that went far and wide.

⁵¹ Murray Weidenbaum, *The Competition of Ideas: The World of the Washington Think Tanks* (New Brunswick: Transaction Publishers, 2009), 29.

⁵² Jim Bencivenga, "Young, Brash and Conservative - Think Tanks", *The Christian Science Monitor*, October 5, 1984, 1.

Earlier, it was mentioned that think tanks and conservative foundations were created in part from the money of Joseph Coors, Richard Mellon Scaife, the Koch family and others. But, how did the process work? Those wealthy donors had created foundations and the grant directors became instrumental in how funds were dispersed. The grant directors that were responsible for administering funds were Richard Larry at the Sarah Scaife Foundation, Michael Joyce at the Olin Foundation and Leslie Lenkowsky at the Smith Richardson Foundation. They determined which writers to support and who would be selected to the chairs that they sponsored at the various think tanks.⁵³ The people they supported and the people they selected to the chairs they sponsored were people who had views and ideas that were agreeable to the wealthy people and the boards directors that had founded these conservative institutions.

The web of connections between conservatives and think tanks can be illustrated by the fact that Coors, the Scaife and Olin foundations, along with others, supported numerous conservative think tanks and institutions over the years. The fact that these conservative donors supported so many groups and institutions gave added weight to their views. Because they were so numerous, productive and adept at getting their message out to those 6000 media individuals, it gave the illusion to the casual observer and the average citizen that these views were everywhere and that they must have some merit because so many people were discussing them and reporting on them. The reality is that there was a much smaller group of people, funded by an even smaller group, who had been able to reproduce the same message through multiple venues to

⁵³ Gregg Easterbrook, "Ideas Move Nations", *The Atlantic Monthly*, January 1986, 77.

great effect. Where conservatives had once complained of a liberal and biased press now they had turned the tables and they courted the in order to get their views out to the public.⁵⁴

The funding of think tanks took off when Joseph Coors, of the Coors Brewing Corporation, was looking for a way to invest in the emerging conservative movement of the 1970s. Coors would go on to create and fund numerous conservative organizations, but in 1973 he found Paul Weyrich who had recently been a congressional staffer. Weyrich would eventually leave the Heritage Foundation in 1974 and Ed Fuelner would eventually take over as president and become the guiding force behind the Heritage Foundation's rise. Coors would continue to fund the Heritage Foundation and with Fuelner would develop a network that had access to congressional staffers through the Republican Study Committee which was a group in Congress founded by Fuelner to pool resources and do research for legislators. The Republican Study Committee was a conservative organization patterned on the Democratic Study Group which was formed in the 1950s. The Republican Study Committee tried to broaden its influence in areas of research, legislation, academics, electoral politics and relationships with the White House. As the Heritage Foundation grew it took on more of these functions.⁵⁵ Because the Heritage Foundation and the Republican Study Committee were created by the same people they were able to coordinate activities and work toward similar goals. The

⁵⁴ Easterbrook, "Ideas Move Nations," 69.

⁵⁵ Niels Bjerre-Poulsen, "The Heritage Foundation: A Second-Generation Think Tank," *Journal of Policy History* 3 (2) (04), 159.

Heritage Foundation was able to influence Congress through committee hearings and distribution of their publications. And they would have the ear of president Ronald Reagan when he was elected and they presented him with "The Mandate for Leadership," a 3000 page document, filled with policy prescriptions based conservative principles.⁵⁶ Coors never could have imagined how much influence his initial \$250,000 investment would create.

The Heritage Foundation was not the only institution to see a large influx of conservative and corporate money in the 1970s. The American Enterprise Institute went from a staff of 24 and a budget of \$1 million in 1969 to a staff of 125, with approximately 100 adjunct scholars, and a budget of \$7 million in 1978. Their Board of Directors was staffed by corporate representatives from Mobil, Citibank, GE and GM. They were engaged in a campaign to raise \$60 million for an endowment starting in 1978. At the same time, the Goodyear Tire company was making its own plans to establish two \$250,000 grants to universities while other corporations were working to fund 40 professorships at various universities.⁵⁷ It was not only wealthy individuals and their foundations but corporations as well which were central to the conservative movement. Their combined efforts helped to create an extensive intellectual network

⁵⁶ JoAnne Omang, "The Heritage Report: Getting The Government Right With Reagan," *The Washington Post*, November 16, 1980, 2.

⁵⁷ Ann Crittenden, "The Economic Wind's Blowing Toward The Right – For Now," *New York Times*, July 16, 1978. 2

which produced vast quantities of publications that went out to politicians, the media and the public.⁵⁸

Success and Tactics

Part of the success and effectiveness of the conservative think tanks came from their skillful marketing and their ability to use the media. The way they packaged their ideas was a critical component in their rise. The Heritage Foundation used free food and beer to help persuade congressional staffers to attend their meetings and presentations.⁵⁹ In order to be accessible to members of Congress, they made sure that their reports passed the briefcase test.⁶⁰ This meant that the reports would be focused, readable accounts that could be read in the limousine ride to Capitol Hill or the airport. The Heritage Foundation also had effective grassroots efforts that helped them to obtain many small, loyal donors and a significant portion of their funds would come from these small donors.⁶¹

Ed Feulner was the president and driving force behind The Heritage Foundation from 1974 to 2012. He was instrumental in their efforts to get their research into the hands of the people that mattered. Feulner was the one that hired young, recent PhD graduates and he had the connections to Congress and their staff. He worked to create

⁵⁸ Harrell, "What's Read in the Corridors of Power," *The Christian Science Monitor*, 1.

⁵⁹ Easterbrook, "Ideas Move Nations," 72.

⁶⁰ Daniel Stedman Jones, *Masters Of The Universe: Hayek, Friedman and the Birth Of Neoliberal Politics*, (Princeton: Princeton University Press, 2012), 163.

⁶¹ Bjerre-Poulsen, "The Heritage Foundation," 165.

the relationships with businesses, corporations and wealthy donors. The staff that Feulner put together worked on many diverse topics but he knew there was more to these projects than their quality and the content of their reports:

Heritage has teams of researchers working on almost every conceivable topic of public interest. But as Ed Feulner, its president, explains: "we view production – that is, conducting research, analyzing the data, and publishing the findings – as only part of the total process. The other key part is marketing – the way which we package our findings, our distribution network, and the various activities aimed at building support for our ideas."⁶²

Feulner's operation went beyond scholarly work and research. His group was interested in influencing people and policy. That was why Coors had invested in them. They were not so much interested in producing publications that were rigorous scholarly research. They wanted material that could influence people in Washington.⁶³ The Heritage Foundation wanted people in Washington to use that material to push for a shared agenda. It was important to get this material out to the media as well because that worked as a form of advertising and self-promotion. Creating reports that the media could use made it easy for journalists to do their job and when the public finally read their accounts they got the sense that these were popular ideas, well thought out and, perhaps, balanced and nonpartisan. In fact it was a small, well-financed group creating the illusion of a large vast movement. It was Potemkin village created in a world of ideas.

⁶² John Hood, "Send in the Tanks," *National Review*, December 1995, 1.

⁶³ Bjerre-Poulsen, 153-154

The think tanks did more than write publications that were convenient for reporters to use. The American Enterprise Institute, the Heritage Foundation and The Center for Strategic and International Studies were aware of how important the press was in getting their message out. Therefore, they worked hard to develop their complex relationship with the media:

Think tank managers who swore oaths in private about the liberal biases of the big media, nevertheless found themselves longing for their stamp of approval. Understanding that many reporters hunger to feel important, the new think tanks courted and flattered reporters in a way Brookings never had, inviting them to conferences not as observers but as participants. Catering to the journalists convenience, they sent reams of information free (Brookings, the old profiteer, actually charged for its work) and provided messenger service for reporters on deadline. Having an impressive American Enterprise Institute study hand-delivered to a reporter while its Brookings counterpart was lost in the mail was often half the battle for mention in a news column. Also, it helped that most conservative think tanks prefer writing that makes for pleasant reading and vivid quotation to dense academic prose.⁶⁴

Without a successful link to the media the conservative think tanks would have failed in their mission. One aspect of the conservative think tank foundation was to provide research. This research could act as a cover for politicians who may have been promoting special interests. Rather than coming out for special tax breaks or a conservative position that favored corporations or a special interest, they could point to a study by the conservative think tanks that claimed what they were advocating was good policy. It was not important if the research was well documented or not. The legislators had their cover to hide behind.

⁶⁴ Gregg Easterbrook, "Ideas Move Nations," January 1986, *The Atlantic Monthly*, 69.

The second part of the conservative think tanks' job was to get their preferred ideas out in front of the voters. If enough people said that high taxes, big government and an excess of regulations were harmful to the nation and the economy then those ideas could seep into voters consciousness and, ultimately, they could affect elections and politics. The conservative think tanks realized that the key to getting their ideas out in front of the public was to develop smooth public relations with the media. They made themselves accessible to the think tanks and they made their reports and publications available to the media ensuring that their message would get out to the public. Once material was put out by reporters it gained an air of authority whether the originating institutions deserved that respect or not. The average citizen had no way of checking the sources of a report or investigating a think tank's connections in order to determine if it was funded by wealthy individuals and corporate donors.

The tactics that made conservative think tanks successful were their effective institutional structure and a well-developed narrative that help to promote their ideas and agenda. Jean Hardisty and Deepak Bhargava in their article, *Wrong About the Right*, (2005), provided a detailed analysis of the conservative movement over the last 30 years and what made it successful and this yields important insights into the analysis of conservative think tanks. The authors take what they consider to be a traditional account of what made the conservative movement effective since the mid-1970s:

The now dominant narrative about the right's rise to power holds that conservatives invested huge amounts of money in a number of think tanks over the past 30 years and brilliantly framed their messages in ways that were simple and resonated deeply with much of the American public. By embracing a top-down hierarchical movement structure and

relentless message discipline, the right was able not only to triumph at the ballot box but also to change the terms of political discussion – demonizing "big government" and celebrating "tax relief", "personal responsibility" and "free market capitalism."⁶⁵

The authors believe this account is "incomplete" and "misleading". I would disagree with their characterization that this view is incomplete and misleading, nevertheless, they do provide important insights into the conservative movement and the development of think tanks. Their alternative view of the conservative movements success consists of several key ingredients that helped the movement achieve its goals. The first ingredient, ideological diversity, was one source of a wider appeal for the conservative message that they highlight. Different conservatives were brought into a large coalition: these included economic conservatives, social conservatives, libertarians and neoconservatives. The authors believe that they were able to cooperate and this helped further their agenda and their success. ⁶⁶

The authors do not make it clear why different conservatives were not able to cooperate effectively in the past but I would argue that the conservative think tanks played a key role in helping this grand alliance come together and allowing them to cooperate effectively at this point. They provided a central focus for the conservative movement. Conservatives, the wealthy and business were able to channel their money to think tanks and this money led to the production of ideas and publications as we have seen. These ideas were put out to the media as discussed earlier and they came in front

⁶⁵ Jean Hardisty and Deepak Bhargava, "Wrong About the Right," *Nation*, Nov. 7, 2005, 22.

⁶⁶ Hardisty and Bhargava, "Wrong About the Right," 22-23

of the public more frequently and in a well articulated fashion that helped spread the conservative message.

The think tanks provided an essential place for conservatives and elites to give money in order to promote their message and this message made its way to legislators and politicians thereby influencing politics and policy. Conservative politicians, like politicians in general, need arguments to support their positions. The conservative think tanks, the Heritage Foundation and others, were able to produce reports that provided conservative analysis and critiques of legislation and policies that were being considered and debated. Chapter 3 will take a closer look at these reports. By providing intellectual arguments to Congress the think tanks furthered the conservative movement and provided evidence for conservative politicians to push their agenda.

The second idea that the authors look to convey is that the conservative movement was about ideas rather than simply messages and marketing. Conservatives articulated their beliefs on government, family, economics, the military and race and the authors provide their analysis of how this all fit together:

These core beliefs were at first far outside the mainstream of accepted political discourse. But by carefully constructing an ideological blueprint for their movement (despite lack of complete buy-in from every sector), the right has been working for more than 25 years with a set of unifying ideological principles to which their strategists and activist return time and again. Support for family values," limited government, a strong military, white domination and the primacy of Christianity over other

religions, when combined with the will to power have served the right well.⁶⁷

This brings up the important point of where do values and policies of elites intersect with other broad sections of the population? Where can public opinion be co-opted? Beliefs about the military, family, government and economics can be construed to benefit the country as a whole but when formulated as legislation and policy the rules can be designed in a way that benefits the rich, corporations and military contractors. In this way the values of a conservative population can be made to serve the interests of an elite at the top of society.

The final idea to look at in Hardisty and Bhargava's evaluation of the conservative movement is their analysis of the importance of recruitment for the conservative movement and this ties into the development of the conservative message put out by conservative think tanks. The conservative think tanks were a source for the articulation of conservative ideas and a distribution point for the media. They argue that the institutions the conservatives built, like the think tanks, help to provide the grassroots support for conservative agendas. Other groups that helped move their agenda were the National Rifle Association, the Moral Majority, the American Family Association, Focus on the Family, Concerned Women for America and the Christian Coalition of America.⁶⁸

⁶⁷ Hardisty and Bhargava, "Wrong About the Right," 23.

⁶⁸ Hardisty and Bhargava, "Wrong About the Right," 23.

Hardisty and Bhargava illustrate that the conservative think tanks were part of the broader conservative movement which is true but we can interpret the influence of the think tanks from their argument. They highlighted ideological diversity, ideas rather than messaging and recruitment. Conservative think tanks were part of this, they helped to facilitate these things and they were the institutions that allowed these different groups to come together which helped provide the support and energy of the conservative movement during the 1970s and early 1980s.

Chapter 3: Ideas and Goals:

How the Heritage Foundation Works

In chapter one we have seen how conservatives and conservative think tanks looked to take advantage of the economic problems that existed in the 1970s in order to put their own agenda forward. Their agenda was typically geared towards the wealthy and business while it was labeled as free-market reform. In chapter 2 we examined how conservative think tanks were created and funded and how they were able to successfully spread their message to politicians, the media and the public. This chapter looks at the specific policies of the conservative think tank, the Heritage Foundation.

When the heritage foundation advocated for a policy or position they usually claimed it was about free-market reforms but, in reality, it was usually a pro-business position. This chapter looks at four case studies in order to evaluate the claims of the Heritage Foundation and to try and determine who the beneficiaries of their policy prescriptions were. I will look at their positions on welfare, the debt and unions. The final section evaluates the publication, *Mandate For Leadership*, which was presented to Ronald Reagan's administration by the Heritage Foundation as he prepared to take office. This document was 3000 pages long and it was filled with conservative policies and was meant to give Reagan readymade policy initiatives in order to present to Congress as he was taking office.

The policies that the Heritage Foundation generated and sent out to Congress and the press were put forth in a quarterly journal, the *Policy Review*, along with special

reports that were called the *Backgrounder*. These are just two of the Heritage Foundation's publications with the quarterly *Policy Review* being a large selection with eight or more articles covering over 100 pages. The *Backgrounder* bulletins came out intermittently when the Heritage Foundation felt they wanted to comment in a timely fashion on topics that were currently under debate.

The reports reflected their conservative beliefs and they are remarkable for their construction, their methods of arguments, their use of evidence and their conclusions. By looking at several samples as test cases we can develop an idea of the way in which the Heritage Foundation worked and the way it advocated for its policies. We also get to examine who would benefit from these policies and who would not.

One of the first things in examining the philosophy and agenda of the Heritage Foundation and whether there is a pro-business, pro-elite bias is by looking at their approach to labor. Labor is a key component of business profitability. Businesses may have fixed costs in doing business but by bringing down their labor costs they increase their profitability. It then makes sense to have ready access to abundant and cheap labor in order to increase profitability.

The Heritage Foundation tackled the rights of labor in its article, "Right to Work Laws: Is there an Economic Justification for Them?" This is an article in the Heritage Foundation's publication, *Backgrounder*. It was written by David A. Williams on June 21, 1977 and addresses the issue of repealing the Taft – Hartley Act which allows states to ban compulsory union memberships. Williams notes that Carter while running for

president had said that he would repeal a key section of the law if a bill was presented to him.

Williams makes a case for states that have banned the requirement of belonging to a union and he argues that these states are more successful than other states. According to him they have a better business climate, more jobs and better economic growth. He uses a study conducted by the Fantus Corporation which is in the business of locating manufacturing plants:

The Fantus Company, Inc., is the oldest and largest plant location consulting firm in the world, and their reports on the business climates of states are based on state taxes, programs, and laws affecting business, and the legislative and regulatory environment of the state.⁶⁹

What questions does this perspective raise? Good prospects for business do not automatically mean workers or the community will be better off. There may be more jobs but will they be quality jobs or good paying jobs? Policies that favor business over labor have no inherent truth or logic. It is just as valid to argue the policies for labor or the middle class are just as worthwhile as policies that help the business community. In the end it comes down to different interest groups arguing for government policies that are beneficial to themselves.

This brings to mind the concept of "the race to the bottom". Low wages, low taxes and a lack of safety standards may make for a good business climate from a CEO's perspective but this challenges other communities to drop their standards as well in

⁶⁹ David A. Williams, "Right to Work Laws: Is There Economic Justification for Them?," *Backgrounder*, June 21, 1977, 2.

order to compete for jobs. Also, the notion that jobs are being created is somewhat misleading. There is a demonstrated need for the products and the jobs that are required to make the goods. Low wages, low taxes and easy regulations may benefit the bottom line of business but they do not necessarily help the communities that the corporations decide to settle in. Each state may try to attract business in this race to the bottom and, therefore, it is useful to look at the long-term implications of that philosophy and what it means for wages, taxes and health and safety standards.

Williams addresses this issue briefly when he quotes labor analyst, Robert Reich of the Louisiana Department of Employment Security: " 'Right to work would create more manufacturing jobs This business about right to work signaling a return to 'slave wages' is unfounded.' "⁷⁰ In spite of this assertion there is no proof that more jobs in one area of the country at the expense of another is an overall benefit to workers. In fact, one can take issue with this stance and argue that it is not true. Without unions to protect wages, without minimum wage laws and without a scarcity of workers there is nothing to prevent business from driving down wages as much as possible even to the point of "slave wages" which were referred to by Williams citation.

The overall trend to see in these studies and commentaries is their preference for business at the expense of other groups. They are trying to obtain economic advantages. Through the political process, through arguments like this that don't go very deep and that tap into what can be reduced to a simple sound bite, the take away

⁷⁰ Williams, "Right To Work Laws," 3

from a report likes Williams might seem to be the prospect of more jobs. Who would not want more jobs? But a closer examination reveals the faulty logic that he employs. It also points to the real reason a conservative think tank, one that is backed by wealthy interests and corporate money, would argue this point and that is that it would benefit their constituency which is the business community.

"The Goals Of The Welfare Industry" is an article in the Policy Review from Spring 1978 written by Charles D. Hobbs. Hobbs received a B. S. From Northwestern in 1955 and was a Woodrow Wilson fellow at UCLA in 1958 and 1959. He was Chief Deputy Director of Social Welfare in California from 1970 to 1972 and in 1973 and 1974 he served on then Governor Reagan's Tax Limitation and Local Government Task Force.⁷¹ His private industry jobs included working for military contractors from 1958 to 1970. From 1972 through 1984, while he was working in government, he was owner of Charles D. Hobbs Incorporated, a firm specializing in public policy and management consulting.⁷² He was later appointed by President Reagan as Deputy Assistant on Domestic Policy and Director of the White House Office of Policy Development from 1984 to 1987.

Hobbs discussed the existence of a welfare industry along with its policies, expenses, growth and its special interests. His idea of a "welfare industry" is a network

⁷¹ Ronald Reagan: "Appointment of Charles D. Hobbs as Assistant to the President ," January 30, 1987. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*. <http://www.presidency.ucsb.edu/ws/?pid=34585>.

⁷² Herald News, "Charles D. 'Chuck' Hobbs," http://www.heraldandnews.com/article_2d4fba8f-d160-56dd-8b0a-465237cddb99.html?mode=print

of 50 million beneficiaries of welfare payments and supports that are administered by 5 million public and private workers. He does not use any references or citations in his report but he does reference a book he had published though he fails to mention its name. He claims welfare programs are the result of a welfare industry. He notes the growth of welfare:

Government expenditures per welfare programs in 1976 (as defined in the welfare industry) totaled \$187 billion. The combined average growth of these programs between 1971 and 1976 was 25.11% a year, 2.5 times the GNP growth rate and three times the growth of wages for the same. A preliminary analysis of the 1979 federal budget shows continued growth, with 1977 welfare expenditures estimated at more than \$210 billion, and 1979 expenditures projected to be more than \$250 billion.⁷³

There are not any references or any context to check the claims that Hobbs makes. We don't know why the programs were growing and we don't know any of the particulars about the programs. He doesn't state if new criteria were added, more people were covered or new programs were deemed necessary.

Hobbs goes on to describe the welfare industry in abstract terms. Through the use of these abstract terms Hobbs attempts to create the impression of a larger external force that is attempting to gain control and influence over a segment of the nation, specifically the poor and needy. He asserts that this welfare industry has four main goals:

This "industry" has four main goals: growth of welfare expenditures at a pace faster than the national economic growth, centralization of welfare control and administration in the federal government, ever-increasing

⁷³ Charles D. Hobbs, "The Goals of the Welfare Industry," *Policy Review*, Spring 1978, 69.

complexity of welfare programs and operations, and ever-expanding welfare industry employment.⁷⁴

There is no support or evidence for these claims although throughout his work he infers that these processes are at work by merely repeating them while he gives his explanation of government welfare proposals. These proposals for family allowances, negative income taxes and other welfare services are characterized by the terms he had used above of "growth", "centralization", "complexity" and increasing numbers of workers. There is no evidence to support these terms but rather a general characterization.

His idea for a solution follows the same general formula in that no proof is offered, no evidence or any logic but rather just a reversal of the negative characteristics he has previously identified. His answer and conclusion are calling for doing the opposite of what he claims exists in this welfare industry:

The first step in true welfare reform must be restructuring and redirection of the welfare industry. Then the welfare system can be revamped to meet public expectations. The principles for industry reform may be stated most simply as the reverse of the industry's own goals: (1) reduce the number of welfare workers; (2) simplify the welfare system; (3) decentralize the control of the welfare system; and (4) reduce welfare expenditure growth, so that welfare does not grow faster than the national economy.⁷⁵

This seems more like a philosophy rather than a policy prescription. Hobbs does not tell us how this would help the people in these programs. It would be helpful to know what were the challenges to the industry and what its main problems were in order to

⁷⁴ Hobbs, "The Goals of the Welfare Industry," 69.

⁷⁵ Hobbs, "The Goals of the Welfare Industry," 71.

provide policies that would work. Hobbs does not find it necessary to address the needs of the people who receive welfare and this may be because his audience does not include anyone in this category.

This fits well with the conservative view of government. Eliminating costs can help to reduce taxes. Eliminating workers and reducing growth would not have the effect of making the programs more effective, useful or more efficient in any way that he describes. We are not told how this solution would help and the analysis of his article is primarily a philosophy rather than a policy prescription. He concludes by saying that the welfare system has failed those who need it the most although it is easy to imagine many poor people who might disagree. Only the welfare industry, an abstraction that he is using in his article, has benefited in his opinion.⁷⁶

It is interesting that this debate still goes on today with Republicans and Paul Ryan claiming programs to help the poor have failed but there are usually no personal testimonies to verify this. There are two possible benefits that would present themselves if these ideas to limit welfare programs and expenses were carried through and this helps to identify who would be best served by the policies Hobbs describes. If welfare programs were eliminated or cut then there is the possibility of lower taxes and smaller deficits which is part of the goal of the ideology we have been looking at in the conservative think tanks. With more people off welfare there would also be more people in need of a job and that is important because it works to lower wages for

⁷⁶ Hobbs, "The Goals of the Welfare Industry," 71.

business and create potential for more profits. The workers, in contrast receive lower wages. Therefore the benefit to people that the Heritage Foundation represents and courts would be lower taxes and lower wages through a enlarged labor pool.

One idea that was receiving attention in the 1970s was the idea of a balanced budget amendment. This amendment would force Congress and the President to limit spending and the growth of government. The Heritage Foundation took a stance on the idea of a constitutional amendment to balance the budget in its April 10, 1979 edition of its publication, the *Backgrounder*, written by Eugene J. McAllister who was a Walker Fellow at the *Heritage Foundation* and who would go on to serve in the Reagan and Bush administrations from 1981 to 1988.⁷⁷ In this article McAllister argues for the benefits of the amendment. It would bring economic growth and reduce inflation and help direct investment and funding to the private sector rather than the government. McAllister believes that there are concerns that the poor might suffer and he attempts to address this. Finally, an important concept which he mentions of managing the nation's economy through monetary policy rather than fiscal policy is a critical insight into the overall discussion of economic elites being able to dictate the terms of how the nation's resources are allocated.

⁷⁷ George Bush: "Continuation of Eugene J. McAllister as an Assistant Secretary of State," April 11, 1989. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*. <http://www.presidency.ucsb.edu/ws/?pid=16904>.

One of McAllister's main arguments is that politicians have a strong incentive to overspend. It makes constituents happy to see increased benefits, economic activity and spending and this works to improve the election prospects of incumbent politicians:

Expenditures beyond the benefit–cost equilibrium, when financed through a deficit, appear costless. No additional taxes are levied thus the restraining influence is lost. Congress is permitted to enjoy the benefits of deficit spending while ignoring the costs, inflation and slow economic growth.⁷⁸

Further on he continues:

The recent unsymmetrical application of fiscal policy indicates that elected officials find its political uses more compelling than its economic application. Fiscal policy serves not only as a guise for excessive spending, but also as a tool in electoral politics.⁷⁹

The balanced budget amendment would work to eliminate this practice in McAllister's view but we are not told why the regular political process does not work or why we should ignore the normal political process. Why can't voters elect someone else who will provide them with balanced budgets? Is it too difficult? Are there other forces or special interests that make it unworkable and impossible to achieve? We are not told why democracy will not work in this instance but whatever the difficulty, entrenched interests or a lack of accountability, they would still exist when Congress goes to create a budget within the constraints of a new constitutional amendment. In fact, a process that has committees creating budgets and allocating spending would be less democratic, less accountable to the public and more inclined to represent economic

⁷⁸ Eugene J. McAllister, "Balanced Budgets, Spending Limitations, and the Economy," *Backgrounder*, April 10, 1979, 2.

⁷⁹ McAllister, "Balanced Budgets, Spending Limitations, and the Economy," 4.

elites that have been identified earlier in this paper. The reason is that this type of process lacks transparency and it would be difficult for voters to interpret by its very nature.

The prospect of a constitutional amendment limiting democratic rule is accompanied in this article with another recommendation that bypasses the democratic process. McAllister believes the government would still be able to affect the nation's economic policy through monetary measures even though they would lose the ability to do so through fiscal policy with a balanced budget amendment:

In a landmark study, Leonall C. Andersen and Jerry L. Jordan, both at that time with the Federal Reserve Bank of St. Louis, found that monetary policy was superior to fiscal policy in terms of strength, speed and predictability.⁸⁰

What is interesting about this statement is the fact that the place where monetary policy is made is the Federal Reserve Board and with its chairman who is selected by the president. This board is not answerable to the voters. During the 1970s and 1980s the chairman of the Federal Reserve were economists: Arthur Burns, Paul Volcker and Alan Greenspan. In addition to being an institution where economists dominate, the Federal Reserve is closely related to the banking industry by virtue of their power to set interest rates and affect the money supply. Being close to economists and bankers and not close to voters and the people makes the Federal Reserve susceptible to those interests and, in fact, members of the board from those groups and those interests: money, banking and finance.

⁸⁰ McAllister, "Balanced Budgets, Spending Limitations, and the Economy," 5.

The last aspect of McAllister's argument that raises questions of democratic responsiveness is the issue of less government spending allowing for more private sector investment:

The persistent deficits and the borrowing needs of the government "crowd out" the private sector in the financial market. Funds which would have been used to finance capital investment are diverted in support of the deficit.⁸¹

Voters and their legislators have decided in a democratic fashion how to allocate the people's taxes. Why would these decisions be any less important than access to easier credit for the business community? Taxes go to a multitude of things, education, the poor, infrastructure and research. A large portion of taxes go to the military and national defense. Would they be subject to cuts or would lobbyists for military defense contractors be able to convince Congress that any less spending would be dangerous to the nation's security? Why shouldn't voters decide in their own way? McAllister would argue in return that the private sector leads to a higher standard of living but he has not proved that voters should not decide and that a constitutional amendment needs to be permanently enshrined in the nations laws.

The outline of McAllister's paper reflects an elitist bias and preference for business interests. Taking spending out of legislators' and voters' hands combined with turning over more power to an unelected institution, the Federal Reserve, is problematic but McAllister does not address the implications of this process and who the beneficiaries would be.

⁸¹ McAllister, "Balanced Budgets, Spending Limitations, and the Economy," 3.

With the election of Ronald Reagan in 1980 the Republicans regained the White House and they now had their opportunity to put their policies and programs into place. The beginning of the administration would offer the best opportunity for the Republicans to put forth their ideas while they still enjoyed the brief honeymoon that comes with a presidential election.⁸²

Reagan had won the presidency on the idea of smaller government and lower taxes. He had tapped into voter discontent with what was perceived as a government that had grown too big and interfered in the lives of citizens. Reagan's campaign also benefited from the poor economy that Jimmy Carter had inherited from his predecessors. The high inflation and the high interest rates were powerful negative force even though the economy had been growing during his presidency.⁸³

Foreign policy was another area where Reagan benefited from his opponents problems. The Iranian hostage crisis went on for 444 days and then president Jimmy Carter had been unable to secure their release. Diplomatic negotiations were unsuccessful and a failed rescue attempt had made the Carter administration look incompetent. Reagan on the other hand was a long-standing vocal critic of communism

⁸² Bernard Weinraub, "Conservatives Aid Transition Plans Behind the Scenes," *New York Times*, December 5, 1980, 1.

⁸³ Financial News <http://www.financialsense.com/contributors/rory-gillen/us-earnings-peaking-shift-into-defensive-growth-stocks>

and strong on national defense. He was someone who appeared to be firm while Carter had been more circumspect in his rhetoric.

As Reagan moved into the White House he surrounded himself with conservatives and there were many close links to the conservative think tanks that have been growing in prominence during the 1970s. The Heritage Foundation was just one of several think tanks that had people that were connected to Reagan and his administration. The Hoover Institute, the American Enterprise Institute and the Institute for Contemporary Studies were also connected to Ronald Reagan and his administration.⁸⁴ These connections help to show that conservative think tanks were an integral part of the political landscape in the 1970s and 1980s.

Drummond Ayres, a correspondent for the *New York Times*, identified the key connections between Ronald Reagan and members of the conservative think tanks. Frank Walton and Frank Shakespeare were two board members of the Heritage Foundation with close ties to Ronald Reagan. Walton was Secretary Of Business And Transportation in California while Reagan was the governor. Shakespeare, who was president of the corporation RKO General, was a transition leader for Reagan and his administration. In addition, the original force for the Heritage Foundation, Joseph Coors, was a long time supporter of Ronald Reagan's.⁸⁵

⁸⁴ Drummond B. Ayres Jr. "Conservative Researchers Expect New Prominence," *New York Times*, November 17, 1980.

⁸⁵ Ayres, "Conservative Researchers Expect New Prominence,".

Members of the American Enterprise Institute with ties to Reagan included Jean Kirkpatrick and Irving Kristol. In addition to their ties with American Enterprise Institute, Kirkpatrick was a professor at Georgetown and Kristol was a professor at NYU's Graduate School Of Business. The Hoover Institute had ties to Reagan as well. These included the director, W. Glen Campbell, and two scholars, Martin Anderson and Darrell Trent. The Institute for Contemporary Studies had connections to Reagan through their president, H. Monroe Browne, Edwin Meese 3rd who was a director and with Michael K. Deaver and Peter Hannaford.⁸⁶

These connections reveal several things. Earlier I discussed how business and wealthy donors were able to put these conservative think tanks together with funding and now they have direct access through their representatives that they had staffing their institutions. This could serve as a self-perpetuating system where those who wished to have influence and access to politicians determined that conservative think tanks provided that opportunity and therefore it was in their interests to donate money and become active.

The other important aspect of these connections is the impact of conservative ideas. Conservative ideas were put together by the people that wealthy investors and corporate sponsors had backed. Their ideas were designed to appeal to voters but the writers and scholars employed by conservative think tanks put forth policies that benefited the conservatives and economic elites. Smaller government, lower taxes and

⁸⁶ Ayres, "Conservative Researchers Expect New Prominence,".

fewer regulations were in the interests of these groups. The think tanks provided the reports, studies and commentaries that reflected their values and now they had become intellectually and administratively connected to the new president, Ronald Reagan.

This brings us to the point in time where conservative think tanks engaged in their largest endeavor to date. The Heritage Foundation reached the highest levels of government in 1980 when it issued its report, *Mandate for Leadership*, which was a conservative blueprint of policies and programs that were near and dear to the conservative movement. The plan was put together by a team of 250 people, mostly volunteers, at the Heritage Foundation prior to President Reagan's election. For that reason there was some degree of risk, but the plan was for the report to be ready in time for the incoming administration so that it would be able to implement the ideas contained in the document during the brief honeymoon period following the inauguration. The plan had its origins in the lessons learned during the start of the Nixon administration in 1968. The new administration of Nixon had to learn how the government functioned, how the bureaucracies worked as it was getting up and running and at the same time being taught by the outgoing administration which was staffed by the opposing party, the Democrats.⁸⁷

The Heritage Foundation put together a 3000 page document with policy recommendations that reflected conservative ideas but there was no guarantee that Reagan would be elected or that the administration would use what was in the guide.

⁸⁷ Weinraub, "Conservatives Aid Transition Plans Behind the Scenes," 1.

Part of what made this a significant document was the fact that it put forward conservative ideas and it was being given to a president who had run as a conservative. Reagan's belief in lower taxes and a smaller government fit with the ideas of the Heritage Foundation. The Heritage Foundation's *Mandate for Leadership* gave Reagan a ready-made plan to follow when he took office and looked to offer legislation.

The other important thing to note is the overlap of actors between the conservative think tanks and the administration. As discussed earlier there were a number of Reagan aides who were affiliated with the Heritage Foundation and other conservative think tanks. Edwin Meese 3d was one of these people and he was leading Reagan's transition team as they entered the White House in January 1981. Meese and E. Pendleton James, personnel chief for Reagan's administration, looked favorably on the recommendations of the report.⁸⁸ This reflects the broader philosophical agreement that existed between the Reagan administration, conservatives, the business community and the conservative think tanks.

This phenomenon should not seem unusual because these actors are part of the broader constellation of conservatives that have been brought together by the think tanks, the money, the political donors, the business community and others who interacted with, relied on and supported the conservative agenda. This would make the Heritage Foundation and conservative think tanks the tip of the spear, the point where everyone and everything came together in Washington and Republican politics. The

⁸⁸ Weinraub *Conservatives Aid Transition Plans Behind The Scenes*, 1.

significance of this is that conservatives and economic elites now had a new tool to use in the institution of the conservative think tank, a tool which Democrats had not managed to recognize or to use effectively up to that point and they did not have a base of funding comparable to the one that created the conservative think tanks. When we look at how think tanks were created, with the money of wealthy donors and corporations, it becomes evident why Democrats and liberals were not able to come up with something similar. There were no comparable sources of money for a liberal counterpart if the wealthy and corporate America saw their interests being represented by the conservative groups. There were few other means of putting together the large sums of money necessary to create a similar system for liberals and Democrats.

The publication of Heritage Foundation's report provided some revealing philosophical premises that are important for conservative successes during the Reagan era. Bernard Weinraub reported on the *Mandate For Leadership* in the *New York Times* in December 1980 and he provided some useful insights into the Heritage Foundation leader, Ed Feulner.

"One of the things we conservatives are going to have to do now is start thinking in a whole new mindset," Mr. Feulner said. "In the past so many of our activities have been against things. Now how do you start thinking more positively in terms of conservative initiatives?"⁸⁹

Instead of being a party that said no to things like taxes, regulations and government programs now Feulner wanted them to be portrayed as a party with ideas. Are they really providing solutions to problems and positive ideas or are they creating just

⁸⁹ Weinraub, "Conservatives Aid Transition Plans Behind the Scenes," 1.

another way of saying no and maintaining the status quo and thereby the influence of economic elites?

What did the *Mandate For Leadership* look like and what were the policies and solutions that they advocated? In November 1980, shortly before Reagan took office, Joanne Omang of the Washington Post analyzed the highlights of the 3000 page report that had been prepared for Reagan by the Heritage Foundation in order to help him have a ready-made source of conservative policies at his disposal:

Abolish the department of energy by 1982. Revoke all executive orders requiring affirmative action for minorities and government hiring and contracting. Strip the Office of Surface Mining of most of its powers in order to "make an example" of the agency. Return most functions of the Environmental Protection Agency to the states or other government offices. Use US agricultural exports as a weapon in foreign policy. Downgrade the National Security Council to a foreign policy clearinghouse, moving the State Department "clearly out in front." Impose a 90 day moratorium on exports to Eastern Bloc countries while reorienting trade to politics rather than economic. Boost the 1981 defense budget by \$20 billion, develop a new strategic bomber, keep happening deploy the neutron bomb in Europe and raise military spending by \$35 billion in each of the next five years. Revoke the guidelines that tell intelligence agencies how to operate within the Constitution, crackdown on domestic radicals and revive internal security committees in Congress. Impose a 10% across-the-board personal income tax cut. And convert the Occupational Safety and Health Administration and the Mine Safety and Health Administration to "cooperative roles rather than adversarial ones."⁹⁰

It is useful to identify some of the keywords in this assessment in order to evaluate Feulner's earlier claim that they were not a party that is against things: abolish, revoke, strip, return, downgrade and tax cut. Those terms give the impression that the

⁹⁰Joanne Omang, "The Heritage Report: Getting the Government Right with Reagan" *the Washington Post* November 16, 1980.

conservatives and the Heritage Foundation idea of solutions and answers was an elimination of the government's role in solving problems with the implication that government is the problem. So, Feulner may be right when he says that now conservatives are for things and for policies, but they are for the removal of the government and the roles of safeguards, checks and policy solutions. The only area they do recommend more action and more programs is in the area of military defense and foreign policy and this causes an increase in the size of the government deficit which they are against.

This scenario presented by Feulner and the *Mandate for Leadership* would give the private sector more power. The resulting paradigm would be the more money someone has the more power and influence they have. More power and influence can have political consequences and economic consequences. It could be argued that those consequences would tend to benefit elites rather than any other segment of society.

In the same article the author sums up the implications of the large number of recommendations in the report. She says:

It is clearly a hope chest of the mainstream right-wing, predictably coming down hardest on environmentalists and on minority programs, restrictions on the military, intelligence communities and free enterprise. As a step-by-step roadmap to realization of most of Reagan's campaign promises, much of it could serve as a handy guide for later check on his performance.⁹¹

The one thing that conservatives are consistently for in their report is for more military spending, more emphasis on national security and greater activism in foreign policy. It is

⁹¹ Omang, "The Heritage Report: Getting the Government Right with Reagan".

interesting to note who are the beneficiaries and who are not in this scenario. Military contractors would benefit from these policies while minorities would not. Those in the highest tax brackets would reap the most financial gains while protections for workers would suffer. Capitalists would prosper from the increases to the free market while environmentalists would not.

One of the ways that capitalists, business and the wealthy would benefit was from proposals within the *Mandate* regarding tax policy. The earlier discussion of supply-side economics is relevant here because conservative arguments centered around the idea that by cutting taxes for business this would help them to thrive, be profitable, create jobs and increase their tax receipts which would make up for any lost revenue from tax cuts. The team at the Heritage Foundation responsible for policy regarding the Treasury Department was recommending a reduction of corporate taxes and a 10% cut in marginal personal income tax rates.⁹²

Tax cuts would ease the burden on all taxpayers but people paying the highest rates would see the greatest reduction in their tax bill. The wealthy would not only benefit from the personal tax cuts but a cut in corporate taxes would also benefit them by increasing the profitability and value of their financial holdings and interests.

The owners of large corporations, the military contractors industry and the stockholders would benefit from proposals by the *Mandate* regarding their

⁹² Richard Brookhiser, "What Do Conservatives Want?," *National Review*, February 6, 1981, 82.

recommendations for the military and national defense. The report recommended that \$20 billion's be added to the defense spending bill for 1981. The large budget items that the Heritage Foundation report recommended to be developed included a new strategic bomber, neutron warheads and Minuteman ICBM missiles.⁹³

The funding for these programs would help the corporations developing these weapon systems. The idea of Congress and lobbyists promoting more military spending is reminiscent of President Eisenhower's warning of a military-industrial complex in 1960 when he warned of those who push for weapons programs and at the same time were also the beneficiaries. It was possible to promote the necessity of increased military spending in this era because of global affairs. The USSR had invaded Afghanistan in 1979 and the Iranians had taken over the US Embassy in Tehran seizing hostages in 1978.

The report also took advantage of the US' need for oil which had been demonstrated during the 1970s with oil crises, embargoes and conflict in the Middle East along with rising gas prices. The report recommended opening the National Petroleum Reserve in Alaska to exploration and development.⁹⁴ There is no explanation or account of who would be helped more with this policy, the American consumer or the American oil companies.

⁹³ Brookhiser, "What Do Conservatives Want?," 82.

⁹⁴ Brookhiser, "What Do Conservatives Want?," 82.

This is a good point to review the beneficiaries of the *Mandate for Leadership* along with the policies and the philosophy behind it. As mentioned earlier there are many wealthy people who donated to the Heritage Foundation and corporate leaders who sat on its board. In addition, we have just outlined examples from their report that would help the wealthy, corporations, oil companies and the military contractors industry. Those are the people that are designed to be helped by the Heritage Foundation's research.

To put the think tanks in perspective we can examine the views of the Heritage Foundation founder and president, Ed Feulner and hear his views about capitalism. In March 1981, Constance Holden published an article for the Journal, *Science*, which was entitled, Heritage Foundation: Court – Philosophers. Holden used a quote from Feulner which captures the essence of his beliefs and the contradictions that they hold:

Feulner was asked why he had such optimistic faith in the free market when the reason the government crept into everything in the first place was that the free market wasn't working for everyone. "We never really did have free market capitalism." He says. "It was obfuscated by special interest pressures." Although he agrees that that will always be the case, he feels that "we need a model to which to aspire," and Heritage is here to supply it.⁹⁵

The implication is that the reforms of the New Deal were not necessary and that Keynesian economics of the Golden Age of Capitalism were not important. What was necessary was more capitalism and more free markets. However, in this chapter we have examined the policies of the Heritage Foundation and what we have seen is that

⁹⁵ Constance Holden, "Heritage Foundation: Court Philosophers", *Science*, March 6, 1981: 1019

they do advocate for, and represent, special interests. He acknowledges that special interests were a part of capitalism and that this would always be the case. Therefore, he must be in favor of the special interests and nowhere does Feulner or the Heritage Foundation offers solutions on how special interests could be limited. The most powerful special interests would likely be business and the wealthy since their money gives them an advantage and it would make sense that The Heritage Foundation is not interested in limiting special interests since these are the people that helped to create it. This type of logic has no basis or preference over a policy that promotes labor, the middle class or any other group. This is just a case where a particular interest is advocating for and promoting its agenda and by examining who surrounds the Heritage Foundation and who benefits from their proposals we see whose interests they are concerned with and what group they identify with.

There is one final point regarding the budget and deficit of the Reagan and Heritage Foundation proposals. When Reagan assumed office the federal budget was \$1 trillion and twelve years later at the end of the Reagan-Bush era it had quadrupled to over \$4 trillion.⁹⁶ The discussion and concern with the federal budget of recent times then has its roots in the Reagan administration and the 1980s. Another indicator of the winners and losers of these types of policies is by examining stock market averages, the

⁹⁶ US National Debt & Interest Expense by Presidential Term, <http://www.skymachines.com/US-National-Debt-Per-Capita-Percent-of-GDP-and-by-Presidential-Term.htm>

growing wealth of the 1% and the stagnation of the middle class and increases in the number of poor since the 1980s.

Conclusion

The policies of the Heritage Foundation bring us full circle to the start of this thesis and its focus on the problems confronting the US in the 1970s. There is not a clear answer why the conservative policies that were proposed would correct the high inflation, the recessions, the gas crises and the loss of industrial preeminence that characterized the US economy in this era. The conservative argument is that their policies are about free markets and that these are good for business. By showing who the beneficiaries of conservative policies are it becomes clear that these ideas are not about free markets but rather they are about helping business.

Conservatives have a powerful argument in their notion that what is good for business is good for the country. They argue that when business prospers there will be more jobs, higher wages, cheaper goods and more money to invest and that the economy can then grow for everyone. We can disprove this argument by turning it around and saying the policies which are good for the middle class are good for the nation's economy because those types of policies would lead to greater consumption and greater savings and that would translate to business doing better and more jobs being created. By turning the conservative argument around we can see that it is really about one interest group versus another. It is about the wealthy and elites versus everyone else. Policies that help the rich get richer do not translate to higher standards of living for the rest of the country as we have seen over the last 30 years.

Carter and Reagan believed in this philosophy that the health of the nation is based on business doing well and being given concessions and advantages through policies, programs and tax breaks. This philosophy, however, was aided in large part by the conservative think tanks that emerged in the 1970s and by the business mobilization of that era which helped to create and fund these new conservative organizations.

People like Joseph Coors and the Koch brothers invested in institutions like the Heritage Foundation and others which funded positions for PhD's and intellectuals who argued for the conservative position. The liberal side lacked the funding to do something similar. As a result, the conservative institutions were able to hold an uncontested field when it came to ideas on how to help a struggling economy. The conservative think tanks had strong grassroots supporters, they had an effective media strategy and their connections with business and politicians help them to energize their movement and popularize their message.

It is interesting that the call to organize, find and advocate the conservative position came from people in government or soon to be in government. People like Lewis Powell, the future Supreme Court judge, Arthur Burns, the head of the Federal Reserve, Alan Greenspan, the chief economic advisor to Gerald Ford and John Connolly, the Treasury Secretary for Nixon all had pushed for the interests of business. This is not surprising because of the strong class ties that exist among the elite and as we saw from David Harvey, this elite was under enormous pressure and it was starting to lose its wealth at the beginning of the 1970s.

They were losing their wealth but the nation and its people were not. The US was still the richest country in the world in spite of its difficulties during the 1970s. There is no historical reason to believe that the country would not have rebounded from its economic slump but conservatives used the shock doctrine of capitalism that Naomi Klein articulated in order to affect change to the rules and the playing field.

What are the results of the conservative movement and the policy proposals of the conservative think tanks? We have seen the growth of inequality skyrocket and the economy in the US approached the edge of a financial disaster in 2007. The government, not free markets, was able to avoid a full scale disaster by bailing out banks and financial institutions. In the aftermath, the wealthy continued to do better every year while the middle class and poor saw their standards of living stagnate and decline. Capitalism, the new version, worked but only for a select few.

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