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Reaganomics

What is Reaganomics, and did it outlive the Reagan administration?

Reaganomics -- the economic program named after President Ronald Reagan (1981-1989) -- has been one of the most controversial programs in American politics, much mentioned but little understood since first bolting onto the scene in the early 1980s. Reagan's long-time friend and advisor Edwin Meese III observed that Reaganomics "was the most consistently attacked and most ardently defended of all the president's initiatives."[1] Another Reagan domestic and economic policy advisor, Martin Anderson, tried to explain one source of popular misunderstanding: "There is a great deal at stake in the writing of the history of the Reagan presidency. For the past 25 years most of the men and women on the political Right ... have focused their energies on creating new policies, forging political coalitions, electing presidents, and fomenting peaceful worldwide revolution. They have been successful far beyond their wildest fantasies. But while many of us have been basking in warm contentment and self-satisfaction, those who were beaten have been busily writing our history."[2]

ASK GLEAVES
BY GLEAVES WHITNEY

DEFINITIONS, PERCEPTIONS

Reaganomics was the name given to the economic program of our 40th president, who championed fiscal restraint and smaller government, tax cuts for individuals and less red tape for businesses. Reaganomics is based on "supply-side economics," a counter-intuitive set of policies that aims to increase revenues by decreasing taxes. Here is how it supposedly works: Significant tax cuts can lead to greater economic activity, since people have more money to spend and invest, which in turn can lead to greater tax revenues for the government.

To middle class Americans, Reaganomics was sold primarily as a tax cut that would let families keep more of their money, impose limits on big government, and increase consumer spending, savings, and investment. It was an idea that had broad appeal to many moderate and fiscally conservative voters when it was introduced in the early 1980s. To die-hard supporters, Reaganomics was more than an economic program. It was an idea inspired by nothing less than the American founding. In an era of creeping statism, it was a moral crusade to limit government power and restore individual freedom.

To critics, by contrast, Reaganomics was not based on sound economic policy at all, premised as it was on the "trickle down" theory of how wealth spreads. Critics liked to point out that it led to high budget deficits and provided the political cover to cut taxes for the rich -- invariably "on the backs of the poor." It is telling that George H. W. Bush, when he was competing with Reagan for the Republican nomination in 1980, referred to Reagan's economic plan as "voodoo economics." By whatever name, according to critics, Reaganomics was shorthand for bogus economic policies and the greed of the 1980s.

However viewed, Reaganomics was the centerpiece of the 40th president's domestic policy, forcefully articulated by Ronald Reagan during the 1980 campaign and persistently pursued during his first years in office. As the economists who formulated it explained, Reaganomics meant:

-slowing the rate of growth in federal spending (as opposed to shrinking the size of government),
-trimming personal income tax rates,
-reducing the regulatory burden on business, and
-cooperating with the Federal Reserve System's monetary policy to encourage a stable currency and robust financial markets.[3]
Meese notes that "The economic program was the first matter the administration tackled, and it dominated discussion of domestic policy for years."[4]

ROOTS OF REAGANOMICS

There are many sources of Reaganomics, most of them drawn from the experiences of Ronald Reagan himself. In the first place, at Eureka College he had majored in economics.

Second, as his movie career took off, Reagan became increasingly dismayed by the taxes he paid to Sacramento and especially to Washington.

Third, Reagan had to stay atop economic policy throughout his eight years as California's governor. As Meese points out, "When Reagan ran for president, one of his most obvious and impressive credentials was that he had been chief executive of the largest state in the Union. It would be hard to imagine a better training ground for the managerial job at 1600 Pennsylvania Avenue. With over 20 million people [in the late 1960s], California was larger than 90 percent of the countries on earth; had it been a separate nation, its gross national product would have been the seventh largest in the world."[5]

A few years later, when he ran for president, Reagan assembled an estimable team of advisors, some 460 policy experts who advised the candidate on everything from atom bombs to welfare reform; 74 of these experts were detailed to 6 economic task forces focusing on the federal budget, tax policy, spending control, regulatory reform, inflation, and international monetary policy. Some of the advisors are now familiar names: Alan Greenspan, Milton Freedman, William Simon, Jack Kemp, and George Schultz, who was chairman of the campaign's Economic Policy Coordinating Committee. These advisors formed the brain trust that gave Reaganomics its shape.

The economic malaise that arose on President Carter's watch was the ostensible bogeyman that Reaganomics set out to slay. But Reagan also set his sights on a more formidable foe -- a three-headed hydra that was part Franklin Roosevelt's New Deal, part Harry Truman's Fair Deal, and part Lyndon Johnson's Great Society. From the 1930s to the 1960s, these three Democrats pushed the size and scope of the federal government beyond anything the Founders intended, according to Reagan. The California governor set out on a quest to slow down the advance of Leviathan, realizing that it would probably only be a rear-guard action.

Reagan, it should be said, was also trying to distance himself from a previous Republican president, also from California. Richard Nixon (1969-1974) turned out to be as progressive on the domestic front as Lyndon Johnson (1963-1969) had been. For example, Nixon established the Environmental Protection Agency, proposed the Family Assistance Program to guarantee a minimum income for the poor, unveiled the start of national health insurance, and imposed wage and price controls to battle inflation. Nixon's was government on offense. As presidential historian Robert Dallek observes, "Everyone mistakenly assumed Nixon would scale back the Great Society, but he actually took up many traditional liberal causes."[6] Reagan believed that the Republican party needed to be the nation's conservative party, rather than a pale shadow of the nation's other party, the home of progressive Democrats.

OPPORTUNITY

Reagan's entry onto the national political stage occurred when he spoke on behalf of Senator Barry Goldwater in the 1964 presidential campaign; from that point forward he was seen as a spokesman for the conservative (as opposed to Eastern Establishment) wing of the GOP. Reagan himself made a modest run for president in 1968, and launched a much more serious effort in 1976, when he challenged the Republican incumbent, Gerald R. Ford, and won a number of primaries. Both times he was turned back -- the time for his ideas was not ripe.

But the economic stresses that beset the United States during the 1970s made the public receptive to a change. After Jimmy Carter had been in the White House for four years (1977-1981), the economy "was in the midst of its worst crisis since the Great Depression. In January 1981 the unemployment rate stood at 7.4 percent, on its way up to 10 percent. Persistent double-digit inflation had pushed interest rates to an unbelievable 21 percent. Real pre-tax income of the average American family had been dropping since 1976, and -- thanks to bracket creep -- after tax income was falling even faster. The supply of oil and other raw materials seemed precarious. The outgoing president warned of a bleak economic future."[7]

It was these stresses -- and Carter's inability to manage them effectively -- that gave Reagan the opportunity to mount a serious challenge during

the 1980 campaign. The movie star beat the incumbent Democrat in a landslide.

Reagan wasted no time trying to enact his economic program, the centerpiece of which was a 25 percent tax cut over three years. As I've written in another *Ask Gleaves* answer, although Reagan had campaigned lower taxes and leaner government, in 1981 he had to deal with a Democratic majority in the House. (In the '81 election Republicans gained control of the Senate.) True, an incoming president traditionally enjoys a honeymoon period of a hundred days or so, but in his first couple of months in office, Reagan was encountering stiff resistance among House Democrats. After Reagan proposed his Economic Recovery Plan, Speaker Tip O'Neill said, "We're not going to let them [the Republicans] tear asunder programs we've built over the years."[8]

The mood changed dramatically after John Hinckley fired his way into history. The would-be assassin shot Reagan on March 30, 1981, barely two months after the 40th president's inauguration. The president's grace and courage during the ordeal raised the esteem in which the American people held him. In such an atmosphere it was difficult for congressional Democrats to criticize the recovering president. Edmund Morris wrote of this critical period in Reagan's presidency:

"By April 24, [Reagan] was well enough to walk to the West Wing and chair a full Cabinet meeting. And four days later, live on prime time, he made the most dramatic presidential appearance in Congress since Franklin Roosevelt's return from Yalta.

"The millions watching saw a large and splendid man, literally death-defying, appear at the threshold of the House as the doorkeeper roared the traditional 'The President of the United States!' All members rose as required, but their respect on this occasion verged on reverence -- and also signaled a near-helpless capitulation to the message they knew he was bringing.

"'I walked in to an unbelievable ovation that went on for several minutes,' he wrote afterward. His speech -- a call for one hundred percent support for his Program for Economic Recovery -- was interrupted by fourteen bursts of applause and three standing ovations. 'In the 3rd of these suddenly about 40 Democrats stood and applauded. Maybe we are going to make it. It took a lot of courage for them to do that, and it sent a tingle down my spine.'

"Not forty but sixty-three Democrats subsequently joined the solid Republican minority, sending Reagan's budget to the Senate with a vote of 253-176. If not quite the total support he had dreamed of, it was a huge victory, and the first official register of his legislative power. As Speaker Tip O'Neill philosophically reminded reporters, Congress was ultimately responsible to the American people, 'and the will of the people is to go along with the President.'"[9]

All through the spring and summer of 1981, Reagan lobbied Congress to cut welfare, the food stamp program, school meals, and Medicare and Medicaid. Congress went along with most of the president's plan, passing the Economic Recovery Tax Act on July 29, 1981. Reagan signed the legislation the next month at his ranch in California, outside the house on the now-famous tax-cut table. The legislation cut taxes by $750 billion over five years, making it the largest tax cut in American history.

ECONOMIC IMPACT OF REAGANOMICS

Defenders of Reaganomics like to talk about how the bleak '70s gave way to the sunny '80s. "From 1982 to 1990 the United States experienced 96 straight months of economic growth, the longest peacetime expansion in its history [at that point]. Almost 20 million brand-new jobs, most of them high-paying jobs, were created. Inflation fell dramatically to low levels and stayed there as the American dollar once again became sound. Interest rates also fell dramatically and stayed down. The stock market soared, nearly tripling in value. Government revenues -- at the federal, state, and local levels -- nearly doubled, making possible the largest increase in social welfare spending in history. And, almost incidentally, we financed an enormous buildup in America's military power, checkmating the evil intentions of the old Soviet Empire, and ultimately causing the disintegration of Communism throughout the world."[10]

IMPACT ON THE NATION'S CLIMATE OF OPINION

Economists continue to debate the degree to which Reaganomics delivered economic recovery and prosperity. Whatever its contribution to the nation's economic recovery, there is no question of its impact on public discourse and policy. No sooner did Reagan leave office in 1989 than many of the nation's governors -- Republican and Democratic -- picked up the gauntlet and adopted the lower taxes/smaller government mantra.

Indeed, Reaganomics informed the economic thinking of the fiscally conservative New Democrats, of whom Bill Clinton was a leader. During Clinton's eight years as president, he never seriously entertained taking the nation back to the marginal tax rates of the Carter administration. In one of his State of the Union addresses, he disarmingly proclaimed, "The era of big government is over." It was because of Reaganomics.

Most recently, in the second presidential debate of the 2004 campaign, John Kerry was pressured into saying, in no uncertain terms, "I will not raise taxes" on the middle class. It was because of Reaganomics.

There is no question that economic and social debate at the state and federal level are different because of the credibility Reaganomics gained in the 1980s. "In retrospect, the initial Reagan economic program was the most ambitious attempt to change the direction of federal economic policy of any administration since the New Deal.... In the end, for various reasons, there was no 'Reagan Revolution' -- but considerable evolution occurred in economic policy during the Reagan presidency."[11]

(Question from Bob S. of Minneapolis, MN)

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[1] Edwin Meese III, *With Reagan: The Inside Story* (Washington, DC: Regnery Gateway, 1992), p. 148.

[2] Martin Anderson, "When the Losers Write the History," *National Review*, August 31, 1992.

[3] Willaim Niskanen, William Poole, and Murray Weidenbaum, Introduction to the Reagan Economic Reports, in *Two Revolutions in Economic Policy: The First Economic Reports of Presidents Kennedy and Reagan*, ed. James Tobin and Murray Weidenbaum (Cambridge: MIT Press, 1988), p. 280

[4] Meese, *With Reagan*, p. 148.

[5] Meese, *With Reagan*, p. 27

[6] Robert Dallek, *To Lead a Nation: The Presidency in the Twentieth Century* (New York: Barnes & Noble, 2004), p. 75.

[7] Ed Rubenstein, Introduction to "The Real Reagan Record," *National Review*, August 31, 1992.

[8] Lou Cannon, *President Reagan: The Role of a Lifetime* (New York: Public Affairs, 2000), p. 203.

[9] Edmund Morris, *Dutch: A Memoir of Ronald Reagan* (New York: Modern Library, 1999), pp. 438-39.

[10] Martin Anderson, "When the Losers Write the History," *National Review*, August 31, 1992.

[11] Niskanen, Poole, and Weidenbaum, Introduction to the Reagan Economic Reports, in *Two Revolutions*, p. 289.

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Reagan on Taxes
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Reagan; Taxes an...
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