

# Reaganomics

by Sophia



## WHAT'S COVERED

The mandate that Ronald Reagan gained as a result of his landslide victory in 1980 was different from the one that Franklin Roosevelt received following his election in 1932. Those who voted for Roosevelt during the Great Depression wanted the government to solve the nation's economic woes. Those who cast their ballots for Reagan believed that the government was the problem, not the solution. Reagan's conservatism aligned him with the New Right that had supported him. As a result, the new president was empowered to tackle the nation's economic problems by reducing domestic spending and cutting taxes.

This tutorial examines "Reaganomics" in three parts:

## 1. "The Great Communicator"

Although **Ronald Reagan** entered the White House with a conservative mandate in 1981, he was experienced in practical politics, including strategic compromise with political opponents.



### PEOPLE TO KNOW

#### Ronald Reagan

Conservative Republican president from 1981 to 1989 whose support of tax cuts, deregulation, reduced spending on social programs, hard-line anti-communism, and conservative social policies earned him the loyalty of the "New Right."

➔ **EXAMPLE** During his campaign for governor of California in 1966, Reagan criticized liberal Democrat Pat Brown's tax increases and social programs. However, after taking office, he realized that several of the programs he had criticized benefited his constituents. As governor, Reagan approved the largest budget in California's history and increased taxes on several occasions.

The preceding example illustrates Reagan's political skills. He also had a well-developed ability to assess the public's mood and address it in a way that was persuasive and easily understood. As a result, he became known as "The Great Communicator."

By embracing the values of family, hard work, and patriotism, Reagan gained the support of the **New Right**.



### TERM TO KNOW

### New Right

A coalition of American conservatives, including business leaders, Southern Whites, intellectuals, and evangelical Christians, who organized in response to the socioeconomic changes of the 1960s and 1970s.



President Reagan signs economic reform legislation at his ranch in California. Note the blue jeans, denim jacket, and cowboy boots that he wears.

However, Reagan had to work with a Congress that did not always agree with his administration's views or goals. This meant that he sometimes had to compromise. As a result, the conservative coalition that had elected him did not achieve all of its goals.



#### DID YOU KNOW

The Republican Party never had a majority in Congress during Ronald Reagan's presidency. Although Republicans dominated the Senate, the Democratic Party retained control of the House of Representatives.

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## 2. "Reaganomics"

Reagan's first objective after taking office was to stimulate the sagging economy by cutting taxes and reducing spending on social programs. This approach, named "Reaganomics" by the press, was based on **supply-side economics**.



## TERM TO KNOW

### Supply-Side Economics

Ronald Reagan's economic policy; suggested that lowering taxes on corporations and wealthy individuals would stimulate investment and economic growth.

Influenced by economist Arthur Laffer of the University of Southern California, Reagan proposed tax cuts for those at the top of the economic ladder—employers and investors—to enable them to retain more of their income. Increased income, according to the theory, would motivate them to invest in their businesses, factories, and the stock market to produce greater wealth. According to Laffer, this would increase entrepreneurial activity and innovation and promote economic growth. Economic growth, combined with reduced domestic spending on social programs, would increase tax revenue—even though taxes had been cut. This growth would then translate into more jobs and higher incomes for those further down the economic ladder, leading to increased overall prosperity and upward mobility for Americans across different income levels.



## BIG IDEA

The proponents of supply-side economics, which was often criticized as “trickle-down economics,” promised to cut taxes, promote economic growth, and balance the federal budget—all at the same time.



## DID YOU KNOW

When Ronald Reagan came into office, the highest marginal tax rate for personal income was 70%. This meant that 70% of every dollar an unmarried taxpayer earned over \$108,300 went to the federal government. Every dollar a married couple (filing jointly) earned over \$215,400 was taxed at the same rate.

Many politicians, including a number of Republicans, were initially wary of Reagan's economic policy.



## DID YOU KNOW

During the Republican primaries in 1980, George H. W. Bush—who ran against Reagan but would later become his vice president—referred to supply-side economics as “voodoo economics.”

In early 1981, Congress balked when the Reagan administration proposed a 30% tax cut to be phased in over his first term in office. Opponents argued that the cuts would benefit the rich without any “trickle-down” to the poor (who needed help the most).

An assassination attempt threatened to end Reagan's economic reforms abruptly. On March 30, 1981, just months into his presidency, John Hinckley Jr. attempted to kill the president as he left a speaking engagement at the Washington Hilton Hotel. Hinckley wounded Reagan and three others. The president remained hospitalized until April 11th.

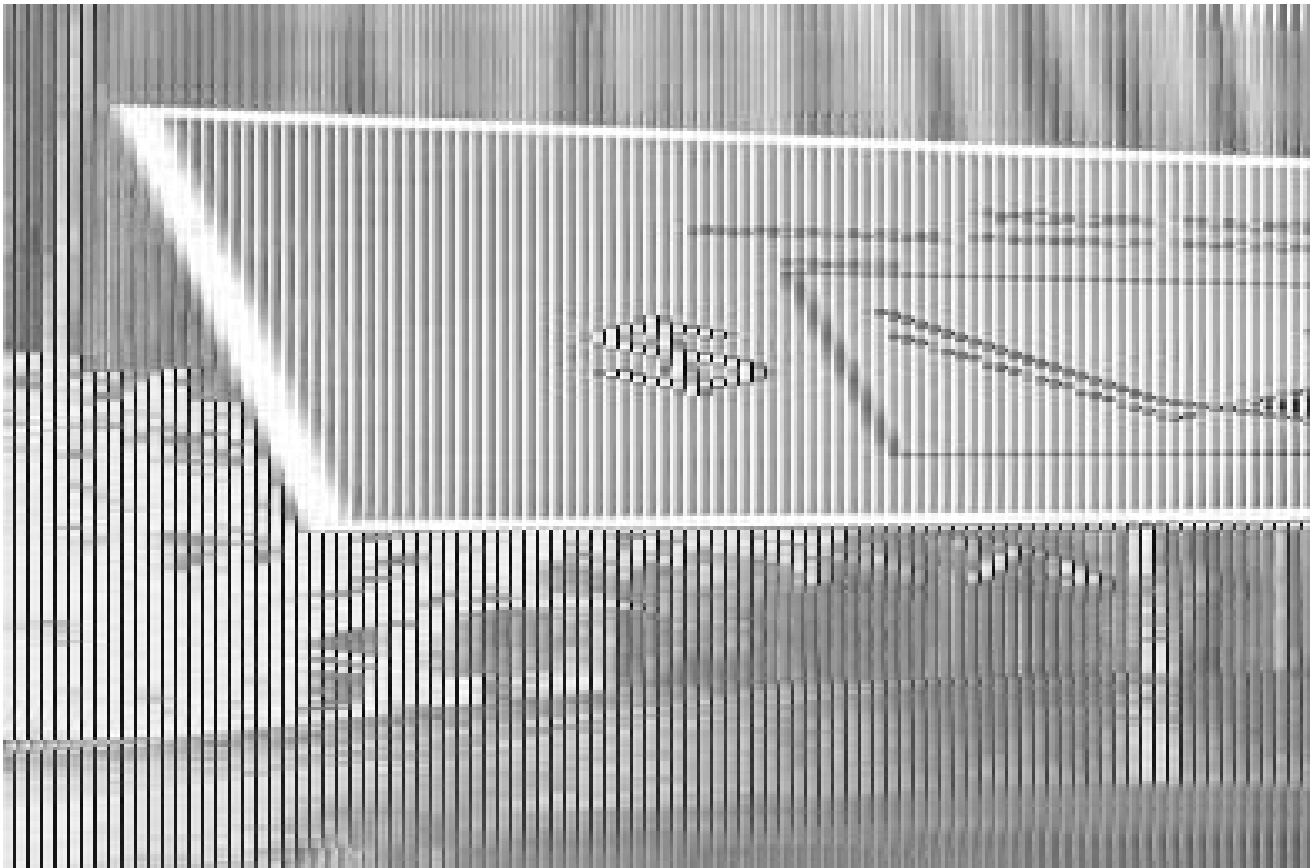
Following his recovery, Reagan presented his tax cut proposals to the American people on April 28, 1981, during a televised address before a joint session of Congress. After a prolonged ovation by Congress before he spoke (“I have no words to express my appreciation for that greeting,” said Reagan), the president solicited support for his plan:

### President Ronald Reagan, Tax Cut Proposals

“High taxes and excess spending growth created our present economic mess; more of the same will not cure the hardship, anxiety, and discouragement it has imposed on the American people.

Let us cut through the fog for a moment. The answer to a government that's too big is to stop feeding its growth. Government spending has been growing faster than the economy itself. The massive national debt which we accumulated is the result of the government's high-spending diet. Well, it's time to change the diet and to change it in the right way."

The president's surge in popularity after the assassination attempt and public support for his plan—and Reagan's political skill—swayed members of Congress, including many Democrats. On July 29, 1981, Congress passed the Economic Recovery Tax Act, which phased in a 25% overall reduction in taxes over 3 years. The act also reduced estate and corporate taxes.



Ronald Reagan outlines his plan for tax reduction legislation in July 1981.



#### THINK ABOUT IT

How does this image reinforce the perception of Ronald Reagan as “The Great Communicator”? Although successful in cutting taxes, Reagan struggled to reduce government spending.

➔ **EXAMPLE** Between 1980 and 1989, the number of people employed by the federal government grew from 2.9 to 3.1 million.

The administration's decisions on where and when to spend or increase funding clearly identified its priorities and key constituents.

➔ **EXAMPLE** Reagan allocated smaller shares of the federal budget to anti-poverty programs including Aid to Families with Dependent Children (AFDC), food stamps, rent subsidies, job training programs, and Medicaid.

➔ **EXAMPLE** Social Security and Medicare entitlements, which benefited Reagan’s older, White constituents, were left largely untouched—except when he compromised with congressional Democrats to inject \$165 billion into the Social Security program through a payroll tax increase in 1983.



#### DID YOU KNOW

Social Security, Medicare, and defense spending are the three largest expenditures in the federal budget. Believing that legislation enacted during the “environmental decade” placed an unfair burden on natural resource users (including businesses), the administration sought to roll back environmental regulations.

➔ **EXAMPLE** James Watt, Reagan’s Secretary of the Interior from 1981 to 1983, criticized environmental activists and associated himself with the “Sagebrush Rebellion,” a coalition of Westerners who sought to transfer federal lands, including national forests and national parks, to state or private ownership.

➔ **EXAMPLE** Upon taking office in 1981, President Reagan appointed Anne Gorsuch as director of the Environmental Protection Agency (EPA). Gorsuch attempted to reduce the size of the agency and decreased its enforcement of environmental regulations, which included lifting restrictions on dumping hazardous liquid wastes in landfills. Gorsuch resigned in 1983 after being criticized for lax enforcement of toxic waste cleanup laws.

Believing that the free market worked best when it was allowed to self-regulate, the Reagan administration had little use for labor unions.

➔ **EXAMPLE** In 1981, thousands of federal air traffic controllers affiliated with the Professional Air Traffic Controllers Organization (PATCO) went on strike for higher pay and better working conditions. President Reagan gave the workers 48 hours to return to their positions. When that deadline passed, he fired almost 12,000 air traffic controllers who had refused to go back to work. Reagan’s action effectively destroyed PATCO.

Organized labor was demoralized by the outcome of the PATCO strike. The number of strikes per year plummeted to all-time lows during the mid-1980s. Several employers that experienced labor disputes during this period followed Reagan’s example and replaced striking workers. The weakening of organized labor, combined with the deindustrialization of the **Rust Belt**, reduced union membership and the wages of American workers.



#### TERM TO KNOW

##### **Rust Belt**

The portion of the Northeastern and Midwestern United States characterized by declining industry.

➔ **EXAMPLE** When Ronald Reagan left office in 1988, only 11% of American workers in nongovernment jobs were members of a labor union.

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## 3. Assessing “Reaganomics”

Determining the effects of Ronald Reagan’s economic policies continues to involve contentious debate that is sometimes informed more by partisan loyalty and selective interpretation than objectivity and comprehensive analysis. With this in mind, how can historians properly assess the effects of “Reaganomics”? Like the analysis of primary sources, historical assessments of “Reaganomics” depend on the data examined and the lenses applied.

“Reaganomics” succeeded in breaking the cycle of **stagflation** that had plagued the United States since the 1970s.



#### TERM TO KNOW

##### Stagflation

High inflation combined with high unemployment and slow economic growth.

By 1983, economic growth had resumed, and the gross domestic product (GDP) grew at an average rate of 4.5% during the rest of Reagan’s presidency. By the end of his second term in office, unemployment had dropped to about 5.3%. The number of jobs in the United States increased steadily throughout the decade, and disposable income rose for many Americans.

However, the increasing number of jobs and rising incomes were also the result of continued change in America’s postindustrial economy. The jobs added during the Reagan administration were not in manufacturing. Instead, some were in computer technology, financial services, and medical fields, while many were in retail and service positions, which often paid no more than minimum wage.



#### DID YOU KNOW

By the time Ronald Reagan left office, more workers were employed in the retail and service sectors of the economy than in manufacturing.

However, the sustained economic growth did not produce the tax revenue results predicted by the supply-side theory. Reagan’s tax cuts, when combined with his administration’s inability to reduce domestic spending and a surge in defense spending, increased both the national debt and annual budget deficits.

➞ **EXAMPLE** Between 1980 and 1989, the national debt tripled from \$914 billion to \$2.7 trillion.

Tax cuts deprived the federal government of valuable revenue that could have been spent on infrastructure or social programs. The government’s need to pay for preexisting services and programs contributed to growing budget deficits. These developments made it impossible for President Reagan to keep his 1980 campaign promise to balance the budget.

Reagan’s tax cuts were not distributed equally, which led some critics to argue that “Reaganomics” increased income inequality in the United States.

➞ **EXAMPLE** Americans in the highest income brackets had their taxes reduced by between 50% and 70%. Those in the lowest income brackets saw their taxes reduced by 11%.

➞ **EXAMPLE** During the 1980s, wealthy American families (i.e., those with incomes of \$200,000 or more) enjoyed approximately \$3.6 billion in tax relief.

These developments illustrated a profound shift in U.S. tax policy and income distribution. As envisioned during the Progressive Era, income tax was based, among other things, on the principle that the wealthy should pay a higher percentage of their income to alleviate the impact of income inequality. The government was to spend tax revenue on projects and programs that promoted the common good.

The tax cuts implemented by the Reagan administration, which produced decreased or deteriorating public services as a result of reduced tax revenue, were based on an alternate vision. Proponents of “Reaganomics” assumed that tax cuts would encourage all Americans to work harder to keep more of the money that they earned. They also assumed that everyone would benefit from the increased profits associated with economic growth. Their assumptions, however, did not account for social and economic inequality or the ongoing transformation of the labor market. Increased profits were not sufficient to overcome these factors.



## SUMMARY

The Reagan administration changed American politics and put liberal economic and social reform movements on the defensive. “The Great Communicator” used his political skills to gain widespread support for his policies. By implementing a series of economic initiatives—“Reaganomics”—the administration sought to stimulate the economy while reducing the size of the federal government and providing relief to the nation’s taxpayers. Although Reagan ended stagflation, his economic policies had significant consequences. “Reaganomics” contributed to growing income inequality and changed how Americans viewed income taxes and government spending.

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## REFERENCES

Ronald Reagan, Address on the Program for Economic Recovery, April 28, 1981, Retrieved from the Miller Center, [bit.ly/2pQSc5u](https://bit.ly/2pQSc5u)



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