

# THE REAGAN REVOLUTION

## 1980-1988

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RANDY JONES

Ronald Reagan introduced the most dramatic changes to the management of the United States government since the New Deal of Franklin Delano Roosevelt. Sensing frustration with economic stagnation at home and declining world influence, Reagan sought to mobilize the American people for a new beginning. His two-term Presidency succeeded in winning the support of a new coalition of conservatives and aspiring entrepreneurs and professionals by implementing an ambitious program of government deregulation, lower taxes, reduced social welfare and increased military spending. Yet Reaganomics failed to compensate for structural weaknesses in the American economy. As trade imbalances and budget deficits mounted in the 1980s, Congressional Democrats played an increasingly large role in moderating the popular President's policies. By 1988 the Reagan program had come under careful scrutiny and intense debate.

In 1980 President Jimmy Carter used the powers of incumbency to turn back a challenge from Senator Edward M. Kennedy who represented traditional Democratic constituencies associated with labor, civil rights and social reform. But the President faced a more effective opponent when Ronald Reagan defeated George Bush (Sr.) in the Republican primaries and won the nomination for the top slot on the GOP ticket. A minor star in 1940s film dramas and comedies, Reagan had forged anticommunist credentials as president of the Screen Actors Guild during the Hollywood Red Scare. His movie career declining by the early 1950s, the actor hosted a weekly television Western series and then became national spokesman for General Electric. Moving into politics, Reagan espoused fiscal conservatism and "traditional values." In 1966 he won the governorship of California, where he attracted attention as a militant opponent of student activism and a proponent of the Vietnam War. By 1980 Reagan had become the nation's leading conservative voice, questioning detente with the Soviet Union (which had been initiated by the conservative Republican administration of Richard Nixon), demanding strong defense and attacking government bureaucracy and inflationary spending on social welfare. Reagan claimed that federal regulation constituted the major problem of the economy and promised to cut "waste, extravagance, abuse and outright fraud."

The Republican candidate also identified with values promoting family, religion and traditional education. By doing so Reagan attracted many southern Democrats and conservative Protestants to his party, particularly the Moral Majority followers of Reverend Jerry Falwell. Like Falwell, the candidate hoped to redeem the nation from moral permissiveness and collectivist values. Following the prepared remarks in his acceptance speech at the 1980 Republican Convention, Reagan asked delegates to join his "crusade" to "recapture our destiny" with a moment of silent prayer. "God bless America," he intoned as the moment passed. The nominee's heartfelt performance complemented his often repeated remark that the United States was an "island of freedom."

Reagan's campaign won the support of corporate leaders concerned with declining American influence in the world economy. But he also appealed to blue collar and middle-class voters who hoped his economic policies would prove more successful than Carter's. In addition, Reagan attracted upscale professionals and entrepreneurs by refusing to acknowledge limits to the nation's power to solve economic problems. "We do not have to go on sharing scarcity," the candidate proclaimed in direct response to Carter's notion of economic and ecological limits. Promising that he would "take the government off the backs of the people" and restore the nation's global power, Reagan announced that it was "Morning in America." The message appealed to taxpayers concerned with inflation, government spending and the erosion of overseas strength.

In an unusual reversal, Democrats stressed issues of war and peace while Republicans emphasized economics in the 1980 election. But Carter's allusions to Reagan as a rightwing threat to world peace backfired when the challenger appeared relaxed and amiable in a televised debate with the President. As Carter and Vice President Walter Mondale waited in vain for settlement of the Iran hostage crisis, Reagan and Vice Presidential candidate George Bush took 51% of the popular vote (nearly 44 million) to the Democrats' 41% (less than 36 million). Representative John B. Anderson, a liberal Republican from Illinois, received less than 7% of the popular tally (below 6 million) as an independent candidate, but scored well with

Jews dissatisfied with Carter's lukewarm approach to Israel. In the Electoral College, Reagan swamped the President by an overwhelming 489 to 49 margin. Meanwhile Republicans captured control of the Senate for the first time since 1952 (the year Republican candidate Dwight D. Eisenhower was elected to his first term as President). As low Democratic turnout, particularly in the East, contributed to a less than 50% participation rate for eligible voters, Jimmy Carter became the second consecutive Presidential incumbent to suffer defeat. (Carter had won his single-term Presidency in 1976 by defeating Gerald Ford who had been appointed Vice President by Richard Nixon and ascended to the Presidency in 1974 with Nixon's resignation over Watergate.)

George Bush (Sr.) had accused Reagan of espousing "voodoo economics" during the Republican primaries. But Reagan insisted that he could reduce government spending while increasing outlays for defense, lower taxes while balancing the federal budget and simultaneously restore economic prosperity. The new President borrowed his reasoning from "supply-side" economists like Professor Arthur Laffer of the University of Southern California, who maintained that government regulations and high taxes held back production and pushed up prices. Supply-side policy called for generous tax cuts and government deregulation to increase employment and reduce inflation. Reagan insisted that the anticipation of improvements from his economic program would spur the market on to recovery. Popularizing proposals previously advanced by Republican Congressional leaders Jack Kemp and William Roth, the President asked for the largest tax cut in history. In order to placate skeptical critics, the administration sent David Stockman, director of the Office of Management & Budget, to Congress with figures that purported to show that tax decreases would produce a balanced budget by 1984 even if offset by leaps in military spending. Despite Stockman's offhand admission that the reductions served to ease taxes of high-income supporters of the President, conservative southern Democrats worked with House Republicans to pass the Reagan bill.

The Economic Recovery Act of 1981 enacted a three-year cumulative tax reduction of 23% on individual incomes. It also stipulated that tax rates would be indexed to inflation in order to eliminate "bracket creep," a pattern by which people moved into higher tax brackets without increased real income. The tax bill provided incentives for individual retirement accounts, reduced profit assessments on small corporations, and increased investment allowances. Total tax decreases came to \$38-billion by 1984. "Reagonomics" led to a \$150-billion tax reduction for corporations between 1981 and 1986.

As unemployment surged to 10.8% in 1982 and budget deficits continued to soar, the Democratic Congressional majority vowed to combat the deepening recession with new tax legislation. By closing loopholes and enacting stricter tax

compliance, Congress restored nearly \$100-billion in cut revenues over the next three years. The legislators also revoked about one-third of the 1981 corporate tax cuts. A 1982 provision requiring withholding of interest and dividend taxes, however, brought a massive protest organized by banks and financial institutions and Congressional repeal the following year. Congress completed Reagan's tax program, nevertheless, when it passed comprehensive reforms in 1986 which dramatically reduced rates for corporations and wealthy individuals but eliminated or curtailed many lucrative deductions. The President's tax overhaul reduced the number of individual income brackets to three and shifted \$120-billion over five years from individuals to corporations. Despite such changes, 1980s tax relief reduced the corporate share of total obligations and sharply increased the percentage of wealth controlled by the affluent.

Although the economy recovered from the recession of 1981-1982, huge deficits in the federal budget continued to trouble economic planners. But the President refused to go along with a Congressional preference for tax increases and slower defense buildups. Facing a \$200-billion budget deficit in 1985, Congress passed the Gramm/Rudman/Hollings Act, which mandated steady decreases in the deficit until the budget could be balanced (set for 1991). If deficit targets were not met, the bill required automatic, across-the-board spending cuts. Despite this dramatic attempt to control appropriations, Congress failed to agree on budget reductions and the Supreme Court declared the automatic cuts unconstitutional in 1986. By fiscal 1987, the budget of the United States government had risen to \$576-billion and Congress agreed to massive spending cuts.

Despite its pledge to redeem the American economy, Reagonomics had difficulty in arresting enormous foreign trade deficits, which mushroomed to \$161-billion in 1987. Part of the problem stemmed from budget deficits which compelled the government to borrow money in international exchanges. The resulting shortage of dollars raised the price of American exports. Foreign based manufacture by American multinational corporations and international competition also contributed to rising trade deficits, resulting in the loss of thousands of American manufacturing jobs. Congressional representatives from beleaguered textile, shoe and copper producing regions succeeded in passing legislation that curbed imports in 1985, but Reagan vetoed the measure as protectionist. After Japanese manufacturers dumped low-priced computer chips in the United States in 1987 however the President agreed to place retaliatory tariffs on their electronics products. By then the American trade deficit with Japan surpassed \$50-billion. Congress passed a second trade bill in 1988 that sought to toughen retaliation against unfair foreign trade practices and aid American industries and workers facing overseas competition. But the President opposed the bill's requirement that manufacturers give 60 days notice of plant closings and major layoffs and Congress failed to agree on a substitute.

New jobs in computer assembly and retail and food service chains contributed to low unemployment rates in states such as Massachusetts and California. But although they replaced many of the bluecollar jobs lost to foreign competition, the new positions usually came in nonunion industries offering low wage scales and little chance for advancement. More than half of the 9 million jobs created between 1981 and 1986, for example, paid less than \$7,000 a year, many of them attracting older Americans unable to get by on social security and pensions.

Similar paradoxes prevailed in the stock market where soaring prices created billions of dollars of profits for traders in the mid-1980s. Yet analysts conceded that foreign investment, projected to reach \$700-billion by 1990, accounted for much of the boom and that Americans would be paying an annual \$60-billion in interest for these obligations by the end of the decade. Meanwhile, Wall Street feared that Mexico, Brazil and Argentina would default on \$250-billion of loans and interest owed to American banks. In 1985 the United States became a debtor nation for the first time since 1914 and the center of international capital shifted from New York to Tokyo. Two years later foreign investors reacted to the bloated federal budget and continuing trade deficits by abandoning the stock market. On October 19, 1987, the New York Stock Exchange suffered its worst day in history with a calamitous one-day drop of 508 points on the Dow Jones Average. In eight terrifying days the stock market lost one-third of its value. By the time crash ended the New York exchange assessed total investor loss at \$1-trillion. Fearful of future assaults on the declining dollar, foreign speculators sold off American currency. By the end of the month the exchange rate between the dollar and the Japanese yen had tumbled to its lowest point since the late 1940s. Although the market recovered from its shock in 1988, economic analysts remained nervous about the \$2.4-billion consumer debt and persistent trade and budget deficits. Economic indices promised continuing prosperity but Americans seemed no closer to controlling their unpredictable and debt-ridden economy than they were when Reagan first took office.

Supply-side economists saw excessive government interference as a major constraint on private initiative. Influenced by conservative planners in "think tanks" such as the Heritage Foundation and the American Enterprise Institute, Reagan quickly abolished Carter's wage-pricing guidelines. Yet the new administration also welcomed the deregulation begun in the Carter years. Following an anti-monopoly suit filed against American Telephone & Telegraph (AT&T) in 1978, the corporation agreed to divest itself of local telephone service. Although the 1982 divestiture created 23 independent companies it permitted AT&T and other subsidiaries to compete on an unregulated basis in the lucrative computer processing and information service business. Similar results stemmed from Carter's Monetary Control Act of 1980. The law brought nearly all financial institutions under Federal Reserve protection and



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