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"Obviously something is desperately wrong with our welfare system…we spend vast amounts on a system that perpetuates poverty. But the waste of money pales before the sinful waste of human potential - the squandering of so many millions of hopes and dreams." President Reagan wanted to roll back the welfare state, deregulate the economy, and incentivize private business to be the primary driver of economic growth, so he embraced a new conservative school of economic thought, Supply-Side Economics. Although Reagan's adoption of Supply-Side Economics in the 1980s was originally ideologically driven as an anti-Keynesian and anti-New Deal policy that was meant to lessen the scope of government control over the economy, Reagan quickly became pragmatic in order to address the economic problems at hand, especially stagflation, in turn failing in many ways at his ideological goal of lessening government intervention in the economy.

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REAGANOMICSPRAGMATICORIDEOLOGICALREVOLUTIONORREFORMSUCCESSORFAILURE

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Reaganomics: Pragmatic or Ideological, Revolution or Reform, Success or Failure?

Morgan Beckerman

Introduction

President Ronald Reagan's ideology posited that it was the government that causedpersistent poverty and that welfare had to be rolled back to incentivize people to work:

"Obviously something is desperately wrong with our welfare system…we spend vast amounts on a system that perpetuates poverty. But the waste of money pales before the sinful waste of humanpotential - the squandering of so many millions of hopes and dreams."[1] President Reagan wanted to roll back the welfare state, deregulate the economy, and incentivize private business to be the primary driver of economic growth, so he embraced a new conservative school of economic thought, Supply-Side Economics. Although Reagan's adoption of Supply-Side Economics in the 1980s was originally ideologically driven as an anti-Keynesian and anti-New Deal policy that was meant to lessen the scope of government control over the economy, Reaganquickly became pragmatic in order to address the economic problems at hand, especially stagflation, in turn failing in many ways at his ideological goal of lessening government intervention in the economy. Although Reagan cut taxes staggeringly, his continued large government spending and practice of Monetarism (strict control of the money supply by the federal reserve) that the previous Carter administration started, signaled that although Reagan did intend to boost private sector growth through corporate and personal tax cuts, he ultimately chose not to tremendously withdraw the government's support of the economy by increasing military spending and by keeping welfare spending, which he promised to cut immensely, relatively the same. This pragmatism had unintended consequences, however. Reagan and many right-wing politicians thought that the tax cuts would force spending cuts because Democrats and Republicans alike were constantly worried about yearly budget deficits. Still, even after the tax cuts, neither party felt the urge to cut spending, and disagreements about spending priorities played a large role in this predicament with Republicans not budging on military spending and Democrats not wanting to cut welfare spending. The tax cuts without spending cuts led to huge budget deficits and the theory pushed by many supply-siders, that the tax cuts would pay for themselves, was dead wrong. Reagan's amalgamation of supply-side economics with significant government spending lowered inflation and unemployment and sparked an economic recovery, but at the same time wildly increased budget deficits and economic inequality. In the end, Reaganomics did not make due on its ideological goal to take the government's hand out of economics because spending was necessary for the recovery and continued growth, and the political system wouldn't allow a decrease in spending to the revolutionary extent that Reagan'sideology called for.

The 1970s recession and backlash to the Great Society program in the 1960s caused a complete reversal of economic thought in America with the emergence of a conservative counterrevolution. Steven Rattner, CEO of Willett Advisors LLC, a private investment firm, recounted the long-lasting impacts of 1970s stagflation: "The stagflation of the 1970s blessed us with damaging wage and price controls and the utterly counterintuitive notion - famously drawn on a napkin that cutting taxes would lead to higher tax revenues."[2] During and after President Franklin Roosevelt's tenure in office, America embraced Keynesian/New Deal economics, that through government intervention in the economy with significant public spending and private subsidies, America could achieve full employment and price stability. This school of economic thought proved so compelling that even conservatives like Richard Nixon practiced it. In the 1950s and 1960s, the American economy boomed and Keynesian Economics seemed like the best way to maintain economic growth, stability, and low unemployment until the Carter Era. In the late 1970s, the American economy went through an extremely rough period of "stagflation". Because the late 1970s was the worst economic downturn since the Great Depression, Keynesianism was on the outs and a new conservative counterrevolution was starting to brew in the form of

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[1] Ronald Reagan, *Radio Address to the Nation on Welfare Reform*. Ronald Reagan, February 15, 1986. https://www.reaganfounda-tion.org/ronald-reagan/reagan-quotes-speeches/radio-address-to-the-nation-on-welfare-ref orm/

[2] Steven Rattner, Reclaim the Center, The New York Times. April 5, 2013 https://archive.nytimes.com/opinionator.blogs.nytimes.com/2013/04/05/reclaim-the-center/

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Supply-Side Economics which preached tax cuts, deregulation of the economy, and spending cuts, particularly on welfare. Ronald Reagan became the face of this ideological movement. He viewed the government as "an alimentary canal with an appetite at one end and no sense of responsibility at the other."[3] However, the realities of the political system, Reagan's lack of action in cutting all forms of spending, even welfare, and the complexity of the economicand political issues (Cold War) at hand, compromised his ability to implement this small government ideology in the economy.

Reagan's use of Monetarism in the first part of his administration to curb inflation, and then ditching the policy later on, shows that he was less ideologically inclined than many historians insist and instead turned his focus to the issues at hand, namely inflation. Reagan passed the 1981 tax cuts to boost productivity in the private sector, which was Supply-Side in ideology, but also kept Carter's monetary policy which was Keynesian in ideology; although Reagan was unable to fix both the problem of growth and inflation at the same time, his continued use of Monetarism fixed the inflation problem by the middle of 1982. Supply-Side doctrine argued against Monetarism because it inherently increased federal government power over the economy, but Reagan continued the Carter Era policy in order to fix the exorbitant inflation rate. This strategy, although Keynesian in ideology, worked in its objective, lowering the inflation rate from twelve and one-half percent in 1980 to four percent in 1982.[4] Although rhetorically Reagan was starkly anti-Keynesian, as were most of his advisors, especially David Stockman and Bruce Bartlett, Reagan allowed Paul Volcker, the chairman of the Federal Reservefrom the Carter administration, to lower inflation by any means necessary, even if it meant strict federal reserve control.[5] Reagan sacrificed small government ideology in order to fix the inflation problem. As inflation was curbed, however, the American economy fell into a recession from 1980 to 1982, and unemployment grew to double digits.[6] Democrats like Senator Edward Kennedy attacked President Reagan for the recession that Reagan's tight monetary policy had created: "Ronald Reagan must love poor people because he is creating so many more of them…If Ronald Reagan does not know the facts about how this recession began, then Ed Meeseought to wake him up and tell him."[7] With the recession in full force, Reagan went back to Supply Side ideology by throwing off the chains of Monetarism and allowing the 1981 tax cuts to spark economic growth in the private sector and by 1983, the economy was in recovery, growing at eight to nine percent.[8] Reagan, albeit rhetorically a right-wing ideologue, prioritized concrete problem-solving even if it meant doing so through big government approaches. Generally, historians see Reagan as a Supply Side ideologue, but the reality is that he was willing to both ditch the ideology and use it when needed to solve the economic problems that America was facing at the time.[9]

Reagan's embrace of the misconceived Laffer Curve and his extensive increase of military spending revealed that Reagan, although enthusiastically cut taxes, wasn't as enamored with cutting overall spending to balance the budget, therefore going against the Supply Sidesmall government ideology. Although some Supply-Side Ideologues and many Democrats criticized Reagan for fiscal irresponsibility, the conservative consensus chalked up the lack of spending cuts to necessary "wartime spending" for the Cold War effort.[10] In 1982 David Stockman, one of Reagan's most integral economic advisors, proposed a lowering of the defense spending buildup from nine percent to seven and one-half percent in order to save 16 billion dollars.[11] Reagan declined to do so, thus prioritizing the Cold War arms race over lessening government intervention in the economy. Once again Reagan had chosen to attack a critical issue head-on, in this case, the Cold War, over shrinking government power. To absolve Reagan of his continued high spending, Supply-Siders argued that the tax cuts would incentivize private business to such an extent that the increased private profits would effectively cause the tax cuts to pay for themselves; this idea came in the form of the Laffer Curve.[12] In reality, according to Economist Lawrence Lindsey's calculations, the tax cuts

[3] Ronald Reagan,. *Remarks before a Joint Session of the Canadian Parliament*, The Ronald Reagan Presidential Foundation & Institute. Accessed May 27, 2023. https://www.reaganfoundation.org/ronald-reagan/reagan-quotes-speeches/remarks-before-a-joint-session-of-the-cana dian-parliament-ottawa/.

[4] Bruce R. Bartlett, *The New American Economy: The Failure of Reaganomics and a New Way Forward*. Basingstoke: Palgrave Macmillan, 2009, 121.

[5] PBS (Public Broadcasting Service), *Commanding Heights: Reaganomics| on PBS*, 1.

[6] M. G. Marshall, and P. Arestis, *Reaganomics' and Supply-Side Economics: A British View*, Journal of Economic Issues 23, no. 4 (1989), 969.

[7] Warren Weaver. "Democrats Close Session Unified in Vehement Criticism of Reagan." The New York Times, June 28, 1982. https://www.nytimes.com/1982/06/28/us/democrats-close-session-unified-in-vehement-criticism-of-reagan.html.

[8] Paul A. Samuelson, *Evaluating Reaganomics*, Challenge 30, no. 6 (1987), 65.

[9] Charles A. Hantz,. "Ideology, Pragmatism, and Ronald Reagan's World View: Full of Sound and Fury, Signifying...?" *Presidential Studies Quarterly* 26, no. 4 (1996): 942–49.

[10] Lou Cannon, "Ronald Reagan: Domestic Affairs," Miller Center, September 25, 2020, https://millercenter.org/president/reagan/domestic-affairs.

[11] David A. Stockman, *The Triumph of Politics: Why the Reagan Revolution Failed*. New York: Public Affairs 2013, 290.

[12] Martin Feldstein, *Supply Side Economics: Old Truths and New Claims*, the American Economic Review 76, no. 2 (1986), 27.

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only paid for about one-third of its own losses.[13] Reagan's embrace of this egregious idea, even after David Stockman had told him that the tax cuts without spending cuts would cause large budget deficits, shows that Reagan had no. sense of urgency when it came to cutting spending and thus lessening government intervention inthe economy.

Reagan's inability to cut spending drastically caused enormous budget deficits which once again undermined Supply-Side ideology, but were necessary for the continued economic recovery that lasted throughout the 80s. In rhetoric, Reagan preached cutting down on New Deal Economics and the welfare state:

> "More must be done to reduce poverty and dependency and, believe me, nothing is more important than welfare reform. It's now common knowledge that our welfare system hasitself become a poverty trap - a creator and reinforcer of dependency - and that's why last year, in my State of the Union Message, I called for an overhaul of our welfare system." [14]

He never actually cashed in on those promises. Non-defense spending only decreased from fifteen and one-tenth percent in 1980 to fourteen and one-tenth percent in 1984, which was nowhere near the amount promised and also wasn't enough to balance the budget from the loss of revenue due to the tax cuts and increased military spending.[15] Stockman argued that it would take "draconian, bone-wrenching additional cuts in the domestic budget -25% cuts in everythingfrom the FBI to food stamps, farm subsidies, education aid, the National Park Service, and the Washington Monument" to be able to balance the 1984 budget.[16] These cuts never happened and the budget deficits grew tremendously. Although many supply-siders were obsessed with a balanced budget, the consensus among economists was that it was both the tax cuts for boosted private productivity and government spending to stimulate the economy, that allowed for growth in the 80s. Both were integral to the prolonged recovery.[17] It may have been too risky for Reagan to cut spending in such a dramatic way; especially after a recession, it was better to not create problems when growth was so high and so many people depended on government spending. So, Reagan's failure in converting his anti-New Deal rhetoric into reality had a favorable impact on economic growth and unemployment, and it was a combination of the Supply Side tax cuts and Keynesian spending that caused the economy to recover, with sizable deficits of course. Part of Reagan's inability to cut spending was not purposeful, but an outgrowth of the political system which was intrinsic in "big government", although his initiative in cutting spending wasn't ample either. Milton Friedman whose economic philosophy gave way to many Supply Side ideas remarked:

> "The typical historical process is that the spenders put through laws which increase government spending. A deficit emerges. The fiscal conservatives scratch their heads andsay, 'My God, that's terrible; we have got to do something about that deficit.' So they cooperate with the big spenders in getting taxes imposed….I would far rather have totalspending at 200 billion with a deficit of 100 billion than a balanced budget at 500 billion."[18]

Friedman agreed that the political system didn't allow for spending cuts due to the fact that fiscal conservatives agreed to tax raises to solve the deficit problem instead of spending cuts. Reagan didn't buck this trend as he was unable to force spending cuts. Instead, he placed a "political bet," a bet that the deficits would create enough political pressure to cut spending.[19] This "political bet" was indicative of the extent to which Reagan focused on cutting spending. Andjust as Friedman predicted, the bet didn't work and the number of spending cuts needed to balance the budget was nowhere near being implemented. Stockman described this failure:

> "Politics had triumphed: first by blocking spending cuts and then by stopping revenue increases…That the politics of American democracy made a shambles of my anti-welfare state theory I can now understand. Whatever its substantive merit, it rested on the illusion that the willof the people was at drastic variance with the actions of the politicians."[20] Big government was there to stay no matter who was in charge. Even Reagan, whose ideology's main goal was to limit the power of the federal government, could not make due on that promise.

Although historians often call this economic period the Reagan Revolution, the only partof it that was Revolutionary was the tax cuts which increased private productivity and investment, but also disproportionately benefited the rich, widening the wealth inequality gap. Reagan cut personal taxes by twenty-five percent across the board, added an increased exemption for long-term

[13] Bruce R. Bartlett, *the New American Economy: The Failure of Reaganomics and a New Way Forward,* 120.
[14] Reagan, *Radio Address to the Nation on Welfare Reform*. February 15, 1986.
[15] Fred R. Bergsten, *the Costs of Reaganomics*, *Foreign Policy*, no. 44 (1981), 27.
[16] Stockman, *the Triumph of Politics: Why the Reagan Revolution Failed,* 286.
[17] Olivier Jean Blanchard, William Branson, and David Currie. *Reaganomics*, Economic Policy 2, no. 5 (1987), 18.
[18] Milton Friedman, *The Limitations of Tax Limitation*, Policy Review (Summer 1978), 11-12.
[19] Blanchard, Branson, and Currie, *Reaganomics*, 17.
[20] Stockman, *The Triumph of Politics: Why the Reagan Revolution Failed,* 395.

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capital gains, and cut corporate taxes from forty-six to thirty-four percent.[21] This was the revolutionary part of Reagan's economy. It was unheard of to slash taxesby such a margin, but doing so was perfectly in conjunction with Supply Side theory. These tax cuts had both positive effects, like private productivity and employment increases, and negative effects, namely wealth inequality. Reagan's Tax Reform Act of 1986 which was supposed to be a tax cut, had forty percent of the taxpaying population paying either the same or slightly higher taxes than before.[22] These tax cuts disproportionately helped the rich while leaving forty percent of taxpayers gaining zero cuts in taxes. Reagan's justification for this was that the increased amount of private investment from the rich would grow businesses and increase employment forthe middle and lower classes. This led to detractors calling Reaganomics "trickle-down economics." There is more nuance to this than both sides would care to admit. Reaganomics did increase income inequality heavily because the rich did get richer, but the middle and lower classes, although not benefitting from immense wage growth, did benefit from the increased employment in the 80s.[23] Overall, the short-term benefits of low unemployment probably did not outweigh the extent of the increasing wealth gap.

Reagan ultimately failed to change the scope of government in the economy. In 1980 under Carter, the federal government spent only 591 billion dollars but in 1986, under Reagan, the federal government spent 990 billion dollars, an increase of sixty-eight percent.[24] As much as Reaganomics used Supply Side Economic theory, it also still borrowed heavily from Keynesianism. Reaganomics didn't limit federal government power in the economy, if anything the extent of Reagan's spending increases proves that the federal government actually increased its influence over the economy. Democrats and Republicans alike worried about the deficits that this vast spending caused, but whereas Democrats wanted to raise taxes to aid deficits, Reagan and Republicans would not budge on taxes: "As for those suggestions that the answer is higher taxes, the American people have repeatedly rejected that shop-worn advice. They know that we don't have deficits because people are taxed too little. We have deficits because big government spends too much."[25] Reagan continuously emphasized the importance of bringing back the prosperity of the private sector (his tax cuts proved his belief in private enterprise) and taking government out of the economy, but the percentage of federal spending compared to net private product actually increased by three and one-fifth percent from 1980 to 1986.[26] Reagan didn't end up putting the economy back into the hands of private enterprise entirely. The tax cuts definitely made a more business and investment-friendly environment, but the federal government's continuous growth in spending made it impossible for the small government Reagan Revolution to materialize. The Reagan Revolution was more in rhetoric and symbolic than actual reality.

Today, America still uses a form of Reaganomics. The marginal tax rates remain similar and budget deficits, military spending, and welfare spending remain high. The welfare state that Reagan promised and failed to roll back has grown with every President since then. Reaganomics has remained a massive political force as well, especially for the Republican Party. Presidents Bush and Trump often touted the success of Reaganomics while continuing high spending and pursuing some policies that completely oppose Reaganomics, namely Trump's tariff on China and Bush's tax raise. America's military spending remains far and away the highest out of any country, more than three times the amount of second-place China. Although economists and the nation care less and less about budget deficits, they have grown drastically high, even by Reagan's standards. Wealth inequality also remains a large issue in America and has only been exacerbated since the advent of Reaganomics. The wealth gap between America's richest and poorest families has more than doubled from 1989 to 2016.[27] Reaganomics wasn't a revolution, but instead an amalgamation of an old liberal school of thought with a new conservative one. It had both its benefits and downsides. Both a Supply Side purist and Keynesian purist would see it as an abject failure, but a moderate who sees Reaganomics in the context of its time, with its proto-Keynesian spending and Supply Side tax cuts, may just see it asa marginal success.

[21] Blanchard, Branson, and Currie, *Reaganomics*, 25; Feldstein, *Supply Side Economics: Old Truths and New Claims*, 27.

[22] Jerry A. Hausman, and James M. Poterba. *Household Behavior and the Tax Reform Act of 1986*, the Journal of Economic Perspectives 1, no. 1 (1987), 101.

[23] Marian Lief Palley. Review of *Reaganomics and Class Cleavages in the United States*, by Samuel Bowles, David M. Gordon, Thomas E. Weisskopf, Robert Lekachman, Benjamin Page, Frances Fox Piven, and Richard A. Cloward. The Journal of Politics 46, no. 3 (1984), 946; Richard M. Devens, Carol Boyd Leon, and Debbie L Sprinkle. U.S. Bureau of Labor Statistics. Accessed May 27, 2023. https://www.bls.gov/opub/mlr/1985/02/art1full.pdf.

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[27] Travis Mitchell, "1. Trends in Income and Wealth Inequality," Pew Research Center's Social & Demographic Trends Project, January 9, 2020, https://www.pewresearch.org/social-trends/20 20/01/09/ trends-in-income-and-wealth-inequality/.

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> "The economy bloomed like a plant that had been cut back and could now grow quicker and stronger. Our economic program brought about the longest peacetime expansion in our history: real family income up, the poverty rate down, entrepreneurship booming, and an explosion in research and new techno-logy…I've been asked if I have any regrets. Well, I do. The deficit is one… Well, action is still needed. If we're to finish the job, Reagan's regiments will have to become the Bush brigades. Soon he'll be the chief, and he'll need you every bit as much as I did."[28]

– President Ronald Reagan in his Farewell Address

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