

US History

The Conservative Revolution

Learning Target:

I can identify the basic concepts of Ronald Reagan's version of supply-side economics, Reaganomics, and also examine his belief in a small government.

2. The Reagan Revolution

Political Philosophy

Campaign Promises –

1. Slash Taxes
2. Eliminated unnecessary government programs
3. Increase the defense capability of the U.S.

“In the days ahead I will propose removing the roadblocks that have slowed our economy and reduced productivity. Steps will be taken aimed at restoring the balance between various levels of government. Progress may be slow, measured in inches and feet, not miles, but we will progress. It is time to reawaken this industrial giant, to get government back within its means, and to lighten our punitive tax burden. And these will be our first priorities, and on these principles there will be no compromise.”

Ronald Reagan – First Inaugural Address (1981)

Supply-Side Economics (Reaganomics)

Keynesian Economics (Demand-Side Economics) –

- Theory created by English economist John Maynard Keynes in the 1920s & 1930s
- Argued government could improve economy by increasing consumers' demand for goods
- Create demand for goods by giving people more money – direct payments or more jobs
- More money in your pocket will lead to more purchasing which will grow the economy
- Explained the recovery of the US after the Great Depression
- Most economist accepted Keynesian economics – federal spending key to healthy economy

Supply-Side Economics (Trickle Down Economics) –

- Focused on the supply of goods not the demand
- Cutting taxes would put more money in the hands of businesses – those who supplied goods
- Businesses would then hire more people and produce more goods making the economy grow
- The key was encouraging business leaders to invest profits

Government

Purpose of Government Regulations –

- Regulation intended to protect companies from unfair competition, workers from unsafe working conditions, and consumers from ineffective or unsafe products;
- Reagan believed regulation was out of hand

Impact of Regulations –

- Reagan believed regulations made life difficult for producers
- This meant fewer jobs and higher prices for consumers
- The more time businesses worried about government rules the less they produced

Cutting Regulations –

- Reagan wanted to cut regulations that hurt the free market
- Deregulated the transportation, banking, and energy industry
- Reduced the budget of the Environmental Protection Agency
- Fired air traffic controllers who went on strike challenging labor unions

Cutting Government Programs –

- Wanted to cut size of federal government
- Believed welfare ran counter to his belief that Americans can succeed with individual effort
- Received support from opponents of the Great Society and New Deal
- Reduced unemployment compensation, lowered welfare benefits, reduced food stamps, and raised fees for Medicare patients

Critics of Reagan's Domestic Policy

Tax Cuts –

- Critics said tax cuts favored the wealthy
- Benefits rarely trickled down to the poorest of Americans

Deregulation –

- Critics said deregulation weakened programs to protect consumers, poor, and the environment

Federal Deficit –

- Critics warned that increased tax cuts combined with increased military spending would lead to large federal deficits
- Warned the prosperity of the 1980s would come on the backs of future generations

Recession & Recovery

The Reagan Recession –

- During Reagan's first two years in office the US experienced a bad economic downturn
- Federal Reserve raised interest rates to keep inflation down
- High interest rates discouraged business growth and consumers from borrowing
- Foreign competition also kept unemployment high

Recovery –

- High interest rates reduced inflation like planned
- Reagan's tax cuts did slowly encourage business growth by 1983
- The stock market began to push upward
- Republicans claimed the recovery proved the theory of supply-side economics

The Exception –

- One prediction of Reaganomics did not come true
- Reagan predicted that his tax cuts would produce such economic growth that the government's tax revenue would actually increase
- This never happened and the national debt went from \$909 billion in 1980 to \$3.2 trillion - 1986