Mr. Gorham Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

U.S. History II/*The Conservative Era (1980-2010)*

**Ronald Reagan’s Economic Policies:**

**Taxation, Deregulation, Financialization**

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**Taxation**

RR’s 1981 & 1986 tax cuts meant that the wealthiest Americans no longer had to pay 70% over $215,400. The top rate was 28%. To make up for this lost tax revenue…

RR increased payroll tax that pays for Social Security & Medicare. These are the taxes we see on paychecks. Who pays these taxes? Middle-class & working class.

**Results**:

1. Reagan shifted the tax burden down the income scale. During the 1980s, the fed’l taxation rate for the poorest 1/5th of American families increased by more than 16%. By contrast, the effective taxation rate for the wealthiest 1/5th of families fell by 5.5%, and the richest one percent of Americans saved even more: their tax rate fell by 14.4%.
2. The U.S. borrowed both domestically and abroad to cover the Federal budget deficits, raising the [national debt](http://en.wikipedia.org/wiki/National_debt) from $997 billion to $2.85 trillion. The U.S. moved from the world's largest international creditor to the world's largest debtor nation.

**Deregulation**

Think of regulation as the acts that were passed by both Roosevelts: Pure Food & Drug Act regulates the food industry, federal laws govern the banking industry. RR believed that such regulations interfere with the ability of individuals and corporations to make money. RR believes in *laissez-faire* and he hates the SIMBA U of the New Deal (even though RR’s father was saved from unemployment by the New Deal).

RR deregulates the banking industry.

**Result**: the collapse of hundreds of the savings & Loan institutions, ultimately requiring a taxpayer bailout costing nearly $150 billion ($300 B in today’s dollars)

Economist Paul Krugman argues that RR changed U.S. banking to allow the bankers to once again run free (like they did before President Wilson). Instead of the federal regulators overseeing the banking industry, the banks were free to take risky gambles once again, and that led to …The 2008 economic meltdown. So RR has contributed to TWO of the worst financial disasters in U.S. History.

**Financialization**

The uneven distribution of benefits from the Reagan boom reflected a growing trend toward what has been called the “financialization” of the American economy. As the financial sector displaced manufacturing as the dominant economic force in American society, the gains from growth came to accrue almost entirely to those with major investments in the market, while individuals dependent upon wages and salaries found it harder and harder to get ahead.

**Results**. During RR’s presidency, the wealthiest one-fifth of American households (those who owned the most stock) saw their incomes increase by 14%. Meanwhile, the poorest one-fifth (who presumably owned no stock) endured an income decline of 24%, while the incomes of the middle three-fifths of American families stayed more or less flat.

Taken together, think of RR as a reverse New Deal/Great Society. The New Deal used the levers of power to create economic equality. Reagan’s policies in taxation and deregulation have created the current situation where the very wealthy take more and more of the total national income.

***Big Question: So why is Reagan considered a such consequential President?***

I think there are a three reasons.

One, Reagan picked up on what Nixon had started: Nixon made hard-working white middle-class citizens feel that they were society’s victims.[[1]](#footnote-1) It was their tax dollars that were being spent for low-income housing and federal programs to help the less fortunate (who were often a different color). These voters, often in the interior of the country, resented the federal gov’t.

Two, the national catastrophe of Vietnam, Watergate, and the ineffectual Carter years had sapped America of its optimism. RR brought that back in the same way that FDR did in 1933. He made Americans feel better about ourselves and our future even if the results were not there.

Three, the economy of the 1980s picked up. RR is credited with this but it’s really the case that when the Federal Reserve Board lowered interest rates, the economy shot upwards.

**Reagan: A Consequential President**

RR’s economic strategy (reduce certain kinds of taxes, deregulate industry and reduce government spending) has become the orthodoxy of the Republican party to this day. His Supreme Court appointees are STILL ON THE COURT TO THIS DAY. The SCOTUS has been conservative since 1986. Many states have been Republican since Reagan and Congressional Republicans have been more powerful since 1980.

The Presidents after RR: Bush I, Clinton, Bush II, even Obama still work in the shadow of Reagan. The conservative counter-revolution (against the New Deal/Great Society) has been the ascendant political movement since 1980, but there have been consequences like wealth inequality, the Great Recession, and political gridlock. Since 1980, we have lacked consensus. We have become two Americans, divided. Red states v. Blue states. Coastal areas and urban areas v. the Interior. Jeffersonians v. Hamiltonians. Those who revere FDR and Johnson v. those who admire Reagan.

1. “Nixon rose by speaking to his fellow unpolished strivers of the white middle class as if they were society's oppressed- to the disgust of the sophisticated liberals.” Joan Hoff. [↑](#footnote-ref-1)