

SECTION
2

Conservative Policies Under Reagan and Bush

MAIN IDEA

Presidents Reagan and Bush pursued a conservative agenda that included tax cuts, budget cuts, and increased defense spending.

WHY IT MATTERS NOW

The conservative views of Reagan and Bush created policies and priorities that affect government spending and budgeting today.

Terms & Names

- Reaganomics
- supply-side economics
- Strategic Defense Initiative
- Sandra Day O'Connor
- deregulation
- Environmental Protection Agency (EPA)
- Geraldine Ferraro
- George Bush

One American's Story

Throughout the 1980 presidential campaign and in the early days of his administration, President Reagan emphasized the perilous state of the economy during the Carter administration. In a speech to the nation on February 5, 1981—his first televised speech from the White House—Reagan announced his new economic program. He called for a reduction in income tax rates for individuals and a big reduction in government spending.

A PERSONAL VOICE RONALD REAGAN

“I’m speaking to you tonight to give you a report on the state of our nation’s economy. I regret to say that we’re in the worst economic mess since the Great Depression. . . . It’s time to recognize that we’ve come to a turning point. We’re threatened with an economic calamity of tremendous proportions, and the old business-as-usual treatment can’t save us. Together, we must chart a different course.”

—televised speech to the nation, February 5, 1981

President Reagan would deal with these problems by consistently stressing a sweeping package of new economic policies. These economic policies, dubbed **“Reaganomics,”** consisted of three parts: (1) budget cuts, (2) tax cuts, and (3) increased defense spending.



President
Ronald Reagan

“Reaganomics” Takes Over

As soon as Reagan took office, he worked to reduce the size and influence of the federal government, which, he thought, would encourage private investment. Because people were anxious about the economy in 1980, their concern opened the door for new approaches to taxes and the federal budget.

Background
See *supply-side economics* on page R46 in the Economics Handbook.

MAIN IDEA

Summarizing
A What are the main ideas of supply-side economics?

BUDGET CUTS Reagan's strategy for downsizing the federal government included deep cuts in government spending on social programs. Yet his cuts did not affect all segments of the population equally. Entitlement programs that benefited the middle class, such as Social Security, Medicare, and veterans' pensions, remained intact. On the other hand, Congress slashed by 10 percent the budget for programs that benefited other groups: urban mass transit, food stamps, welfare benefits, job training, Medicaid, school lunches, and student loans.

TAX CUTS "Reaganomics" rested heavily upon **supply-side economics**. This theory held that if people paid fewer taxes, they would save more money. Banks could then loan that money to businesses, which could invest the money in resources to improve productivity. The supply of goods then would increase, driving down prices. At Reagan's urging, Congress lowered income taxes by about 25 percent over a three-year period. Reagan based his ideas for supply-side economics on the work of economists such as George Gilder and Arthur Laffer. A

A PERSONAL VOICE ARTHUR LAFFER

"The most debilitating act a government can perpetrate on its citizens is to adopt policies that destroy the economy's production base, for it is the production base that generates any prosperity to be found in the society. U.S. tax policies over the last decade have had the effect of damaging this base by removing many of the incentives to economic advancement. It is necessary to restore those incentives if we are to cure our economic palsy."

—*The Economics of the Tax Revolt: A Reader*

INCREASED DEFENSE SPENDING At the same time, Reagan authorized increases in military spending that more than offset cuts in social programs. Between 1981 and 1984, the Defense Department budget almost doubled. Indeed, the president revived two controversial weapons systems—the MX missile and the B-1 bomber. In 1983, Reagan asked the country's scientists to develop a defense system that would keep Americans safe from enemy missiles. Officially called the **Strategic Defense Initiative**, or SDI, the system quickly became known as Star Wars, after the title of a popular movie. The Defense Department estimated that the system would cost trillions of dollars.

RECESSION AND RECOVERY While Reagan was charting a new course for the American economy, the economy itself was sinking into recession. Lasting from July 1981 until November 1982, it was the most severe recession since the Great Depression. However, early in 1983, an economic upturn began as consumers went on a spending spree. Their confidence in the economy was bolstered by tax cuts, a decline in interest rates, and lower inflation. The stock market surged, unemployment declined, and the gross national product went up by almost 10 percent. The stock market boom lasted until 1987, when the market crashed, losing 508 points in one day. This fall was due in large part to automated and computerized buying and selling systems. However, the market recovered and then continued its upward climb.

THE NATIONAL DEBT CLIMBS Beneath the surface of recovery lay problems that continued to plague the economy. Tax cuts had helped the rich, while social welfare cuts had hurt the poor. Despite large reductions in parts of the

Background
See *recession* on page R44 in the Economics Handbook.

Background
See *national debt* on page R43 in the Economics Handbook.

ECONOMIC BACKGROUND

THE "TRICKLE-DOWN" THEORY

Ronald Reagan's budget director, David Stockman, used supply-side economics to draft the Economic Recovery Tax Act of 1981. His tax package cut income taxes and business taxes by an average of 25 percent; the largest tax cuts went to those with the highest incomes. Administration officials defended the plan by claiming that as prosperity returned, the profits at the top would trickle down to the middle class and even the poor.

Despite Reagan's "trickle-down" theory, the wealthy gained the most from these tax cuts. In the 1980s, the rich got richer as poverty deepened for many others.

“THE INFLATION STAGECOACH”

During Reagan’s first term, federal spending far outstripped federal revenue and created a huge budget deficit. In this cartoon, Reagan (with budget director David Stockman sitting beside him on the inflation stagecoach) sees something that “shouldn’t be there.”

SKILLBUILDER

Analyzing Political Cartoons

1. What is the meaning of the wheel flying off the stagecoach?
2. Whom do the passengers inside the stagecoach represent?

SEE SKILLBUILDER HANDBOOK, PAGE R24.



budget, federal spending still outstripped federal revenue. Budget deficits were growing. Even though Reagan backed away from supply-side economics in 1982 and imposed new taxes, they were not enough to balance the budget. By the end of his first term, the national debt had almost doubled. **B**

MAIN IDEA

Analyzing Effects

B What were some of the effects of “Reaganomics”?

Judicial Power Shifts to the Right

Anita Hill and Clarence Thomas testify before the Senate Judiciary Committee in October 1991.



One of the most important ways in which Reagan accomplished his conservative goals was through his appointments to the Supreme Court. Reagan nominated **Sandra Day O’Connor**, Antonin Scalia, and Anthony M. Kennedy to fill seats left by retiring judges. O’Connor was the first woman to be appointed to the Court. He also nominated Justice William Rehnquist, the most conservative justice on the court at the time, to the position of chief justice.

President Bush later made the Court even more conservative when David H. Souter replaced retiring justice William Brennan. Bush also nominated Clarence Thomas to take the place of Thurgood Marshall. However, controversy exploded when law professor Anita Hill testified that Thomas had sexually harassed her when she worked for him in the 1980s. During several days of televised Senate hearings, committee members questioned Thomas, Hill, and witnesses for each side. Thomas eventually won approval by a final vote of 52 to 48.

The Reagan and Bush appointments to the Supreme Court ended the liberal control over the Court that had begun under Franklin Roosevelt. These appointments became increasingly significant as the Court revisited constitutional issues related to such topics as discrimination, abortion, and affirmative action. In 1989, the Court, in a series of rulings, restricted a woman’s right to an abortion. The Court also imposed new restrictions on civil rights laws that had been designed to protect the rights of women and minorities. During the 1990–1991 session, the Court narrowed the rights of arrested persons.

Deregulating the Economy

Reagan achieved one of his most important objectives—reducing the size and power of the federal government—in part by cutting federal entitlement programs but also through **deregulation**, the cutting back of federal regulation of industry. As part of his campaign for smaller government, he removed price controls on oil and eliminated federal health and safety inspections for nursing homes. He deregulated the airline industry (allowing airlines to abandon unprofitable air routes) and the savings and loan industry. One of the positive results of this deregulation was that it increased competition and often resulted in lower prices for consumers.

In a further effort at deregulation, President Reagan cut the budget of the **Environmental Protection Agency (EPA)**, which had been established in 1970 to fight pollution and conserve natural resources. He ignored pleas from Canada to reduce acid rain and appointed opponents of the regulations to enforce them. For example, James Watt, Reagan's secretary of the interior, sold millions of acres of public land to private developers—often at bargain prices. He opened the continental shelf to oil and gas drilling, which many people thought posed environmental risks. Watt also encouraged timber cutting in national forests and eased restrictions on coal mining.

Conservative Victories in 1984 and 1988

It was clear by 1984 that Reagan had forged a large coalition of conservative voters who highly approved of his policies.

These voters included the following:

- *businesspeople*—who wanted to deregulate the economy
- *Southerners*—who welcomed the limits on federal power
- *Westerners*—who resented federal controls on mining and grazing
- *Reagan Democrats*—who agreed with Reagan on limiting federal government and thought that the Democratic Party had drifted too far to the left

THE 1984 PRESIDENTIAL ELECTION In 1984, Reagan and Bush won the Republican nominations for reelection without challenge. Walter Mondale, who had been vice-president under President Carter, won the Democratic Party's nomination and chose Representative **Geraldine Ferraro** of New York as his running mate. Ferraro became the first woman on a major party's presidential ticket.

In 1984 the economy was strong. Reagan and Bush won by a landslide, carrying every state but Mondale's home state of Minnesota and the District of Columbia.

HISTORICAL SPOTLIGHT

AN ASSASSINATION ATTEMPT

On March 30, 1981, President Reagan and other members of his staff were shot by a mentally unbalanced man named John Hinckley, Jr. While being wheeled into surgery to have a bullet removed, the president said to his wife, "Honey, I forgot to duck" (a line first used by boxer Jack Dempsey in the 1920s, after losing his heavy-weight title). In the operating room, Reagan said to the team of surgeons, "I hope you fellas are Republicans." Reagan recovered speedily and his popularity grew.



▲ President Reagan is pushed into a presidential limousine after being shot by a deranged man.



◀ George Bush announces his presidential candidacy at a rally in 1987.

THE 1988 PRESIDENTIAL ELECTION

In 1988, a majority of Americans were economically comfortable, and they attributed their comfort to Reagan and Bush. When Michael Dukakis, the Democratic governor of Massachusetts, ran for the presidency in 1988 against **George Bush**, Reagan's vice-president, most voters saw little reason for change.

George Bush simply built on President Reagan's legacy by promising, "Read my lips: no new taxes" in his acceptance speech at the Republican Convention. He

"Read my lips: no new taxes."

GEORGE BUSH

stressed his commitment to the conservative ideas of the Moral Majority. Though Bush asserted that he wanted a "kinder, gentler nation," his campaign sponsored a number of negative "attack ads" aimed at his opponents. He told audiences that Dukakis was an ultraliberal whose views were outside the mainstream of American values. In particular, Bush suggested that Dukakis was soft on crime and unpatriotic.

Some commentators believed that the negative ads contributed to the lowest voter turnout in 64 years. Only half of the eligible voters went to the polls in 1988. Fifty-three percent voted for George Bush, who won 426 electoral votes. Bush's electoral victory was viewed, as Reagan's had been, as a mandate for conservative social and political policies. **C**

MAIN IDEA

Analyzing Causes

C What factors contributed to Reagan's victory in 1984 and Bush's victory in 1988?

SECTION 2

ASSESSMENT

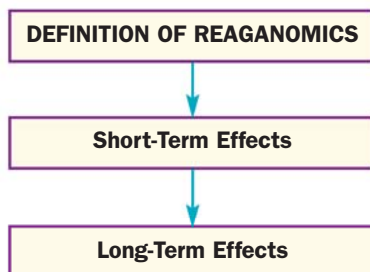
1. TERMS & NAMES For each term or name below, write a sentence explaining its significance.

- Reaganomics
- Sandra Day O'Connor
- Environmental Protection Agency (EPA)
- George Bush
- supply-side economics
- deregulation
- Geraldine Ferraro
- Strategic Defense Initiative

MAIN IDEA

2. TAKING NOTES

Use a diagram like the one below to explore the effects of "Reaganomics."



Explain in a paragraph whether you think "Reaganomics" was good or bad for the economy.

CRITICAL THINKING

3. ANALYZING MOTIVES

Why did President Reagan and President Bush think it was important to appoint conservative justices to the Supreme Court?

4. EVALUATING

In your opinion, was Reagan's first term a success? **Think About:**

- how his tax cuts impacted the rich and the poor
- the economy
- the federal budget

5. ANALYZING PRIMARY SOURCES

Read the following excerpt from Ronald Reagan's speech at the 1992 Republican Convention.

"We mustn't forget . . . the very different America that existed just 12 years ago; an America with 21 percent interest rates and . . . double-digit inflation; an America where mortgage payments doubled, paychecks plunged, and motorists sat in gas lines; an America whose leaders told us . . . that what we really needed was another good dose of government control and higher taxes."

What picture did Reagan paint of the Carter administration?