# Economic status of the united states during president reagan’s period

Reaganomics

Reaganomics refers to the President Ronald Reagan economic policies. It is important to understand that President Ronald Reagan stayed in power as the United States President between 1981 and 1989. He became the first conservative president in over half a century. President Reagan made his first task to deal with the effects of the Great Depression and the recession that had hit the country. The situation influenced the Reagan Revolution. As a plan to initiate economic improvement, its focus revolved around the reduction of government spending, inflation reduction, regulations, and taxes. President Reagan believed that government could not serve as the solution to a problem. However, it had the position of a problem. President Reagan believed in an economy that supported capitalism and free market developments.

After the elections in 1981, Reagan took an economy from the previous president that was mired in stagflation. The economy experienced a double-digit economic contraction combined with a high level of inflation. To fight the looming recession, the situation pushed the newly elected president to develop some appropriate incentives that would propel the country to another level. The incentives focused on changing the situation through positive incentives. The situation also saw President Reagan cutting the corporate tax rate to 34% with a margin of 14% from its initial phase. At the time before his ascent to power, the Federal Reserve Board stabilized the economy through short-term interest rates. However, 1981 had seen the interests reaching its peak (Niskanen and Cato Institute 3-5). President

Reagan also promised the voters that he would slow the growth of government expenditure.

President Reagan had to deregulate business industries. The American economy experienced Federal Reserve establishing strategies that were meant to combat inflation through the reduction of the money supply. Despite the four major incentives introduced by the government of President Reagan, others did not see the light of day concerning their success. The discussion of the paper revolves around the details of the incentives created by President Reagan and their effectiveness. They discuss the various impacts they had on the citizens in the United States.

*Discussing the Four Economic Incentives by President Reagan.* The results associated with Reaganomics have established several debates in the global economic sector and the United States. Supporters of the policies point to the conclusion of stagflation, robust GDP growth, and revolution of entrepreneurs in the decades after the president left power. According to opponents, the Reaganomics created a widening income gap between the rich and the poor. It facilitated corruption and greed among the wealthy class. The situation also saw the national debt tripling for almost a decade. The assessment of the Reaganomics occurs in the following manner:

*Tax Cuts in Reaganomics.* After the elections of the president in 1981, Congress pushed for a policy that cut the top tax rate by 20% from 70%. The move supported growth regarding the gross domestic product for the following years. The move also spurred economic growth in the years until 1985. Due to constant economic growth over the years, the country experienced reduced unemployment. Starting from December 1981, the level of unemployment reached 8. 5%. Citizens earned a minimum wage of $3. 35 an hour. However, 1982 saw the Congress passing the Job Training Partnership Act that focused on the provision of training programs for specific individuals. These included low-income citizens. The situation saw the rising rates of unemployment to 10. 8% by the following year. However, constant policing of the sector saw the rates of unemployment falling to 7% by the end of 1985 (Wientz 4-6). The situation prompted Reagan to continue cutting the tax rates. In 1986, he cut the tax rate to 38. 5%.

The economic growth had a healthy background towards the conclusion of 1986. However, unemployment was still high, reaching 6. 6%. The government and the citizens still saw the rates being higher than the natural rate of unemployment. Reagan had to think of possible ways of dealing with the situation. He again cut the taxes to reach 28%. The approach was positive as the country experienced unemployment falling to about 5. 7% in 1987 and the economy reaching 4. 2% in its growth (Troy and Vincent 3-5). As an avid economist, Reagan used the theory of supply-side economics to create his policies and determine his economic-based decisions. According to the theory of supply-side economics, tax cuts ensure economic expansion within a specific time frame. The increased levels of revenue from a robust economy may have an offsetting impact on the initial revenue loss that comes from the tax cuts.

The above move works if the country experiences high initial tax rates. A prohibitive range of the tax in the curves experience high taxes fall. The first tax cuts of President Reagan were successful because the country had a high national tax rate. The tax cuts propagated in 1986 and 1987 lacked an ineffective status because the tax rates already had a cognitive status. Despite having the tax rates cut, he knew how to balance the situation. Therefore, he increased taxes elsewhere to offset the tax cuts. The situation saw the country experiencing increased payroll taxes and excise taxes on Social Security. The president also introduced some cuts in several deductions. Reagan reduced corporate tax by 6% from 46%. The effect of the reduction had an unclear nature. His government changed tax treatment associated with several new investments. The complexity of the situation meant that the outcome of his corporate tax alterations lacked a measurable status.

*Deregulation under President Reagan's Government* . Many citizens applauded the president for his continuous move to eliminate the various price controls that existed during President Nixon's era. The price controls possessed a constraining effect on the equilibrium of the free market that would act as a shield against inflation. President Reagan promoted the removal of controls on the energy sector, long-distance telephone services, and cable television in the country. The country experienced deregulation in the sector of regional bus service. Deregulation was also seen on ocean shipping of products. The banking sector acquired a new status when President Ragan deregulated it in 1982 (Wientz 3-6). The Garn-St. Germaine Depository Institutions Act passed by the Congress made it possible for the deregulation. The policy eliminated existing restrictions for loan and savings banks.

According to the budget cut by the president, the national economy reduced regulatory staff at the Federal Home Loan Bank Board. The outcome led to banks making huge investments in the risky real estate sector. The deregulation process established by the president and budget cuts saved the country from the 1989 loan and savings crisis. The crisis led to the 1990 recession.

His presidency failed to look deeper into environmental conservation, security, and health regarding policy formulation and implementation. President Reagan reduced the regulations slowly as compared to the administration of President Carter. Despite President Reagan being enthusiastic about the free market, he did not touch on international trade. His work only focused on increasing import barriers. The situation saw him doubling the number of items that could experience trade restraints. The eight years of his position in government saw an increase in import barriers from 12% (1980) to 23% (1988).

*President Reagan and Government Expenditure.* President Reagan had a successful campaign that facilitated him to form a government. Despite using his campaigns to initiate a reduced government role in dealing with economic hurdles, Reagan did not achieve much in his time as president due to his tax cuts. The domestic programs were cut by approximately $ 39 billion during his first year in office (Troy 2-3). President Reagan doubled defense spending to achieve peace through strength initiative. The move was derived from his opposition to the communist governments and the role of the Soviet Union in affecting international policy. His cuts also completed the Cold War. He was instrumental in making Gorbachev (Russia's leader) stop the silent competition between the two countries.

The budget increase reached 35% to accomplish his goals towards concluding Cold War. The situation also saw Reagan failing to reduce other programs of the government. President Reagan created an expansion opportunity for Medicare. An increase in the payroll tax increased insurance in Social Security solvency. The presidency of Reagan saw an elevated status of government spending by 2. 5% annually (Troy and Vincent 6-7). The first budget of the president occurred in 1982. The president experienced huge deficits annually from the beginning of his term as president to his end. The effect included an increase in the national debt annually. After Reagan served two terms, the country had experienced more than double digits in its national debt.

*Dealing with Inflation.* It started with President Reagan capturing the attention of voters during the campaigns. He talked of inflation as a powerful factor regarding affecting the national economy. President Reagan argued that it served as an armed robber because it hindered growth in the national economy. The country experienced inflation of 12. 8% and 8. 9% in 1980 and 1981 (Troy and Vincent 3-5). Inflation was under 5% during the remaining years of President Reagan. His presidency failed to create real change and deal with issues about combating inflation. Paul Volcker (Federal Reserve Chairman) was the one who was responsible for fighting inflation in the country. His incentives assisted the government to raise the federal funds rate to 18% when President Reagan took power. The double-digit inflation concluded due to the implementation of high-interest rates. Despite the success, the country experienced a huge recession.

CONCLUSION-ANALYZING REAGANOMICS

Many debates may originate from the leadership of President Reagan and his contribution towards stabilizing the economy of the United States. Reduction in domestic spending did not mean that the country would continue to experience increased positive development. This is because factors such as increased military spending created deficits throughout Reagan's terms. The top tax rate among individuals received a double slash, and the corporate tax rate also had a quarter cut. Deregulations continued for eight years which lead to eliminating price controls on energy, telephone services, and cable television. The support he provided to the monetary policy led to the stabilization of the US dollar against many other foreign currencies. The United States experienced increased tax revenues to $909 billion from $ 517 billion in his two terms.

The government ensured a reduction of inflation to 4%. It also saw the unemployment rates falling to margins that were below 6% (Niskanen and Cato Institute 1-3). Despite arguments by politicians and economists over the impacts of Reaganomics, his presidency ushered in a period whereby the country experienced the strongest economy in history. The economy made an additional 40 million new employment opportunities for the citizens. Therefore, it means that his presidency created a viable platform for the economy to grow. Many people believe that the country may use the incentives by President Reagan to create change in the modern American economy.

However, many critics oppose the thinking stating that it is backward and invalid since the international community has continued to change dynamically. Critics argue that the current economy is different from the one that President Reagan assisted to achieve positive development. This means that the application of the strategies may lead to opposite effects. An example includes Reagan cutting individual taxes when they had reached 70%, a factor that is impossible. When the government continues to cut taxes today, it means that it will lack enough revenues to support its operations.

In conclusion, President Reagan was instrumental in changing and shaping the American economy. His incentives introduced change and created many investment and employment opportunities for the country. Despite the success, challenges were experienced, but that did not deter the government from achieving its goals regarding offsetting national debt and reducing barriers to economic growth.

# Work Cited

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