The basic principles of reganomics

Economics, Tax

The election of the Regan-Bush Republican ticket of1984brought many unprecedented and controversial policies to the US economy. Many of these policies, including Reganomics still affect our economy as a whole and are still major points of debates today. Reganomics was not solely based on economics, but rather the included a sense of having moral foundations. Government intervention and regulation of the economy were seen as economically harmful and furthermore morally wrong. It was believed that economic affairs should be left to the wisdom of God and his guidance would produce a The moral obligation together with extreme Kenseyan theories were the guide to the basic principles of Reganomics.

Their objective was to follow a laissez faire attitude, or a hands off government policy. They also wanted to rely on the wisdom of the of the market, meaning that the market is smart enough to take care of and troubleshoot itself, and they tried to use a policy of deregulation which would allow companies to make their own economic decisions with out the government limiting their choices. The administration was also weary of anti-trust laws which did not allow for monopolies in The " deregulation of businesses" mentality was simple and encompassed two major points.

The points were to lower taxes and allow businesses to make their own decisions without fear of government intervention. Their idea was that if you lowered taxes in general, business would have moremoneyto produce more, to more they would hire more workers, and consequently due to the surplus of money, their would be more spending, investing, and saving. This proves that individuals would gain along with the business.

Ronald Regan said, " Lower takes would spur business to invest, and send Americans rushing to stores to spend" (Regan). In the short run deregulation produced greater competition and lower prices for consumers. The long term effects were that the savings and loan industry collapsed due to fraud and mis-management. Regan knew that deregulation could possibly have adverse effects if there was no degree of regulation at all, so preventative measures were set in place.

One such preventative measure was the Office of Information and Regulatory Affairs (O. I. R. A) which insured that deregulation dhered to cost benefit principles to the maximum extent possible. " If government is the problem, not the solution, you do not solve problems by applying a bigger problem to them" (Regan). Another notion behind Reganomics was the Laffer Curve, which conveyed the idea that tax cuts would increase tax revenue. The Laffer Curve is based on the ideology that government should provide a climate in which the incentives for individuals to pursue their own economic progress wouldn" t be hindered by governmental taxing, spending, regulations, and/or monetary policies.

It is also based on supply side economics. Supply side economics was an economic policy designed to stimulate output and lower unemployment by increasing production in the economy. It allowed the free market to play a greater role in the economy while the government took on a lesser role. " If government is the problem, not the solution, you do not solve problems by applying a bigger problem to them" (Regan). The Regan administration believed tax and spend policies led to a weak economy.

Accordingly, they passed the Tax Reform Act of 1986 (TRA86) which reduced individual income tax liabilities and raised corporate income tax liabilities. They also passed ERTS. ERTA gave a 25% cut in individual marginal tax rates over a three year period. It set an indexing of individual brackets, personal exemptions, and standard reductions; it reduced all individual taxpayers taxes, and gave percentage reductions for lower and middle class incomes exceeding those given for the rich.

Bill Clinton said, " For 12 years the driving dea behind American economic policy has been cutting takes on the richest individuals and corporations... ". This is true, with the exception of ERTA, all the tax changes during the eight years of Reagan" s administration were unmistakably pro-business and When Reagan cut the taxes for wealthy individuals and business" he believed that it would contribute to a stronger base economy, in turn the benefits of a strong base economy would " trickle down" to reach everyone, even the poorest Americans. Ronald Reagan said, " Lower taxes would spur business to invest, and send Americans rushing to stores to spend" (Regan).

The Reagan Administration believed lower taxes were beneficiary in this manor and high tax rates only further darkened the lines on how our society was typecast, rather than break down those barriers. Furthermore high tax rates inhibited social mobility into the upper class. " The real losers from soak the rich tax are not the rich, but the would be rich. " This is true because there would be no trickle down Major elements in the initial Regan policies were spending slow downs aimed at eliminating budget deficits in 1984 and producing budget surpluses thereafter.

As well it was aimed to slow down the growth of federal outlays and change their composition. However the initial policies of the Reagan administration coupled with stock market changes were so bold and dramatic that it caused the 1981 - 1982 recession. After be in a state of recession, things did get better. Within 18 months of Reagans term, povertybegan to decrease. The U. S also experienced an unprecedented export boom in the 1980" s which turned out to be the longest economic boom in U. S history.

Along with this came 20 million new jobs and it was the first time the electorate ad an intensely satisfied voting majority. " Reagan was the only U. S. president since WWII to reduce both inflation and unemployment while expanding the total number of jobs for all Americans" (Dunn) However when this great prosperity was acquired in such a short period of time, people got nervous and began to make false accusations against the Reagan administration which were called myths. Myths were created by economists that either did not look at all the statistics or made assumptions before they had all of the statistics.

Some of the myths that came from these economists were that Reaganomics caused Americans to divest and de-industrialize. There were also presumptions that every dollar of taxes that were cut would lose a dollar of revenue. They also offered that record deficits were caused by the reduction in marginal tax rates. There is no basis for insisting that tax policy developments were responsible for the budget deficits of the Reagan years. (Ture 35) Some myths created even went so far as to say that the deficits were deliberate in order to reduce social spending while increasing defense spending.

In fact the contrary is true. Transfer payment spending for social services rose 19. 7%, from $344. 3 billion to $412 billion, on programs that provided income, food, healthcare, housing, educationand training, and social services to poor families. (Ture 39) This is proving that social programs were not hurt under Reagan. Economists also gave the impression that Reagan policies favored the rich at the expense of the poor and that the rich only paid a larger shave of taxes because they had a larger share of income. This is not entirely true.

Even though the rich may not have seemed to have paid more taxes they actually did buy investing in more taxable securities and fewer tax exempt securities. This produced more tax revenue. Rather than being a tax and spend economy, the Reagan administration lended itself to a borrow and spend economy that produced many deficits. What was the cause of these enormous debts? Many factors added to the accumulation of the debts. Buying and thus building up the U. S. dollar to an artificiallyhigh level made U. S exports more expensive, U. S imports cheaper and it added to the rade deficit and the foreign debt.

This was also known as " Mexicanization" of the economy. (Galbraith 3) Large budget deficits from the loss of tax revenue, was brought about by the loss of real output during the 1981 - 1982 recession, and unanticipated disinflation. That fiscal year (after adjusting for inflation, tax collections did not increase) brought high interest rates which attracted foreign money. This pushed up the dollar and caused the trade deficit. The deficit was also caused by large defense and The Reagan administration had littleresponsibilityfor the budget deficits.

The bills for spending that the Reagan administration originally proposed were altered by congress. The deficit was therefore caused by congress" permitted spending excess and not excess tax cuts. It seems that through supply-side economics savings didn" t increase but allowed for a huge growing debt that nearly tripled during Reagans administration. On the good side of things, deficit spending helped to stimulate demand and trigger economic recovery. It also stimulated a growth of employment in non-investment grade firms by 17. 3 million which was due to junk bonds. (Zycher, 43)

On the down side, the U. S is presently the worlds largest debtor. Public and Private debts carrying over from the past decade weigh heavily on the government, business", household" s and financial institutions" well being. Reganomics could have been greatly successful if government spending would have been checked. " If government had borrowed in order to fund public capital, rather than military spending and tax breaks for the wealthy, the debt burden would be greatly reduced" (Sawicki). Looking back now we can truly understanding the full effects of Reganomics on our economy.