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Reaganomics and the American Character

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Former United States Senator



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The following is adapted from a speech delivered at Hillsdale College on October 3, 2011, during a four day conference on "Reagan: A Centenary Retrospective," sponsored by the College's Center for Constructive Alternatives.

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What was the American economy like in the decade prior to the Reagan presidency? The 1970s, for a myriad of reasons, were not a happy time. They featured a combination of stagnation and inflation, which came to be called "stagflation." The inflation rate peaked at just over 13 percent, and prime interest rates rose as high as 21-and-a-half percent. Although President Jimmy Carter did not use the exact words, a malaise had certainly set in among Americans. Many wondered whether our nation's time had passed. A *Time* magazine headline read, "Is the Joyride Over?" Did we really need, as Jimmy Carter told us, to learn to live on less?

Ronald Reagan did not believe America was in decline, but he did believe it had been suffering under wrongheaded economic policies. In response, he offered his own plan, a program for creating economic freedom that came to be known as Reaganomics. Of course, most of Reaganomics was nothing new. Mostly it was the revival of an older understanding that unlimited government will eventually destroy freedom and that decisions regarding the allocation of scarce resources are best left to the private sector. Reagan explained these old ideas well, and in terms people could understand.

But there was also a new element to Reaganomics, and looking back, it was a powerful element and new to the economic debate. It was the idea that tax rates affect a

person's incentive to work, save and invest. To put it simply: lower tax rates create more economic energy, which generates more economic activity, which produces a greater flow of revenue to the government. This idea—which came to be known as the Laffer Curve—was met with media and public skepticism. But in the end, it passed the critical test for any public policy. It worked.

To be sure, there were a couple of major impediments to the economic success of Reagan's program. First, the Federal Reserve Bank clamped down on the money supply in 1981 and 1982, in an effort to break the back of inflation, and subsequently the economy slipped into the steepest recession of the post-World War II period. Second, Soviet communism was on the march, the U.S. was in retreat around the world, and President Reagan was determined to rebuild our national defense as part of a program of peace through strength. All of these factors worked strongly against Reagan in the battle to revive the American economy. Nor was it a forgone conclusion that his program would get through Congress. We shouldn't forget that it was a tough program. For example, it eliminated three Social Security benefits in one day: the adult student benefit, the minimum benefit, and the death benefit. Reagan's program represented a dramatic change in public policy.

With his great skill in communicating ideas, Reagan got his program through Congress. And despite Fed policies and large expenditures for national

defense, his program succeeded. I don't want to bore you with statistics, but I will have to present some to make my case. Most importantly, I hope I will succeed in demonstrating what a difference good policies make to the average citizen.

The evidence is, I think, overwhelming: the Reagan program, when fully implemented in 1983, ushered in a 25-year economic golden age. America experienced very rapid economic growth and only two minor recessions in those 25 years, whereas there were four recessions in the previous 12 years, two of them big ones.

What exactly did Reagan do? For starters, he cut the top tax rate from 70 percent to 28 percent. And yes, high income earners benefitted from these cuts. But as I used to say in Congress, no one poorer than I am ever hired me in my life. And despite lower rates, the rich ended up paying a greater share: In 1979, the top one percent of income earners in America paid 18.3 percent of the total tax bill. By

2006, the last year for which we have reliable numbers, they were paying 39.1 percent of the total tax bill. The top ten percent of earners in 1979 were paying 48.1 percent of all taxes. By 2006, they were paying 72.8 percent. The top 40 percent of all earners in 1979 were paying 85.1 percent of all taxes. By 2006, they were paying 98.7 percent. The bottom 40 percent of earners in 1979 paid 4.1 percent of all taxes. By 2006, they were *receiving* 3.3 percent in direct payments from the U.S. Treasury.

In the 12 years prior to the Reagan program, economic growth averaged 2.5 percent. For the following 25 years, it averaged 3.3 percent. What about

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[Latin]: in the first place

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per capita income? In the 12 years prior to the Reagan program, per capita GDP, in real terms, grew by 1.5 percent. For the 25 years after the Reagan program was implemented, real per capita income grew by 2.2 percent. By 2006, the average American was making \$7,400 more than he would have made if growth rates had remained at the same level as they were during the 12 years prior to the Reagan program. A family of four was making \$29,602 more. During the 12 years prior to Reagan, America created 1.3 million jobs per year. That number is pretty impressive compared to today's stagnant economy. But during the Reagan years, America added two million jobs per year. That means as of 2007 there were 17.5 million more Americans at work than would have been working had the growth rates of the pre-Reagan era continued.

Inflation, which had been 7.6 percent for the previous 12 years, fell to 3.1 percent. Interest rates plummeted. The average homeowner in America had a monthly mortgage payment of \$1,000 less as a result of the success of the Reagan program. Poverty, which had grown throughout the 1970s despite massive increases in anti-poverty programs, plummeted despite cuts to these programs. The poverty level fell from 15 percent to 11.3 percent. These results are tangible evidence that government policy matters.

This is not to say that no mistakes were made. In order to secure lower tax rates, it became good politics to raise the number and amount of income tax deductions, thereby removing about 50 percent of Americans from the tax rolls. In my opinion, that was a mistake, and I think we are suffering for it today. I believe everyone should pay some income taxes. Nevertheless, the net result of the Reagan program was good for all Americans.

So how does the Reagan recovery compare to the recovery going on today? In sum, this is the most disappointing recovery of the post-World War II period by a large margin. I don't think people understand what an outlier this recovery period is. If the economy had recovered from this recession at the rate it recovered from the

1982 recession, which was roughly the same size in terms of unemployment, there would be 16.3 million more Americans at work today—in other words, all those who say they are unemployed plus almost 60 percent of “discouraged workers” who have dropped out of the labor force. If real per capita income had grown in this recovery at the same rate it grew during the Reagan recovery, real per capita income would be \$5,139 higher today. Both the Reagan program and the Obama program instituted dramatic changes. One program worked. The other is failing.

In the end, government policy matters. The truth is, Americans are pretty ordinary people. What is unique about America is an understanding of freedom and limited government that lets ordinary people achieve extraordinary things. We have been getting away from that view recently, but if we can get back to that understanding, which was Reagan's, our nation will be fine.

Let me conclude by saying that the argument I am making is not just about money or GDP. It's an argument about character. If you want to see the effect of bad government policy on character, simply turn on the news and see how Greek civil servants have been behaving recently. They are victimizers behaving like victims. Greek government policies have made them what they are. But what made Americans who we are is a historically unprecedented level of freedom and responsibility. The real danger today is not merely a loss of prosperity, but a loss of the kind of character on which prosperity is based.

I occasionally hire a man to do bulldozer work on my ranch. He doesn't know a lot about foreign policy, but he knows a lot about the economics of the bulldozing business. In his freedom to pursue that business and to be the best he can be at it, he's the equal of any man. He's proud, he's independent, and he knows his trade as well as anybody else in America knows theirs. That's what America is about. For me, today's battle, as it was in 1980, is not just about prosperity or goods and services. It's about freedom, and it's about the kind of character that only freedom creates. ■

Reagan's Moral Courage

Andrew Roberts

Historian



ANDREW ROBERTS received his Ph.D. at Gonville and Caius College, Cambridge, where he is also an honorary senior scholar. He has written or edited 12 books, including *A History of the English-Speaking Peoples Since 1900*, *Masters and Commanders: How Four Titans Won the War in the West, 1941-1945*, and *The Storm of War: A New History of the Second World War*.

The following are excerpts from a speech delivered at Hillsdale College on October 7, 2011, at the dedication of a statue of Ronald Reagan by Hillsdale College Associate Professor of Art Anthony Frudakis.

The defining feature of Ronald Reagan was his moral courage. It takes tremendous moral courage to resist the overwhelming tide of received opinion and so-called expert wisdom and to say and do exactly the opposite. It could not have been pleasant for Reagan to be denounced as an ignorant cowboy, an extremist, a warmonger, a fascist, or worse by people who thought themselves intellectually superior to him. Yet Reagan responded to those brickbats with the cheery resolve that characterized not only the man, but his entire career. What is more, he proceeded during his two terms as president to prove his critics completely wrong . . .

During Reagan's presidency, America enjoyed its longest period of sustained economic growth in the 20th century. Meanwhile, in the realm of foreign policy, the Reagan Doctrine led to the defeat of the worst totalitarian scourge to blight the globe since the defeat of the Nazis in World War II. By the time he left office, the faith of Americans in the greatness of their country had been restored. In retrospect, Reagan's was a great American success story. Born in rented rooms above a bank in Tampico, Illinois, he ended his days as the single most important American conservative figure of the last century. Not bad for an ignorant cowboy.

From his own reading and observation of life, Reagan understood that the doctrines of Marxism and Leninism were fundamentally opposed to the deepest and best impulses of human nature. Enforcing such doctrines would require vicious oppression, including propaganda, secret police such as the KGB, a debased and corrupt judicial system, huge standing armies stationed across Eastern Europe, children

spying on their parents, the Berlin Wall, a gagged media, a shackled populace, a privileged nomenklatura, prisons posing as psychiatric hospitals, puppet trade unions, a subservient academy, and above all, what Aleksandr Solzhenitsyn dubbed a "gulag archipelago" of concentration camps. In sum, the entire apparatus that Reagan characterized so truthfully in a March 1983 speech as an "evil empire." Yet he was immediately accused—not just in Russia, but also here in the West—of being mad, bad, and dangerous. He was written off as stupid, provocative, and oafish by huge swaths of the Western commentariat. Today, thanks to his published correspondence, we know that he was anything but. Indeed, he was very widely read and a thoughtful man, but it suited his purposes to be underestimated by his opponents. The cultural condescension of those experts and intellectuals who denounced his evil empire speech as unacceptably simplistic—even simple-minded—might have been despicable, but it worked to Reagan's advantage. Although history

was to prove him right in every particular about the true nature of the U.S.S.R., none of his critics have ever admitted as much, at least publicly, let alone apologized.

What helped to make Reagan great was that he couldn't care less what his critics thought of him. He knew the image of the swaggering cowboy was very far removed from reality, but if his opponents chose to be mesmerized by it, all the better for him. It was he, not they, who in 1987 would stand at the Brandenburg Gate in Berlin and demand: "Mr. Gorbachev, tear down this wall!" The Left's strategy of détente had been tried for 40 years, and it had led to ever wider Communist incursions, especially during the 1970s, into territories across Africa, Asia, and Latin America. The Reagan Doctrine, by contrast, marked a turn away from the doctrine of containment, adhered to by every president since Harry Truman. Reagan bravely declared that communism's global march would not merely be checked but reversed.

For decades the Politburo in the Kremlin had been testing the West's defenses, looking for weakness. Where it encountered strength and willpower, as during the Berlin airlift and the Cuban missile crisis, it pulled back. Where, as was all too often the case, it instead found vacillation and appeasement, it thrust forward until whole countries fell under its control. Under the Reagan Doctrine, non-Communist governments would be supported actively, and Communist governments, wherever they were not firmly established, would be undermined and if possible overthrown. Reagan did not act in the name of American imperialism, as his opponents predictably alleged, but rather in the name of human dignity. As he fought the Communists, he received gradually more and more support from the American people. He supported anti-Communist movements in Poland, El Salvador, and Guatemala, as well as open insurgencies in Afghanistan, Cambodia, Ethiopia, Laos, and Nicaragua. The Kremlin soon recognized that in Reagan it had a powerful and committed ideological foe on its hands, one who took seriously JFK's words in his Inaugural Address, that the

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United States "shall pay any price, bear any burden, meet any hardship, support any friend, and oppose any foe, in order to assure the survival and success of liberty." Believing in American exceptionalism, Reagan deployed an extensive political, economic, military, and psychological arsenal to confront the Soviet Union. And he did so mostly through proxies: Except for the Caribbean island of Grenada, where American citizens were in danger, he did not commit American troops to the battle . . .

* * *

In the 1980s, Americans felt confident enough in their country's future to spend, produce, and consume in a way they hadn't under Jimmy Carter and don't today. Reagan genuinely believed, as the 1984 campaign slogan put it, that it was "Morning in America." His confidence in the country and its abilities spread to the American people and to the markets. After all, strong, confident leadership is infectious. There can be a virtuous cycle in economics, just as there can be a vicious one. Reagan's Economic Recovery Act and his Tax Reform Act were the twin pillars of America's renaissance in the 1980s. He reduced the highest marginal tax rate to 28 percent and simplified the tax code. He deregulated industry, tightened the money supply, and reduced the growth of public expenditure. By 1983, America had completely recovered economically, and by 1988, inflation, which had been at 12.5 percent under Carter, was down to 4.4 percent. Furthermore, unemployment came down to 5.5 percent as 18 million new jobs were created.

In one area, however, Reagan knew that he had to increase public spending dramatically, if the global threats to America were to be neutered. The overly cautious, nerve-wracked, and humiliated America of 1979 and 1980—when 52



Standing next to the statue of Ronald Reagan following its dedication are Hillsdale College President Larry Arnn, alumni Bill and Jan Brodbeck, who provided the statue to the College, and sculptor and Associate Professor of Art Anthony Frudakis. This statue joins previous statues of George Washington, Thomas Jefferson, Abraham Lincoln, Winston Churchill, and Margaret Thatcher on the campus's Liberty Walk.

American diplomats were taken hostage in Tehran for 444 days and were paraded, hooded and blindfolded, in the streets—was about to give way to a virile and self-confident America. It was no accident that, on the very day of Reagan's inauguration, the Iranian regime released the hostages rather than face the fury of the incoming President. It was the last smart thing that regime ever did.

When Reagan entered office, defense spending had fallen to less than five percent of GDP from over 13 percent in the 1950s. His belief that the Soviet system would eventually crack under steady Western pressure encouraged him to increase defense spending from \$119 billion under Carter to \$273 billion in 1986, a level that the U.S.S.R. simply could not begin to match. The Left criticized what they believed to be wasteful spending, but this expenditure led to a massive savings once the U.S.S.R. no longer posed the global existential threat it once had.

America had achieved a huge technological advantage by the 1980s, which allowed Reagan to embark on the controversial Strategic Defense Initiative, nicknamed "Star Wars" by its opponents. The system was based on the idea that incoming ballistic missiles could be destroyed over the Atlantic or even earlier. Though the technology was still very much in

its infancy, judicious leaking of suitably exaggerated test results further rattled the Soviet leadership. As Vladimir Lukin, the Soviet foreign policy expert and later ambassador to the U.S., admitted to the Carnegie Endowment for International Peace in 1992: "It is clear that SDI accelerated our catastrophe by at least five years." Besides SDI, Reagan pursued rapid deployment forces, the neutron bomb, the MX Peacekeeper missile, Trident nuclear submarines, radar-evading stealth bombers, and new ways of looking at battlefield strategies and tactics . . . In response to the deployment of these weapons, the Left issued strident denunciations and organized massive anti-American demonstrations all across Europe. These were faced down with characteristic moral courage by Ronald Reagan, ably supported by Margaret Thatcher. "Reagan's great virtue," said his former Secretary of State George Shultz, "was that he did not accept that extensive political opposition doomed an attractive idea. He would fight resolutely for an idea, believing that if it was valid, he could persuade the American people to support it."

. . . In the words of Margaret Thatcher, Reagan helped the world break free of a monstrous creed. He understood that, in addition to being morally bankrupt—as it had been since the Bolshevik

Revolution—the Soviet system was also financially bankrupt. Numerous so-called five-year plans had not delivered, because human beings simply will not work hard for an all-powerful state that will not pay them fairly for their labor. By contrast, Reagan believed that low taxes, a minimal state, a reduction in bureaucratic regulation, and a commitment to free market economics would lead to a dramatic expansion of the American economy. This would enable America to pay for a defense build-up so large that the Soviets would have to declare a surrender in the Cold War. That surrender began on September 12, 1989, when a non-Communist government took office in Poland. Within two months, on the night of November 9, the people of East and West Berlin tore down the wall that had separated them for over a quarter of a century. This was the greatest of Reagan's many fine legacies.

The extension of freedom to Eastern Europe was not merely a political or military or economic phenomenon for Reagan; it was a spiritual one, too. Reagan believed that America had lost its sense of providential mission, and he meant to re-establish it. Beneath his folksy charm and anecdotes was a steely will and a determination to re-establish the moral superiority of democracy over totalitarianism, of the individual over the state, of freedom of speech over censorship, of faith over government-mandated atheism, and of free enterprise over the command economy. As the leader of the free world, he saw it as his responsibility to defend, extend, and above all proselytize for democracy and human dignity.

Reagan understood leadership in a way that I fear is sadly lacking in the West today. "To grasp and hold a vision," he said in 1994, "that is the very essence of successful leadership. Not only on the movie set where I learned it, but everywhere." Indeed, in some ways the world is an even more perilous place than it was in Reagan's day. For all its undoubted evil,

at least the Soviet Union was predictable, and it was fearful of the consequences of mutually assured destruction. By contrast, President Ahmadinejad of Iran is building a nuclear bomb while publicly calling for Israel to be wiped off the map. We know from the experience of 9/11 that Al Qaeda and its affiliates would not hesitate to explode a nuclear device in America if they got the chance. As the IRA pronounced when it narrowly missed murdering Margaret Thatcher in 1984: "You have to be lucky every time, we only have to be lucky once." Yet, when looking at the dangers facing civilization today, there is this one vital difference from 30 years ago: I can see no leaders of the stamp of Ronald Reagan or Margaret Thatcher presently on hand to infuse us with that iron purpose and that sense of optimism that we had in the 1980s. Indeed, some of our present-day leaders only seem to make matters worse. This is why it is all the more important to erect splendid statues like this one. "The longer you can look back," said Winston Churchill, "the further you can look forward."

The point of raising a statue to Ronald Reagan is not just to honor him, although it rightly does do that. A statue inspires and encourages the rest of us to try and emulate his deeds, to live up to his ideals, to finish his work, and to "grasp and hold" his vision. Reagan wrote in his farewell message to the American people in November 1994 announcing his retirement from public life: "When the Lord calls me home, I will leave with the greatest love for this country of ours and eternal optimism for its future. I now begin the journey that will lead me into the sunset of my life. I know that for America, there will always be a bright dawn ahead." Though characteristically upbeat, it will only remain true so long as

America continues to produce leaders with the moral courage and the leadership abilities of Ronald Reagan, one of America's greatest presidents. ■



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