

Appendix II

The Reagan Promise

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Ronald Reagan campaigned on a recovery plan with four specific components, which he then implemented after he was elected:

1. **Cuts in tax rates** to restore incentives for economic growth, which was implemented first with a reduction in the top income tax rate of 70% down to 50%, and then a 25% across the board reduction in income tax rates for everyone. The 1986 tax reform then reduced tax rates further, leaving just two rates, 28% and 15%.
2. **Spending reductions**, including a \$31 billion cut in spending in 1981, close to 5% of the federal budget then, or the equivalent of about \$175 billion in spending cuts for the year today. In constant dollars, non-defense discretionary spending declined by 14.4% from 1981 to 1982, and by 16.8% from 1981 to 1983.¹ Moreover, in constant dollars, this non-defense discretionary spending never returned to its 1981 level for the rest of Reagan's two terms!² By 1988, this spending was still down 14.4% from its 1981 level in constant dollars.³ Even with the Reagan defense buildup — which won the Cold War without firing a shot — total federal spending declined from a high of 23.5% of GDP in 1983 to 21.3% in 1988 and 21.2% in 1989.⁴ That's a real reduction in the size of government relative to the economy of 10%.
3. **Deregulation**, to reduce government intrusion in people's lives and the cost of red tape on the private sector. Reagan's first executive order, in fact, eliminated price controls on oil and natural gas. Production soared, and the price of oil declined by over 60% by 1986.
4. **Anti-inflation monetary policy** restraining money supply growth compared to demand, to maintain a stable value of the dollar.

Official records hold that the Reagan recovery began in November 1982, and lasted 92 months without a recession until July 1990.⁵ This set a new record for the longest peacetime expansion ever, the previous high in peacetime being 58 months.⁶

During this seven-year recovery, the economy grew by almost one-third, the equivalent of adding West Germany's entire economy — the third largest in the world at the time — to our own.⁷ In just one year, 1984, real economic growth soared by 6.8%, the highest annual rate in 50 years.⁸ Nearly 20 million new jobs were created during the Reagan recovery, increasing U.S. civilian employment by almost 20%.⁹ Unemployment fell to 5.3% by 1989.¹⁰

Real per capita disposable income grew by 18% from 1982 to 1989, meaning the American standard of living increased by almost 20% in just 7 years.¹¹ The Carter decline in income for the bottom 20% of earners was

1 Peter Ferrara, "When the Republicans Cut Spending," *American Spectator*, September, 2008.

2 Id.

3 Id.

4 Id.

5 Bartley, *The Seven Fat Years*, pp. 135, 144.

6 Id.

7 *Ibid.*, p. 4; McKenzie, *What Went Right in the 1980s*, p. 8.

8 Arthur B.Laffer, Stephen Moore, and Peter J. Tanous, *The End of Prosperity* (New York: Simon & Schuster, 2008), p. 88.

9 *Economic Report of the President*, January, 1993, Table B-32, p. 385.

10 *Economic Report of the President*, January, 1993, Table 13-69, p. 428.

11 Bartley, *The Seven Fat Years*, p. 4.

reversed, with average real household income for this group rising by 12.2% from 1983 to 1989.¹² The poverty rate, which had increased dramatically during the Carter years, declined under President Reagan every year from 1984 to 1989, dropping onesixth from its peak.¹³

The frightening rise in inflation during the Carter years was also reversed. Astoundingly, inflation was reduced by more than half from 1980 to 1982, settling down to 6.2%.¹⁴ It was cut in half again for 1983, to 3.2%.¹⁵ The tight money policies required to kill the out-of-control inflation led to a steep recession from 1981 to 1982 — but, that was followed by the unparalleled economic resurgence over the next 25 years.

By 1987, the prime rate was cut by two-thirds to 8.2%, on its way down to 6.25% by 1992.¹⁶ New home mortgage rates also declined steadily, reaching 9.2% by 1988, on their way down to 8% by 1992.¹⁷ Those opposing Reagan's tax cuts had argued that the cuts would increase interest rates.

The stock market more than tripled in value from 1980 to 1990, a larger increase than in any previous decade.¹⁸ Real personal assets rose by nearly \$6 trillion, from \$15.5 trillion in 1980 to \$21.1 trillion in 1990, an increase of 36%.¹⁹ Total real private net worth rose by \$4.3 trillion from 1980 to 1989, totaling \$17.1 trillion in constant dollars, an increase of one-third.²⁰

In their 2008 book, *The End of Prosperity*, supply-side guru Art Laffer and *Wall Street Journal* Chief Financial Writer Steve Moore point out that this Reagan recovery grew into a 25-year boom, with just slight interruptions by shallow, short recessions in 1990 and 2001. They write:

“We call this period, 1982-2007, the twenty-five year boom — the greatest period of wealth creation in the history of the planet. In 1980, the net worth — assets minus liabilities — of all U.S. households and business... was \$25 trillion in today's dollars. By 2007, ... net worth was just shy of \$57 trillion. Adjusting for inflation, more wealth was created in America in the twenty-five year boom than in the previous two hundred years.”²¹

They add, “The economy in real terms is almost twice as large today as it was in the late 1970s.”²²

12 McKenzie, *What Went Right in the 1980s*, p. 102.

13 *Economic Report of the President*, Table B-28, p. 380

14 *Economic Report of the President*, January, 1993, Table 13-59, p. 462.

15 Id.

16 *Economic Report of the President*, January, 1993, Table 13-69, p. 428.

17 Id.

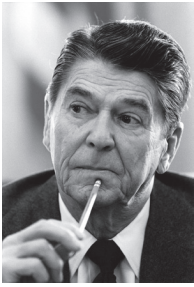
18 McKenzie, *What Went Right in the 1980s*, pp. 7, 187.

19 Id. p. 183.

20 *Economic Report of the President*, Table B-110, p. 473.

21 Arthur B.Laffer, Stephen Moore, and Peter J. Tanous, *The End of Prosperity* (New York: Simon & Schuster, 2008), p. 89,

22 Id., p. 3.



RONALD REAGAN

40th President of the United States: 1981-1989

Message to the Congress Transmitting the Proposed Package on the Program for Economic Recovery

February 18, 1981

To the Congress of the United States:

It is with pleasure that I take the opportunity this evening to make my first major address to the Congress. The address briefly describes the comprehensive package that I am proposing in order to achieve a full and vigorous recovery for our economy. The key elements of that package are four in number:

- A budget reform plan to cut the rate of growth in Federal spending;
- A series of proposals to reduce personal income tax rates by 10 percent a year over three years and to create jobs by accelerating depreciation for business investment in plant and equipment;
- A far-reaching program of regulatory relief;
- And, in cooperation with the Federal Reserve Board, a new commitment to a monetary policy that will restore a stable currency and healthy financial markets.

Taken together, I believe these proposals will put the Nation on a fundamentally different course — a course leading to less inflation, more growth, and a brighter future for all of our citizens.

To aid the Congress in acting promptly on these proposals, I am today forwarding the attached documents which describe the program in greater detail than I can in my address to you. Specifically, you will find the following documents in this package:

- (1) An economic report — issued as a White House paper — that outlines all four of the elements in my program and sets forth the background to those elements.
- (2) A lengthy report on my initial budget cut proposals that has been prepared by the Office of Management and Budget. It should be noted that this report will be followed by a complete budget submission to the Congress, addressing fiscal years 81 and 82. That report will be sent to you on March 10th.
- (3) A report on my proposals for tax reduction issued by the Department of the Treasury.

It is my hope that this combination of transmittals will allow the Congress to proceed in accordance with timetables established in the Congressional Budget Act and will permit rapid consideration of this entire program.

My Cabinet and other members of my Administration have worked intensively and cooperatively with me in developing this program for economic recovery. All of us are now eager to work with the Congress as partners in an undertaking that is vital to the future of the Nation.

RONALD REAGAN

The White House,
February 18, 1981.

Note: The message is printed in the document entitled "America's New Beginning: A Program for Economic Recovery — February 18, 1981."

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