

Reaganomics? Explaining the Neoliberal Turn

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Inaugural address of Ronald Reagan

Washington D.C., January 20, 1981

[...] The business of our nation goes forward. These United States are confronted with an economic affliction of great proportions. We suffer from the longest and one of the worst sustained inflations in our national history. It distorts our economic decisions, penalizes thrift, and crushes the struggling young and the fixed-income elderly alike. It threatens to shatter the lives of millions of our people.

Idle industries have cast workers into unemployment, human misery, and personal indignity. Those who do work are denied a fair return for their labor by a tax system which penalizes successful achievement and keeps us from maintaining full productivity.

But great as our tax burden is, it has not kept pace with public spending. For decades we have piled deficit upon deficit, mortgaging our future and our children's future for the temporary convenience of the present. To continue this long trend is to guarantee tremendous social, cultural, political, and economic upheavals.

You and I, as individuals, can, by borrowing, live beyond our means, but for only a limited period of time. Why, then, should we think that collectively, as a nation, we're not bound by that same limitation? We must act today in order to preserve tomorrow. And let there be no misunderstanding: We are going to begin to act, beginning today.

The economic ills we suffer have come upon us over several decades. They will not go away in days, weeks, or months, but they will go away. They will go away because we as Americans have the capacity now, as we've had in the past, to do whatever needs to be done to preserve this last and greatest bastion of freedom.

In this present crisis, government is not the solution to our problem; government is the problem. From time to time we've been tempted to believe that society has become too complex to be managed by self-rule, that government by an elite group is superior to government for, by, and of the people. Well, if no one among us is capable of governing himself, then who among us has the capacity to govern someone else? All of us together, in and out of government, must bear the burden. The solutions we seek must be equitable, with no one group singled out to pay a higher price.

[...]

So, as we begin, let us take inventory. We are a nation that has a government—not the other way around. And this makes us special among the nations of the Earth. Our government has no power except that granted it by the people. It is time to check and reverse the growth of government, which shows signs of having grown beyond the consent of the governed.

It is my intention to curb the size and influence of the Federal establishment and to demand recognition of the distinction between the powers granted to the Federal Government and those reserved to the States or to the people. All of us need to be

reminded that the Federal Government did not create the States; the States created the Federal Government.

Now, so there will be no misunderstanding, it's not my intention to do away with government. It is rather to make it work-work with us, not over us; to stand by our side, not ride on our back. Government can and must provide opportunity, not smother it; foster productivity, not stifle it.

If we look to the answer as to why for so many years we achieved so much, prospered as no other people on Earth, it was because here in this land we unleashed the energy and individual genius of man to a greater extent than has ever been done before. Freedom and the dignity of the individual have been more available and assured here than in any other place on Earth. The price for this freedom at times has been high, but we have never been unwilling to pay that price.

It is no coincidence that our present troubles parallel and are proportionate to the intervention and intrusion in our lives that result from unnecessary and excessive growth of government. It is time for us to realize that we're too great a nation to limit ourselves to small dreams. We're not, as some would have us believe, doomed to an inevitable decline. I do not believe in a fate that will fall on us no matter what we do. I do believe in a fate that will fall on us if we do nothing. So, with all the creative energy at our command, let us begin an era of national renewal. Let us renew our determination, our courage, and our strength. And let us renew our faith and our hope.

We have every right to dream heroic dreams. Those who say that we're in a time when there are not heroes, they just don't know where to look. You can see heroes every day going in and out of factory gates. Others, a handful in number, produce enough food to feed all of us and then the world beyond. You meet heroes across a counter, and they're on both sides of that counter. There are entrepreneurs with faith in themselves and faith in an idea who create new jobs, new wealth and opportunity. They're individuals and families whose taxes support the government and whose voluntary gifts support church, charity, culture, art, and education. Their patriotism is quiet, but deep. Their values sustain our national life.

[...]

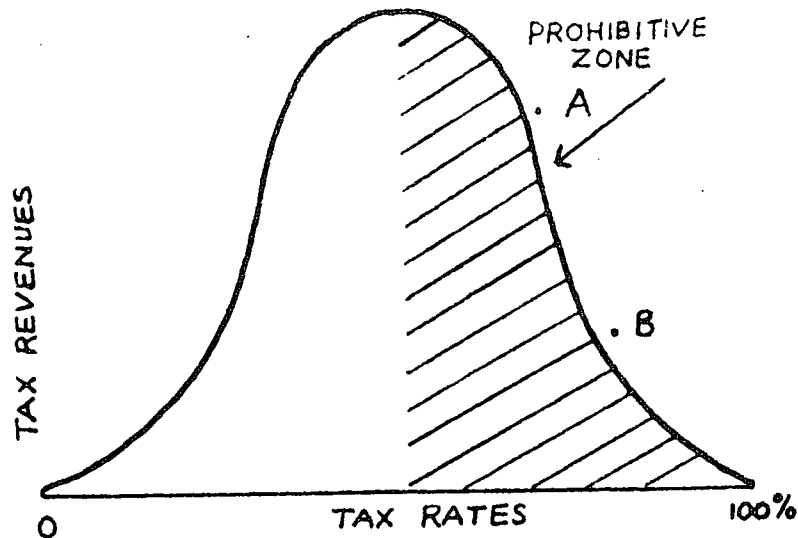
Can we solve the problems confronting us? Well, the answer is an unequivocal and emphatic "yes." To paraphrase Winston Churchill, I did not take the oath I've just taken with the intention of presiding over the dissolution of the world's strongest economy.

In the days ahead I will propose removing the roadblocks that have slowed our economy and reduced productivity. Steps will be taken aimed at restoring the balance between the various levels of government. Progress may be slow, measured in inches and feet, not miles, but we will progress. It is time to reawaken this industrial giant, to get government back within its means, and to lighten our punitive tax burden. And these will be our first priorities, and on these principles there will be no compromise.

John Brooks, "Annals of Finance: Supply Side Notes"

Published in the April 19, 1981 *New Yorker*, Brooks' article "Annals of Finance: The Supply Side" offered a classic – and so far unsurpassed – overview of supply side economics. The extract reproduced here discusses the so-called "Laffer Curve."

[...] in the tortuous course of making its way, within a few years, from its initial toehold as a tiny fringe cult to its current status as the national economic theology, the supply-side theory has picked up most of the familiar accoutrements of a religion: a formidable rival to displace; a central symbol; a popular myth; devotional institutions to spread the gospel; and heated disputes among the faithful on various points of doctrine. The formidable rival is Lord Keynes, embodying the Keynesian faith. The central symbol (and flag) is the so-called Laffer Curve—the creation of Professor Arthur B. Laffer, of the University of Southern California. In its simplest version, the Laffer Curve looks like this:



Its purpose is to demonstrate two related theses: that in any national economic system, there are two tax rates that will produce the same revenue, and that when tax rates rise very high, lowering rates will produce greater revenue. Unarguably, at the zero end of the tax-rate scale no revenue is produced; and it is almost equally irrefutable that none is produced by a one-hundred-per-cent rate, which entirely eliminates incentive to earn income. The curve between is intended to describe relative revenue results at intermediate rates—rising revenues on the left side, where rates are low enough for taxpayers to live with them, and falling revenues on the right side, where rates are so high as to cause progressive damage to incentive and, finally, to kill it entirely. This hatched area on the right is "the prohibitive zone," in which a reduction of tax rates—from, say, Point B to Point A—may be expected to bring about a rise in revenues. (It should be noted that the Laffer Curve is intended to be a graphic representation of an idea, not a precise representation of immutable reality; for example, the symbolic sketch is meant to imply not that the prohibitive zone necessarily begins at a fifty-per-cent tax rate, as the curve indicates, but that it begins at a rate that varies with circumstances.) The assumption of some, though not all, supply-siders is that United States tax rates in recent years have been in the prohibitive zone.

"Supply Side Notes"

Editorial from the *Wall Street Journal*, April 4, 1980.

Supply-Side Notes

Obviously the presidential campaign is going to be filled with a lot of talk about "supply side economics," Rep. Jack Kemp's reply to professor Herb Stein nearby being a typical example. Since we have been following these ideas as long as anyone, we feel entitled to add a few footnotes of our own.

The most important of which is this: It is counter-productive to think about supply-side tax cuts without also thinking about monetary policy. When Columbia Professor Robert Mundell surfaced these ideas in 1974, he was quite explicit: Big tax cuts and tight money. Arthur Laffer, Jude Wanniski and Rep. Kemp are adherents not only of tax cuts, but also of return to a gold standard, which is to say, a sure-fire way of containing monetary creation.

No one, despite what over-enthusiastic adherents and sharp-shooting critics sometimes seem to suggest, is saying we can lick inflation simply by cutting taxes. Rather, the approach is this: Assuming tight money to fight inflation, how in the world do you stimulate production? Restrained money creation means that you cannot stimulate production by boosting aggregate demand. But perhaps you can do so by changing incentives within the economy, by cutting taxes where marginal tax rates are high enough to create disincentives to production and supply.

In the current context, this really is a radical idea. The usual Keynesian notion is the opposite: You stimulate production by tax cuts or spending increases to add to aggregate demand, and use monetary policy to keep interest rates low in order to stimulate investment. Monetary policy is to be "accommodative." This kind of thinking is so ingrained that when Professor Mundell suggested the tight-money, tax-cut combination, almost no one was able even to understand him. By now, though, a growing band of economists has worked its way toward a similar position, often all the while criticizing Mundell and Laffer.

Now, among those who understand supply-side ideas, there is plenty of

room for doubt and disagreement about the precise targeting of tax cuts, the size and speed of the economy's response and thus the effect on government revenues. The notion that a lower tax rate could yield more revenue is by no means ridiculous; which raises more, a 100% tariff that in effect prohibits the import of widgets versus a 10% tariff under which widgets can be effectively imported?

Most supply-side economists agree that there are specific taxes, particularly those on savings and investment, that are having the 100%-tariff effect in the U.S. economy today. Whether these include the personal income tax at rates which apply to ordinary workers is less clear, though one should not blithely dismiss the anecdotal evidence Rep. Kemp's camp can produce. Even some who do not think a broad-based tax cut would not pay for itself in revenues are willing to take the risk; if you assume tight money, the resulting deficit would not be monetized into inflation.

Just as all supply-siders want tight money, they all would also like to see reductions in government spending. There is an issue among them about how much of a spending reduction is needed to justify how much of a tax reduction, and where to put the political emphasis. But if you can boost production by cutting certain taxes without a spending reduction, you can boost it even more by cutting the same taxes with a spending reduction.

However supply-side ideas work out, they are the only ones on the economic horizon that seem at this moment to offer any ray of hope for our current circumstances. The Keynesian notion has played out; witness the flight of many Keynesians into the desperation of wage-price controls. The administration's de facto policy is raising taxes to balance the budget, a sure-fire recipe for stagnation even if Mr. Volcker does wrench down the inflation rate. It certainly seems to us that a new idea that may offer the possibility of a way out should be applauded rather than ridiculed.

Chart 2: The Fall and Rise of the Super Rich, 1913-1998

This chart shows, respectively, the fractions of U.S. national income accruing to the top 1 percent and top 0.01 percent of the wage-earning population. The chart does not include income from capital gains. The data is from Piketty and Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics*, (2003) Vol. 118, no. 1.

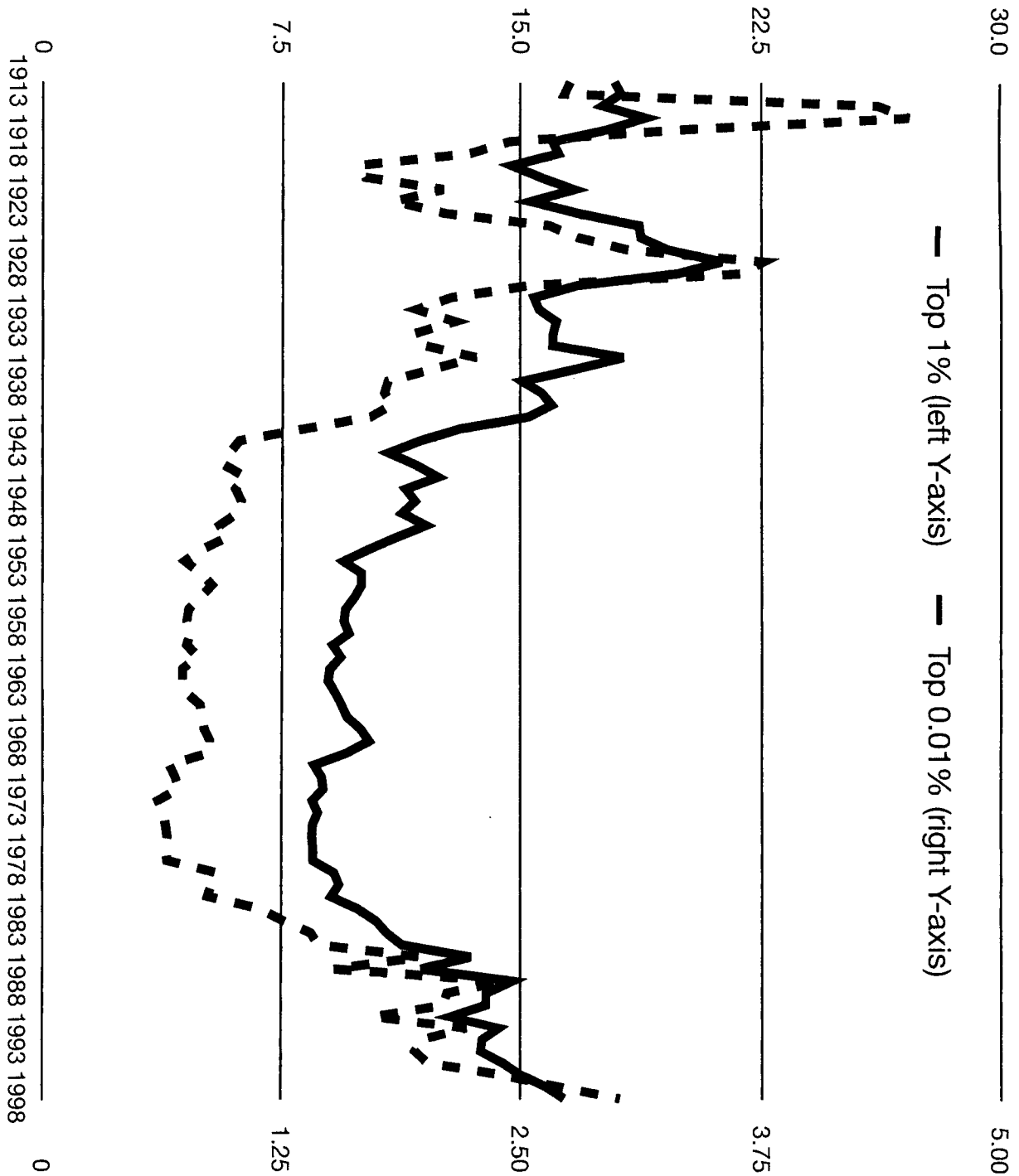
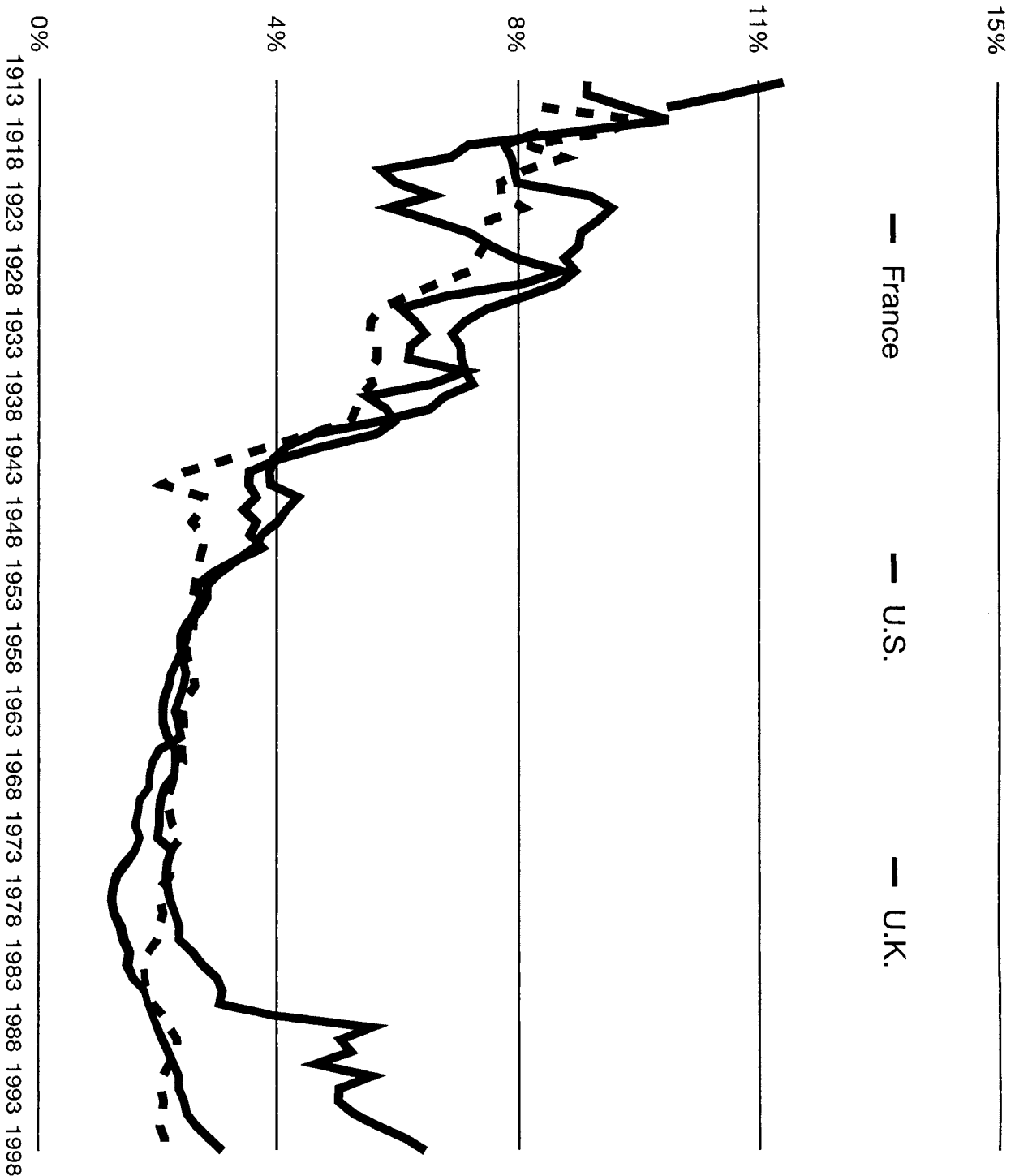


Chart 3: International Comparisons: Inequality in the U.S, Britain, and France

This chart shows the total percentage of national income accruing to the top one percent of wage earners in the United States, France, and Britain. What is most notable about this data is the disproportionate rise in the American experience after 1980. The data source, once again, is Piketty and Saez (2003).



The "Born in the U.S.A." Controversy

In 1984, Bruce Springsteen's "Born in the U.S.A." was riding high on the charts. For all the bombast of the album's chords, its lyrics traversed a bleaker side of Reagan's America, telling hard luck stories of losers and gamblers. That fall, the columnist George Will published an editorial saluting Springsteen as an embodiment of Reagan's America. Will tried to engineer a Springsteen endorsement of Reagan's bid for re-election. When Springsteen declined, Reagan invoked his name regardless at a campaign rally in New Jersey. Reproduced below are Will's article, Reagan's remarks, and Springsteen's response.

George F. Will

Bruce Springsteen's U.S.A.

What I did on my summer vacation:

My friend Bruce Springsteen . . .

Okay, he's only my acquaintance, but my children now think I am a serious person. I met him because his colleague Max Weinberg and Max's wife Rebecca invited me to enjoy Max's work, which I did. He plays drums for Springsteen, who plays rock and roll for purists, of whom there are lots. For 10 shows in New Jersey, he recently sold 16,000 \$16 tickets in the first hour, all 202,000 in a day. His albums can sell 1 million copies on the first day of release.

There is not a smidgen of androgyny in Springsteen, who, rocketing around the stage in a T-shirt and headband, resembles Robert DeNiro in the combat scenes of "The Deerhunter." This is rock for the United Steelworkers, accompanied by the opening barrage of the battle of the Somme. The saintly Rebecca met me with a small pouch of cotton—for my ears, she explained. She thinks I am a poor specimen, I thought. I made it three beats into the first number before packing my ears.

I may be the only 43-year-old American so out of the swim that I do not even know what marijuana smoke smells like. Perhaps at the concert I was surrounded by controlled substances. Certainly I was surrounded by orderly young adults earnestly—and correctly—insisting that Springsteen is a wholesome cultural portent.

For the uninitiated, the sensory blitzkrieg of a Springsteen concert is stunning. For the initiated, which included most of the 20,000 the night I experienced him, the lyrics, believe it or not, are most important.

Today, "values" are all the rage, with political candidates claiming to have backpacks stuffed full of them. Springsteen's fans say his message affirms the right values. Certainly his manner does.

Many of his fans regarded me as exotic fauna at the concert (a bow tie and double-breasted blazer is not the dress code) and undertook to instruct me. A typical tutorial went like this:

Me: "What do you like about him?"

Male fan: "He sings about faith and traditional values."

Male fan's female friend, dryly: "And cars and girls."

Male fan: "No, no, it's about community and roots and perseverance and family."

She: "And cars and girls."

Let's not quibble. Cars and girls are American values, and this lyric surely expresses some elemental American sentiment: "Now mister the day my number comes in I ain't never gonna ride in no used car again."

Springsteen, a product of industrial New Jersey, is called the "blue-collar troubadour." But if this is the class struggle, its anthem—its "Internationale"—is the song that provides the title for his 18-month, world-wide tour: "Born in the U.S.A."

I have not got a clue about Springsteen's politics, if any, but flags get waved at his concerts while he sings songs about hard times. He is no whiner, and the recitation of closed factories and other problems always seems punctuated by a grand, cheerful affirmation: "Born in the U.S.A.!"

His songs, and the engaging homilies with which he introduces them, tell listeners to "downsize" their expectations—his phrase, borrowed from the auto industry, naturally.

It is music for saying good-bye to Peter Pan: Life is real, life is earnest, life is a lot of work, but . . . "Friday night's pay night, guys fresh out of work/

Talking about the weekend, scrubbing off the dirt. . . /In my head I keep a picture of a pretty little miss/Some-day mister I'm gonna lead a better life than this."

An evening with Springsteen—an evening tends to wash over into the a.m., the concerts lasting four hours—is vivid proof that the work ethic is alive and well. Backstage there hovers the odor of Ben-Gay: Springsteen is an athlete draining himself for every audience.

But, then, consider Max Weinberg's bandaged fingers. The rigors of drumming have led to five tendinitis operations. He soaks his hands in hot water before a concert, in ice afterward, and sleeps with tight gloves on. Yes, of course, the whole E Street Band is making enough money to ease the pain. But they are not charging as much as they could, and the customers are happy. How many American businesses can say that?

If all Americans—in labor and management, who make steel or cars or shoes or textiles—made their products with as much energy and confidence as Springsteen and his merry band make music, there would be no need for Congress to be thinking about protectionism. No "domestic content" legislation is needed in the music industry. The British and other invasions have been met and matched.

In an age of lackadaisical effort and slipshod products, anyone who does anything—anything legal—conspicuously well and with zest is a national asset. Springsteen's tour is hard, honest work and evidence of the astonishing vitality of America's regions and generations. They produce distinctive tones of voice that other regions and generations embrace. There still is nothing quite like being born in the U.S.A.



By Lucian Perkins—The Washington Post

Ronald Reagan

Remarks at a Reagan-Bush Rally in Hammonton, New Jersey
September 19, 1984

We've come through some tough times, but we've come through them together—all of us, from every race, every religion, and ethnic background. And we're going forward with values that have never failed us when we lived up to them—dignity of work, love for family and neighborhood, faith in God, belief in peace through strength, and a commitment to protect the freedom which is our legacy as Americans.

All that we've done and all that we mean to do is to make this country freer still. America's future rests in a thousand dreams inside your hearts. It rests in the message of hope in songs of a man so many young Americans admire—New Jersey's own, Bruce Springsteen. And helping you make those dreams come true is what this job of mine is all about.

Bruce Springsteen

Remarks at a concert, Pittsburgh, September 21, 1984

"The president was mentioning my name the other day, and I kinda got to wondering what his favorite album must have been. I don't think it was the Nebraska album. I don't think he's been listening to this one:

["Johnny 99"]

Well they closed down the auto plant in Mahwah late that month
Ralph went out lookin' for a job but he couldn't find none
He came home too drunk from mixin' Tanqueray and wine
He got a gun shot a night clerk now they call him Johnny 99

Down in the part of town where when you hit a red light you don't stop
Johnny's wavin' his gun around and threatenin' to blow his top
When an off duty cop snuck up on him from behind
Out in front of the Club Tip Top they slapped the cuffs on Johnny 99

Well the city supplied a public defender but the judge was Mean John Brown
He came into the courtroom and stared young Johnny down
Well the evidence is clear gonna let the sentence son fit the crime
Prison for 98 and a year and we'll call it even Johnny 99

A fistfight broke out in the courtroom they had to drag Johnny's girl away
His mama stood up and shouted "Judge don't take my boy this way"
Well son you got a statement you'd like to make
Before the bailiff comes to forever take you away

Now judge judge I had debts no honest man could pay
The bank was holdin' my mortgage and they was takin' my house away
Now I ain't sayin' that makes me an innocent man
But it was more 'n all this that put that gun in my hand

Well your honor I do believe I'd be better off dead
And if you can take a man's life for the thoughts that's in his head
Then won't you sit back in that chair and think it over judge one more time
And let 'em shave off my hair and put me on that execution line."

Bob Herbert, "Jack Kemp's Futile Quest"

Editorial from *The New York Times*, May 4, 2009

I remember Jack Kemp from way back, from his football days. He was the all-star quarterback for the Buffalo Bills in the game in 1965 in which Joe Namath made his first start for the New York Jets. The United States was at war and Lyndon Johnson was drafting every young man he could get his hands on for his buildup of forces in Vietnam, but neither Kemp nor Namath had to worry about that. Football injuries made them unfit for service.

Kemp and the Bills beat Namath and the Jets on that September afternoon in Buffalo, 33-21.

Kemp, who died on Saturday from cancer, would later be much better known for his long career as a conservative Republican politician. He had two very big ideas for his party. One was terrific, spot on. The other couldn't have been more boneheaded. The G.O.P. being the G.O.P. rejected the good idea and went hog wild for the boneheaded one.

Kemp's good idea was that the Republicans should vastly expand their tent, get past their narrow-mindedness and begin actively seeking the support of blacks and other ethnic minorities.

The G.O.P. would have none of it. It was, after all, the party of the southern strategy, and there was precious little that was racially enlightened about its conservative wing. One of the writers who influenced Kemp's thinking about politics, William F. Buckley, was at the opposite pole of Kemp's progressive thinking about race. Buckley took a scurrilous stand in the aftermath of the *Brown v. Board of Education* decision that desegregated the nation's public schools.

Whites, being superior, were well within their rights to discriminate against blacks, according to Buckley. "The White community is so entitled," he wrote, "because, for the time being, it is the advanced race ..."

Kemp was whistling in a hurricane.

The bad idea, advanced by Kemp with fanatical energy and devotion, was supply-side economics — "voodoo economics," as George H.W. Bush so famously and rightly derided it. Supply-siders saw tax cuts as the answer to every prayer. Cut taxes, they argued, and watch the economy take off like a rocket.

What they never spelled out for the electorate was that most of the tax cuts would go to the rich, that the rich would harvest most of the money from the increased economic activity, and that the radically reduced tax revenue would send government budget deficits streaking toward the moon.

Kemp professed not to be worried about the deficits. He seemed to have believed that somehow everything would work out. The ultramilitants to his right, people even further out in their orthodoxy than Kemp, were delighted by the deficits. They wanted to "starve the beast," reduce the government's revenues to the point where elected officials would have no choice but to cut programs and services that benefited people who were not rich. Social Security, Medicare and Medicaid were primary targets.

"Our goal," said Grover Norquist, "is to shrink government down to the size where we can drown it in the bathtub."

Norquist, a driving force behind the George W. Bush tax cuts, once called John McCain a "tax-increasing Bolshevik." We are talking about weirdness of a very high order here, and that weirdness dominated the economic policies of the United States for years.

Working people were told they should sign onto this craziness because the economic benefits of supply-side tax policies would ultimately benefit everyone. As every scheme imaginable was developed to bolster the fortunes of the rich, ordinary people were left in the humiliating position of waiting for some of the goodies to trickle down to them.

We've seen how it all worked out.

The way to look at the endless theoretical and intellectual posturing of the right is to look at who actually does well when the so-called conservative policies are implemented, and who doesn't. Inevitably it's the rich who benefit.

Jack Kemp meant well, but the great irony that cloaked his entire career was that it was not possible to achieve the ends he sought using the means he pushed with such zeal. He wanted to help the middle class and the poor. He wanted the nation's inner cities to thrive, and he wanted America's prosperity to be broadly shared.

But he chose as his vehicle the party of the rich. The changes he advocated and helped shepherd into law went far beyond correcting excesses in the tax code. They radically transformed the economic system in ways that proved a boon to those who were already wealthy, were harmful to the very people he wanted to help and eventually left the overall economy in ruins.

Suggestions for further reading

Friedman, Benjamin. Day of Reckoning: The Consequences of American Economic Policy under Reagan and After. New York: Random House, 1988.

Friedman, a leading economist, engages critically with the legacies of Reaganomics, paying special attention to the deficits. Erudite but written for a general audience.

Johnson, Haynes. Sleepwalking through History: America in the Reagan Years. New York: Norton, 1991.

A critical general history of the Reagan years from a journalist who lived and worked through them. Haynes' treatment of economic issues is especially good.

Niskanen, William. Reaganomics: An Insider's Account of the Policies and the People. New York: Oxford University Press, 1988.

An account of Reagan's economics program during the first administration from the former chair of Reagan's Council of Economic Advisers

Reich, Robert. Supercapitalism: The Transformation of Business, Democracy, and Everyday Life. New York: Alfred A. Knopf, 2007.

Reich, a former Secretary of Labor and one of the nation's leading economists, sets Reagan's legacy in broad context. He emphasizes the technological rather than the policy sources of economic restructuring from the 1970s onwards.

Stockman, David. The Triumph of Politics: How the Reagan Revolution Failed. New York: Harper & Row, 1986.

One of the leading proponents of Reaganomics explains the practical shortcomings of supply side economics. Congress shoulders substantial blame, but Stockman is surprisingly hard on the Reagan White House itself.

Troy, Gil. Morning in America: How Ronald Reagan Invented the 1980s. Princeton N.J.: Princeton University Press, 2005.

A recent account of Reagan's presidency from a sympathetic historian.