Advise the President:

RONALD REAGAN

How Should the United States Move Towards Economic Recovery?

NATIONAL ARCHIVES

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Place: The Oval Office, the White House
Time: February 1981

When President Reagan took office in January 1981, the U.S. economy was in deep trouble. Millions of Americans were out of work, U.S. companies were struggling, and interest rates and inflation were spiraling out of control. In his first address to the nation, the President affirmed that his first priority was to revitalize the American economy, but it wouldn't be easy.

He faced a series of tough choices that would determine the fate of his Presidency and the long-term future of the U.S. economy.

In coming days, the President will gather around him a team of trusted economic advisers—you— to evaluate how to address the pocketbook issues affecting every American.

President Reagan declared, "It's time to recognize that we've come to a turning point." "We're threatened with an economic calamity of tremendous proportions, and the old business-as-usual treatment can't save us. Together, we must chart a different course."

STEP INTO THE OVAL OFFICE.

THE PRESIDENT IS EXPECTING YOU.

Background

President Reagan has been in office less than three weeks. A mood of economic anxiety hangs over the nation. Millions of Americans are out of work, interest rates are soaring, fuel shortages are creating long lines at the gas pump, and runaway inflation—once a rare problem limited primarily to wartime—has become an everyday fact of life. Across America, people are finding their incomes squeezed, their life- styles constricted, and even their livelihoods threatened by an economy in turmoil.

The economic news is troubling on many fronts:

- **Unemployment.** Nearly 8 million Americans are out of work. In one month alone— April 1980—the jobless rate jumped almost a full percentage point, leaving some 825,000 workers in the street.

- **Inflation.** Prices are increasing at a rate not seen since the First World War—13 percent in 1979 and 12 percent in 1980—meaning that Americans are working harder and harder just to maintain their standard of living.

- **Interest rates.** The cost of borrowing money has ballooned to about 20 percent, driving up the cost of financing a house or a new car. Spiraling interest rates hurt everyone, but especially small businesses that rely on borrowed money to expand and finance new investments.

- **Wages.** The hourly compensation for American workers is at its lowest point in almost two decades.

- **Productivity.** The production output of American industry is undergoing its second-longest downturn on record.

- **Competitiveness.** In key industries like auto manufacturing, America's competitors are producing better goods at lower cost, leading to concerns that the United States might become a second-rate economic power.

- **Public spending.** The Federal budget deficit now stands at $80 billion for the fiscal year beginning in September 1980—the largest to date in U.S. history.

- **National debt.** The total debt load of the U.S. Government is approaching $1 trillion.

The interest on these loans is now adding over $90 billion a year to the debt. According to economists, America is trapped in a protracted period of stagflation in which the economy is sluggish even as inflation remains high. Just when the economy begins to pull out of a period of recession, interest rates start to go up and drive up inflation. That in turn pushes the economy back down into another period of slow growth or recession.

TOGETHER WE CAN FORGE A NEW BEGINNING

“I regret to say that we are in the worst economic mess since the Great Depression. . . .

The Federal budget is out of control, and we face runaway deficits of almost $80 billion for this budget year that ends September 30th. That deficit is larger than the entire Federal budget in 1957, and so is the almost $80 billion we will pay in interest this year on the national debt.

Twenty years ago, in 1960, our Federal Government payroll was less than $13 billion. Today it is $75 billion. During these 20 years our population has only increased by 23.3 percent. The Federal budget has gone up 528 percent.

Now, we have just had two years of back-to-back double-digit inflation — 13.3 percent in 1979, 12.4 percent last year. The last time this happened was in World War I. In 1960, mortgage interest rates averaged about 6 percent. They are 2½ times as high now, 15.4 percent.

The percentage of your earnings the Federal Government took in taxes in 1960 has almost doubled. And finally, there are 7 million Americans caught up in the personal indignity and human tragedy of unemployment. If they stood in a line, allowing three feet for each person, the line would reach from the coast of Maine to California. . . .

Over the years we have let negative economic forces run out of control. We stalled the judgment day, but we no longer have that luxury. We are out of time.

And to you, my fellow citizens, let us join in a new determination to rebuild the foundation of our society, to work together, to act responsibly. Let us do so with the most profound respect for that which must be preserved as well as with sensitive understanding and compassion for those who must be protected.

We can leave our children with an unrepayable massive debt and a shattered economy, or we can leave them liberty in a land where every individual has the opportunity to be whatever God intended us to be. All it takes is a little common sense and recognition of our own ability. Together we can forge a new beginning for America.”

— Ronald Reagan
Excerpt From a Televised Address to the Nation
The White House, February 5, 1981

No Easy Fix

Despite the broad consensus that the economy needs an overhaul, experts disagree on how to fix it. The problems are complex and intertwined. If the Federal Reserve were to combat inflation by tightening the money supply, for example, it would make credit more expensive; this, in turn, would cause business activity to decline, which would drive up unemployment.

President Reagan stopped short of declaring a "national economic emergency" upon taking office—as some of his advisors had recommended—but he sees the need for drastic and immediate measures to shore up the economy.

"It's time to recognize that we've come to a turning point," he declared in a nationally televised address from the White House. "We're threatened with an economic calamity of tremendous proportions, and the old business-as-usual treatment can't save us. Together, we must chart a different course."

In the address, the President promised that by the middle of February 1981—a few short weeks away—he would present a detailed plan for how his administration intends to combat the recession and rebuild the economy. He was confident that the package would win the support not only of Congress but also of the business community and the American people.

The Options:

Option One: Minimize Government
Revitalizing the economy requires trimming the Federal budget and reducing the size of government.

Option Two: Bring Inflation Under Control
Strengthening the economy calls for working with the Federal Reserve to raise interest rates, limit the money supply, and curb runaway inflation.

Option Three: Tackle Unemployment
Fixing the economy involves creating jobs, promoting free enterprise, and scaling back the controls that interfere with the free market.

Option Four: Reform the Tax Code
Stimulating the economy requires changes to the tax code to boost productivity and promote savings and investment.

OPTION ONE: MINIMIZE GOVERNMENT

Revitalizing the economy requires trimming the Federal budget and reducing the size of government.

This option makes the case that we must pare down public expenditures and reduce the size of government in order to restore balance and get the economy working. It says that we can't continue to raise taxes to cover budget shortfalls. Instead we have to cut programs and eliminate wasteful spending.

"Millions of Americans today have had to tighten their belts because of the economic conditions," President Reagan said in a news conference, "and it's time to put Washington on a diet too. Gaining control of the size of government, getting our economy back on track, will not wait."

Even before Reagan was elected President, there was widespread public support for budget reform. "We have reached a turning point in American history," Alan Greenspan, chairman of the Council of Economic Advisers under President Ford, had said, "Unless we choke off budget growth, we cannot rebuild the economy."

Reining in Federal Spending

Shortly after the election, two congressmen—David Stockman of Michigan and Jack Kemp of New York—wrote an influential memo advising the President on how to avoid an economic meltdown. They charged that Congress had converted the Federal budget into "a coast-to-coast soup line," one that "dispenses remedial aid with almost reckless abandon."

"Government is not the solution to our problem. Government is the problem."

— Ronald Reagan

One example of this, they said, is that benefits to U.S. workers displaced by America's growing dependence on imported goods has shot up from $319 million in 1979 to over $2 billion today. Similarly, student loan subsidies, once a relatively small program, are now costing taxpayers $1.6 billion a year.

Benefits to the unemployed help to relieve distress, and student loan subsidies are an investment in America's future productivity. But these types of programs are expensive and drive up the budget deficit, which in turn boosts inflation and contributes to the recession.

Taking care of the less fortunate is crucial, but we must do that in a way that doesn't compromise the common good. "We have tried to combine economic progress with economic security," writes M.I.T. economist Lester Thurow in his book *The Zero-Sum Society.* "Everyone wants both, but everyone cannot have both."

This option says it's time to rein in Federal spending and get the economy back on track. The way to do that is not just by cutting spending but also by reducing the overall size of government. This means doing away with regulations that cost the taxpayers money, drive up the price of American goods and services, and stifle competition in the free market. Deregulation of certain industries can free up taxpayer dollars spent on oversight committees, regulatory agencies, and costly government programs, while at the same time unleashing American business and spurring innovation in the marketplace.

What We Could Do

- ***Reduce public expenditures. Across-the-board spending cuts to a wide range of Federal programs, including Social Security and Medicare, could be made without compromising national security or the overall effectiveness of government.***

  But . . . many American families, and the communities they live in, would have to take on the social responsibilities being shed by the Federal Government.

- ***Pass a balanced-budget amendment. A second step, similar to the first but more far-reaching, would be to work with Congress to pass a balanced-budget amendment, like that of many U.S. states, requiring that the Government live within its means.***

  But . . . Government revenues rise and fall depending on the strength of the economy. A balanced-budget requirement would necessitate harsh cuts during periods of recession. It would also compromise America's ability to make long-term investments.

- ***Suspend new regulations. A freeze could be placed on all new regulations, including those pertaining to health, safety, and the environment. A further step in this direction might be to repeal or delay by Presidential order many regulations either pending or already on the books.***

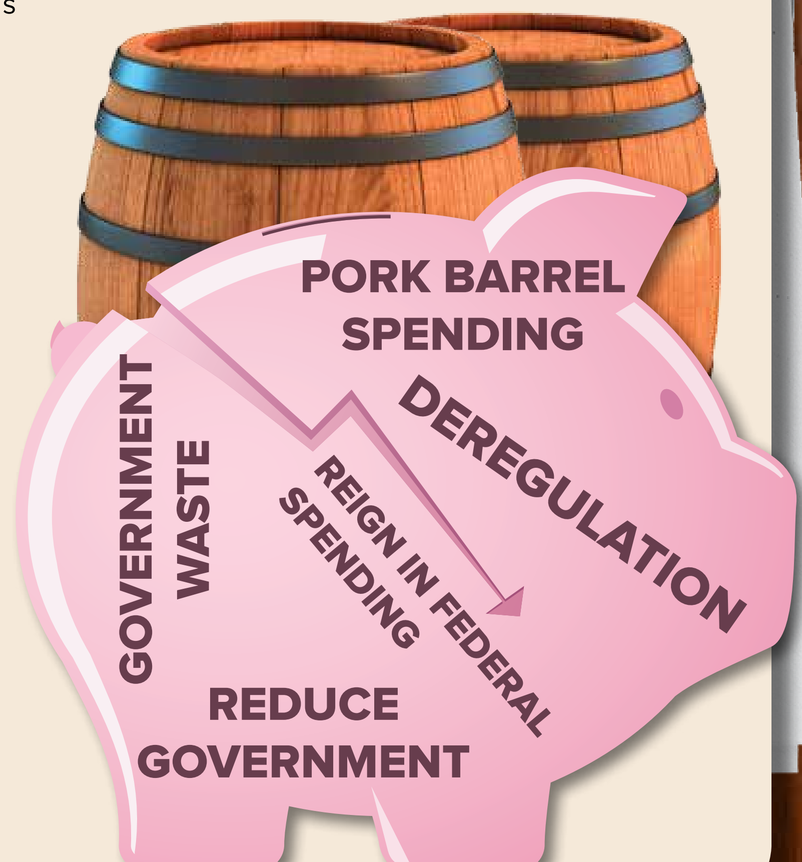
  But . . . many regulations take the form of safeguards to ensure people's health and safety. The loss of these regulations might put people at risk in workplaces, schools, and communities.

- ***Tackle waste, fraud, and abuse. A further action would be to eliminate extravagance, abuse, and outright fraud in government. These include mismanagement, loopholes, and cost overruns—such as ordinary plastic stool leg caps used by the military that cost taxpayers $916 apiece.***

  But . . . this would require additional bureaucracy to monitor and control.

- ***Crackdown on pork-barrel spending. Legislation could be passed banning the use of government funds to please voters or cater to special interest groups—a common practice among lawmakers to ensure the passage of controversial bills in Congress.***

  But . . . what may be considered pork-barrel spending by some represents valuable opportunities to others—to build a new airport or hospital, for example.



OPTION TWO: BRING INFLATION UNDER CONTROL

Strengthening the economy calls for working with the Federal Reserve to raise interest rates, limit the money supply, and curb runaway inflation.

In addition to financial setbacks suffered from unemployment, low wages, and high interest rates, Americans are feeling the pinch because their money isn't going as far as it used to. Inflation has skyrocketed over the last decade, hitting double digits in 1979 and 1980—a rate not seen since the First World War.

President Reagan calls it a "trendline to disaster." In a televised speech to the nation, he dramatized the impact of chronic inflation by holding up a one-dollar bill to represent the value of a dollar earned in 1960. Then he held out his other hand, which contained a quarter, a dime, and a penny—just 36 cents—to represent the purchasing power of a dollar 20 years later.

"Inflation is not just high prices," he said. "It's a reduction in the value of money. When the money supply is increased but the goods and services available for buying are not, we have too much money chasing too few goods."

Keeping Prices Steady

This option argues that the path to economic recovery begins by controlling runaway inflation. Without stable prices, people lose the incentive to save and accumulate the capital on which a market economy depends. History shows that soaring prices have almost always been a prelude to social chaos and eventually political upheaval.

Inflation is a contributing factor to other economic problems. Pay-outs for Social Security, which are tied to the cost of living, rise because of inflation. Investors, wary of unpredictable price increases, put their cash into tangible assets, such as gold and silver. Speculators then jump in and buy more by using borrowed money, which quickly drives up prices and sets off chain reactions that produce anxiety and instability in the financial markets.

Inflation Has No Easy Fix

There is no easy fix for runaway inflation, in part because its causes are so varied, complex, and poorly understood. The Federal Reserve Board of Governors, the independent body charged with shaping the nation's monetary policy, acknowledges that it is in uncharted territory today.

"It's really scary," a senior official in the Carter administration admitted to *Time* magazine. "This inflation thing is frightening because we don't know what causes it, or what to do about it. The economists go to their computers, plug in the data, and out comes information that says that nothing like this should be happening. It's very, very scary stuff."

In recent years, inflation has been widely attributed to the spiraling cost of energy, soaring interest rates, and the rise in wages. The high price of oil is estimated to account for 25 to 30 percent of inflation. The high cost of borrowed money affects every level of the marketplace, increasing costs to the manufacturer, the wholesaler, and the retailer. To catch up with the escalating cost of living, wages are rising steadily.

A complicating factor is that U.S. monetary policy is made and implemented by the Federal Reserve, not the executive or legislative branches of government. This means that the President's powers are limited and that he needs to work closely with the Federal Reserve to help influence its decisions.

In spite of the challenges, this option argues that controlling inflation is the best hope for a rebound in the United States economy. Inflation saps the strength of a healthy economy, it worsens other economic problems, and it creates public anxiety and resentment. Without swift measures to bring it under control, our economy is likely to suffer even greater losses and leave us all poorer.

What We Could Do

- ***Control the money supply. The President could work with the Federal Reserve Board to tighten the money supply. This would have the effect of stabilizing the nation's currency and restoring healthy financial markets. Such an action might include a program of credit controls to discourage banks from lending to businesses and consumers.***

  But . . . reducing the amount of money in circulation would make it more expensive for individuals and businesses to borrow money for essential short- and long-term investments.

- ***Impose wage and price controls. The President could request that Congress impose wage and price controls to break the inflationary spiral. Such policies would penalize businesses that break Federally mandated limits on price and wage increases.***

  But . . . price controls limit the incentives for business to produce, and can lead to price explosions when they are lifted.

- ***Introduce an energy tax. The President could work with Congress to introduce a new excise tax on gasoline to cut energy consumption and limit American dependence on foreign oil—a key cause of inflation.***

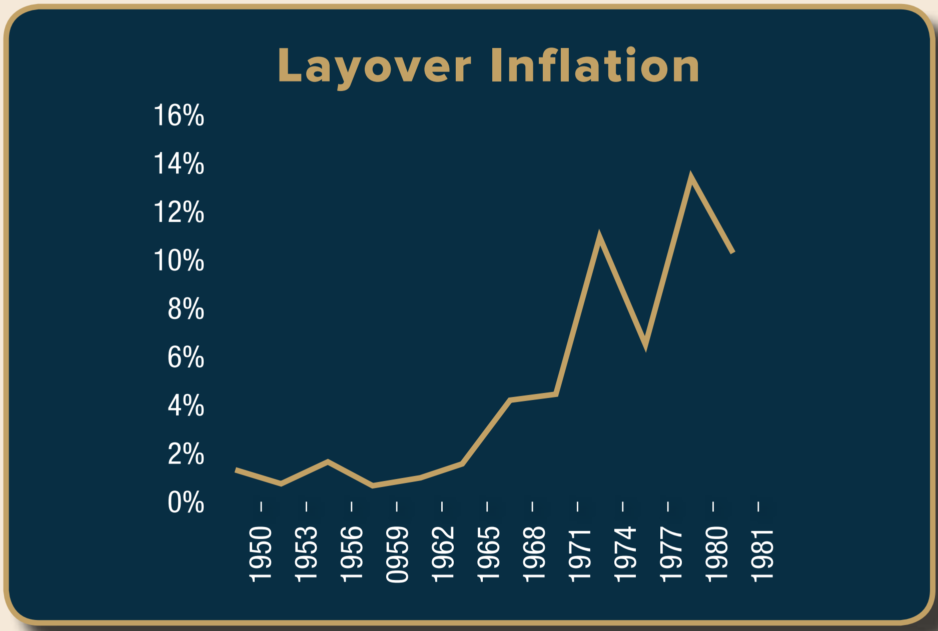
  But . . . such an action would hit ordinary Americans in the pocketbook at a time when they are already struggling to make ends meet.

- ***Create incentives for the private sector. The President could work with Congress to give tax incentives to companies that hold down prices and to workers willing to settle for modest wage increases.***

  But . . . such interventions would also have to be funded and overseen by the Government, placing an even greater burden on the public purse.

- ***Raise interest rates. The President could work with the Federal Reserve to raise interest rates, thereby increasing the cost of borrowing money. This will bring down prices by dampening consumer spending and reducing the demand on goods and services.***

  But . . . raising the interest rates could hurt American businesses—and thereby increase unemployment—by making credit more expensive.



Inflation rates from 1920 up to 1981, when President Ronald Reagan took office.

OPTION THREE: TACKLE UNEMPLOYMENT

Putting Americans back to work means creating jobs, promoting free enterprise, and scaling back the controls that interfere with the free market.

This option makes the case that economic recovery is impossible if we don't put more Americans back to work. The economy needs a healthy and productive workforce, it needs strong levels of consumer confidence, and it needs people contributing to, rather than depending on, the system.

In his first televised address from the White House after taking office, President Reagan declared that "there are seven million Americans caught up in the personal indignity and human tragedy of unemployment. If they stood in a line allowing three feet for each person, the line would reach from the coast of Maine to California."

People want to work and be productive, the President continued. "But as the months go by despair dominates their lives. The threats of layoff and unemployment hang over other millions and all who work are frustrated by their inability to keep up with inflation."

Many Jobs Aren't Coming Back

Putting people back to work will not be easy since a temporary downturn in the economy is not the only cause of unemployment. Many Americans have lost jobs that may never return, especially those in the old-line "sweat and toil" industries across the nation's manufacturing heartland, such as auto and steel manufacturing.

Imports from foreign competitors in Japan, Germany, and other countries have started eating into the profits of Detroit automakers. But the toughest blow has been the one-two punch of rising gasoline prices and soaring interest rates in the late 1970s. Car sales hit a 20-year low in 1980, and the demand for steel by U.S. automakers—the steel industry's single biggest customer—has dropped sharply.

Other industries are also suffering. Low commodity prices and high interest rates are driving many farmers out of business, especially in the High Plains states, which have been suffering from severe drought. Housing construction is down because spiraling interest rates and high inflation have made it difficult for many Americans to finance a new home purchase. In some industries, jobs are moving overseas or being replaced by automation.

While the power of the Government to solve the unemployment problem is limited, it can and must promote the growth of the private sector and put Americans back to work.

> ***"A president's greatest responsibility is to protect all our people from enemies, foreign and domestic. Here at home the worst enemy we face is economic—the creeping erosion of the American way of life and the American dream that has resulted in today's tragedy of economic stagnation and unemployment."***
>
> — Ronald Reagan

What We Could Do

- ***Deregulate the private sector. The government could remove regulations that limit competition in the marketplace, which would strengthen entrepreneurship and free enterprise—and create jobs.***

  But . . . eliminating regulations could create an unfair playing field that would benefit some Americans at the expense of others. It could also do away with safeguards meant to protect the environment or public health and safety.

- ***Promote free trade. Removing or reducing tariffs, subsidies, quotas, and other impediments to free trade could stimulate the economy by expanding the market for American goods and services abroad.***

  But . . . free trade could depress U.S. wages and benefits and drive away some of our manufacturing jobs.

- ***Launch new public works programs. Investment in new public works programs, such as rural development initiatives, inner city redevelopment projects, and the construction of new schools, hospitals, roads, and bridges, could create jobs for hundreds of thousands of Americans.***

  But . . . large-scale public works programs run the risk of spurring more inflation. They would also drive up the deficit.

- ***Restrict unions. Placing limits on the influence of unions and labor organizations could give businesses greater power to dictate wages, benefits, and work rules.***

  But . . . organized labor exists to prevent exploitation and abuse of employees. Without strong unions, wages and working conditions could get worse.

- ***Offer assistance to industries hardest hit by the recession. Tax breaks, loan guarantees, and other forms of government aid could be offered to auto, steel, and other ailing industries.***

  But . . . supporting struggling industries simply so that people can keep their jobs is unsustainable over the long term.

OPTION FOUR: REFORM THE TAX CODE

Individuals and businesses must be allowed to keep a bigger share of their earnings so they can put that money back to work in stimulating the economy.

The top marginal tax rate on individual income now stands at 70 percent, and current tax laws offer few incentives for individuals and businesses to save or invest. High inflation rates are also forcing many middle-class families into tax brackets originally intended only for the super-rich.

In 1981 a family of four earning $25,000 will need a raise of $3,325 to keep up with inflation, but they will remain behind because the pay raise will add $1,271 to their Federal tax bill.

What the economy needs, many Americans believe, is not just tax relief but a more equitable system.

"Over the course of this century, our tax system has been modified dozens of times and in hundreds of ways," President Reagan said in a televised address. "Yet, most of those changes didn't improve the system. They made it more like Washington itself: complicated, unfair, cluttered with gobbledygook and loopholes designed for those with the power and influence to hire high-priced legal and tax advisors."

Promoting the Spirit of Entrepreneurship

This option argues that current tax rates not only reduce the incentive for Americans to earn more, save, invest, and "get ahead," but they stifle economic growth. The United States needs to reform its tax code to let people keep a bigger share of their earnings and put that money to work in stimulating the economy.

The goal of tax reform should be to restore private incentives and reawaken the entrepreneurial instincts of the private sector. It should reward technological and managerial innovation as well as savings, risk-taking, and hard work. A fair and effective tax code will strengthen the economy by funneling these rewards back into the marketplace.

Effective tax reform will reduce taxes for everyone. It will draw people's savings out of tax havens—which shelter people's money from punitively high tax rates—and into productive investments in new factories, better technologies, and more jobs.

What We Could Do

- ***Cut taxes across the board. Income tax rates must be slashed for both individuals and businesses to promote savings and investment. One way to do this could be to decrease the marginal income tax rates by 23 percent over three years, with the top rate falling from 70 to 50 percent and the bottom rate dropping from 14 to 11 percent.***

  But . . . large tax cuts would increase the deficit. Also, relying on tax cuts to spur saving, investment and growth could widen the gap between the nation's rich and poor since it has to favor the wealthy to be effective.

- ***Index taxes to inflation. Tax brackets could be linked to inflation so that rising wages no longer push taxpayers—especially those belonging to the middle class— into ever-higher tax brackets.***

  But . . . creating a system with adjustable income brackets might reduce overall government revenues because of inflation, thereby driving up the deficit.

- ***Offer incentives for innovation. Preferential tax treatment could be given to some industries—clean energy, for example—as an incentive for companies working in fields that hold promise for the future.***

  But . . . such a system could create costly loopholes that burden taxpayers.

- ***Strengthen small businesses. Corporate income tax rates could be lowered for small businesses, since they play a vital role in maintaining healthy communities and a robust economy.***

  But . . . offering preferential treatment to small business could be seen as a way of indirectly punishing medium and large companies and of skewing the private sector in favor of mom-and-pop operations.

- ***Promote savings and investment. Allow all taxpayers not yet retired to establish individual retirement accounts (IRAs). The accounts could allow people to contribute up to $2,000 a year, thereby reducing their taxable income by the amount of their contributions.***

  But . . . since IRAs require careful planning and favor those in higher income brackets, they could benefit the rich more than the poor.

> ***"Excessive taxation of individuals has robbed us of incentive and made overtime unprofitable."***
>
> — Ronald Reagan

How Should the United States Move Toward Economic Recovery?

OPTION ONE: MINIMIZE GOVERNMENT

Main Arguments in Favor of This Option	Examples of What Might Be Done	Some Consequences and Trade-offs to Consider
Revitalizing the American economy requires trimming the Federal budget and reducing the size of the Government.	Reduce public expenditures by making cuts to Social Security, Medicare, and other government programs.	American families, and the communities they live in, would have to take on the responsibilities being shed by the Federal Government.
	Work with Congress to pass a balanced-budget amendment requiring that the Government live within its means.	This could necessitate harsh cuts during periods of recession. It might also compromise America's ability to make long-term investments.
	Put a freeze on all new regulations, and delay or appeal those that are pending or already on the books.	This might eliminate protections put in place to ensure public health and safety.
	Eliminate extravagance, abuse, and fraud in government, such as loopholes and cost overruns.	This would require increased bureaucracy to administer.
	Crack down on pork-barrel spending aimed at catering to special interests by individual members of Congress.	What may be considered pork-barrel spending by some represent valuable opportunities to others.

OPTION TWO: BRING INFLATION UNDER CONTROL

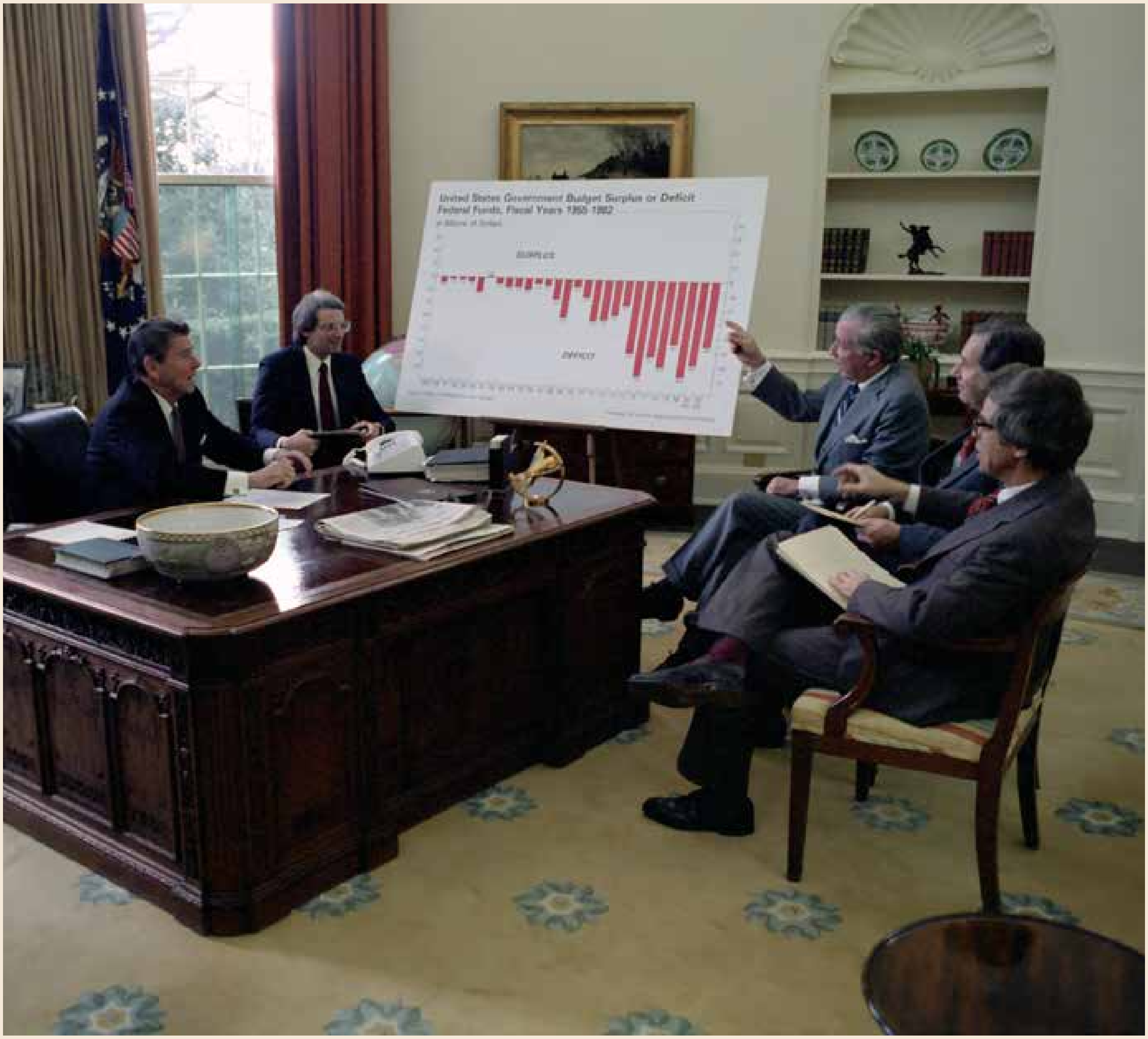
Main Arguments in Favor of This Option	Examples of What Might Be Done	Some Consequences and Trade-offs to Consider
Strengthening the economy calls for working with the Federal Reserve Board to raise interest rates, limit the money supply, and curb runaway inflation.	Stabilize the U.S. currency and restore healthy financial markets by tightening the money supply.	Controlling the money supply would make it more expensive to borrow money for essential investments.
	Impose wage and price controls to break the inflationary spiral.	Price controls limit the incentives for business to produce, and can lead to price explosions when they are lifted.
	Introduce a new excise tax on gas to cut energy consumption and limit American dependence on foreign oil.	A new tax would hurt ordinary Americans at a time when they're already struggling to make ends meet.
	Offer tax incentives to companies that hold down prices and to workers willing to settle for modest wage increases.	This would have to be funded and overseen by the Government, thus further burdening the public purse.
	Raise interest rates to dampen consumer spending, reduce demand on goods and services, and stabilize prices.	This could hurt American businesses—and thereby drive up unemployment—by making credit more expensive.

OPTION THREE: TACKLE UNEMPLOYMENT

Main Arguments in Favor of This Option	Examples of What Might Be Done	Some Consequences and Trade-offs to Consider
Putting Americans back to work means creating jobs, promoting free enterprise, and scaling back the controls that interfere with the free market.	Deregulate the private sector to promote entrepreneurship and free enterprise—and create jobs.	Eliminating regulations could create an uneven playing field and do away with essential health and safety protections.
	Expand the market for American goods and services abroad by removing or reducing tariffs, subsidies, quotas, and other impediments to free trade.	Promoting free trade could depress U.S. wages and benefits and drive away some of our manufacturing jobs.
	Launch new public works programs, such as rural development initiatives and large-scale infrastructure projects, to create jobs.	Large-scale public works programs run the risk of spurring more inflation. They would also drive up the deficit.
	Restrict unions and give com panies greater power to dictate wages and work rules.	Without unions and labor organizations, wages and working conditions could get worse.
	Offer Federal assistance to industries hardest hit by the recession.	Supporting ailing industries simply so people can keep their jobs is unsustainable over the long term.

OPTION FOUR: REFORM THE TAX CODE

Main Arguments in Favor of This Option	Examples of What Might Be Done	Some Consequences and Trade-offs to Consider
Individuals and businesses must be allowed to keep a bigger share of their earnings so they can put that money back to work in stimulating the economy.	Reduce taxes across the board for individuals and businesses.	Large tax cuts would increase the deficit. They could also widen the gap between the rich and poor.
	Index taxes to inflation so that rising wages don't force people into ever-higher tax brackets.	This might reduce overall government revenues, thereby driving up the deficit.
	Offer tax incentives for innovative companies in industries that hold special promise for the future.	Such a system could create costly loopholes that burden taxpayers.
	Cut taxes on small businesses as they are a key to strong communities and a robust conomy.	Favoring small businesses over medium and large companies could skew the private sector.
	Promote savings and investment through tax incentives such as individual retirement accounts.	Because IRAs require savings and careful planning, they benefit the rich more than the poor.



President Reagan meeting with David Stockman, Don Regan, Murray Weidenbaum, and Martin Anderson to discuss the economy in the Oval Office, January 28, 1981.

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WHAT DID PRESIDENT REAGAN DO?

On February 18, 1981, President Reagan presented a comprehensive four-part program for economic recovery to a joint session of Congress and to a national television audience. The plan contained 83 major policy and program changes, most of them aimed at reducing the growth of government spending, cutting taxes, reforming and eliminating regulations, and bringing inflation under control. "If enacted in full, our program can help America create 13 million new jobs," the President asserted. "It will also help us gain control of inflation."

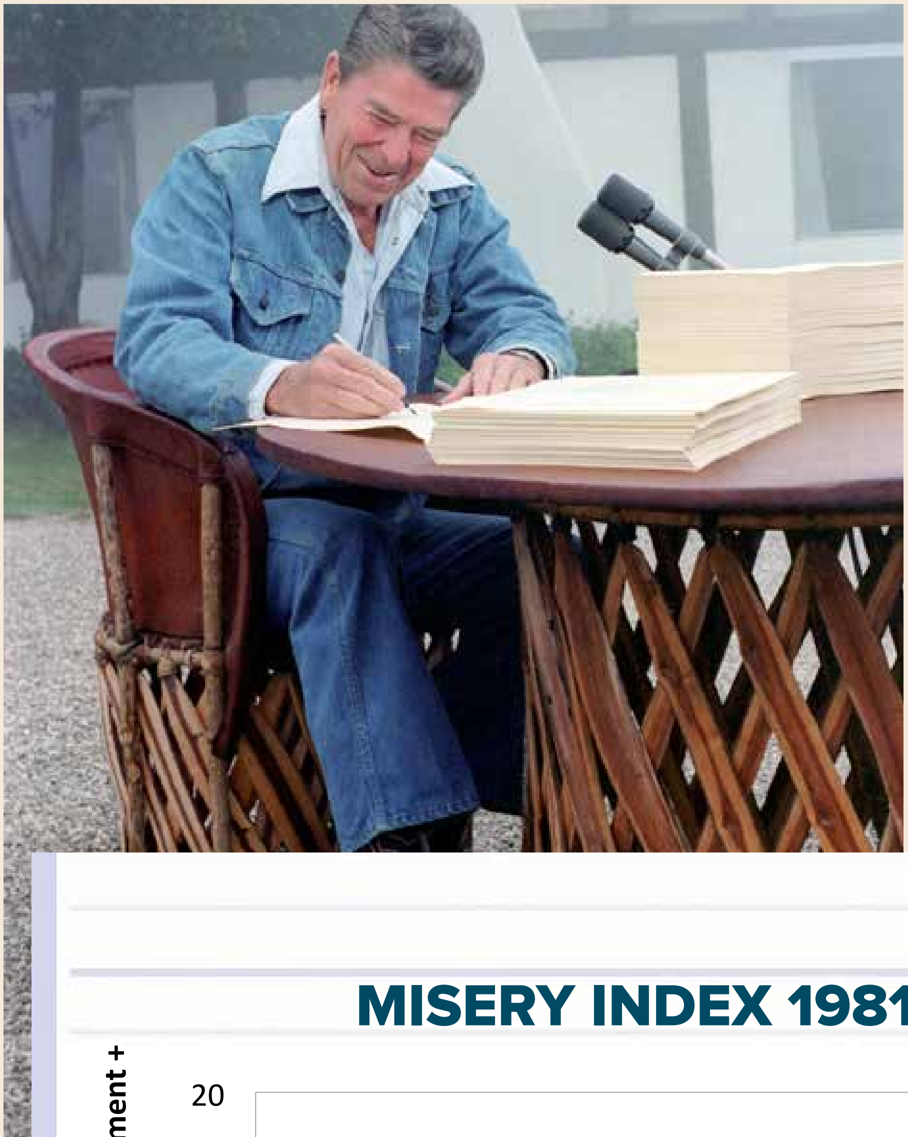
The plan was met with resistance from Democrats and even some Republicans when it was first announced. But President Reagan lobbied for his plan in Congress and used his gifts as a communicator to persuade the American people. By July 1981, his economic recovery package won the support of two-thirds of the public and was approved by enough Democrats to get it through Congress. President Reagan signed the Recovery Act into law at his southern California ranch in August 1981.

Was President Reagan's Economic Plan Successful?

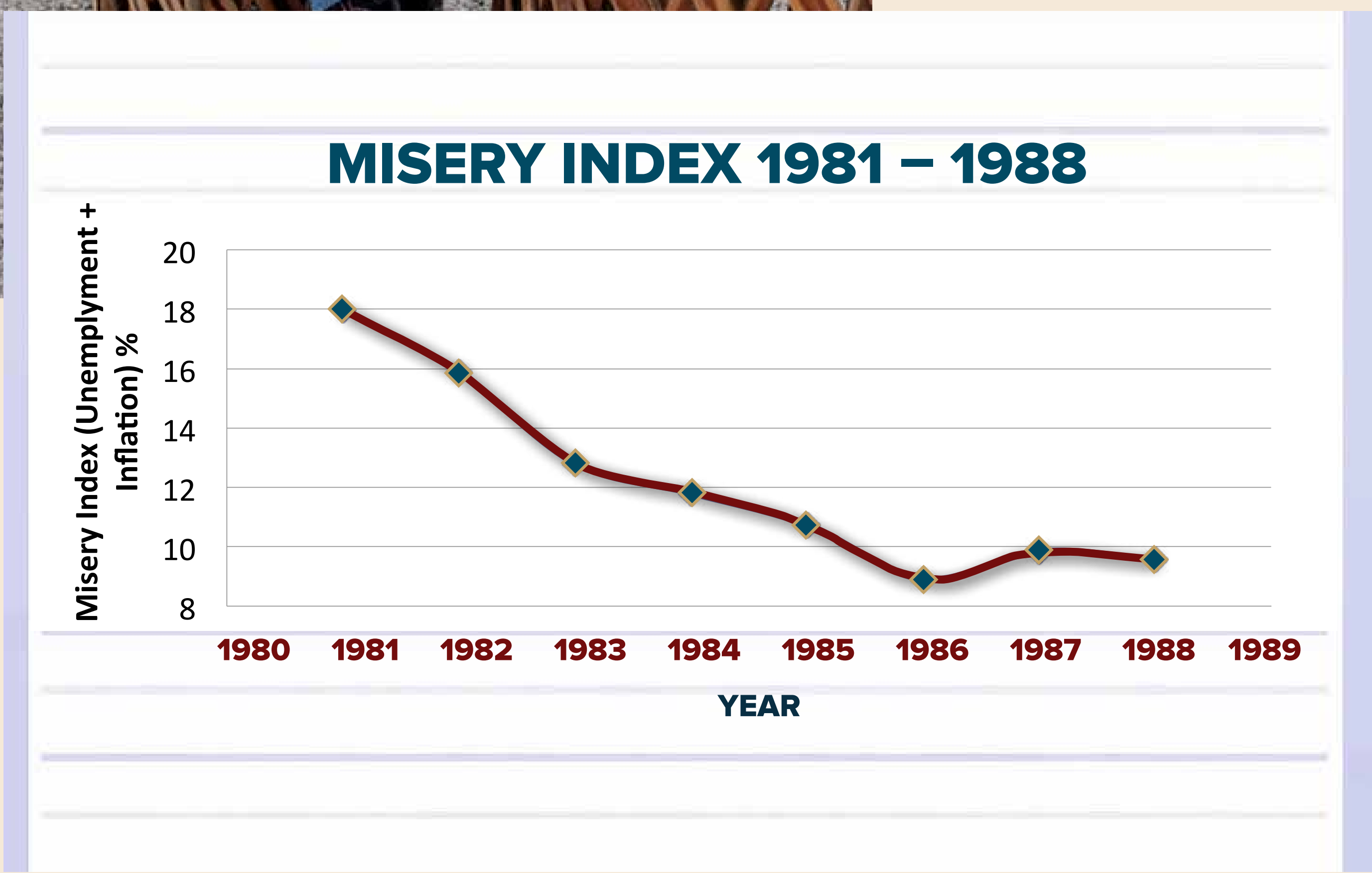
Not at first. The Federal Reserve Board had taken tough measures to control inflation, leading to a recession that lasted well into Reagan's first term. Unemployment soared, and many blue-collar workers who had voted for Reagan were especially hard hit. By November 1982, unemployment reached 10.7 percent, the highest rate since the Great Depression. Thousands of companies went under, farmers lost their land, and many sick, elderly, and poor became homeless.

However, the economy began to rebound in January 1983, continued to grow through President Reagan's second term, and carried over into the Bush administration, providing what was the longest peacetime expansion to date in U.S. history. As Reagan biographer Lou Cannon has written: "Eighteen million new jobs were created. The annual inflation rate, which averaged 12.5 percent in the final year of the Carter presidency, averaged 4.4 percent in 1988. Meanwhile, the unemployment rate had been reduced from 7.1 percent to 5.5 percent and the prime interest rate cut nearly six points to 9.32 percent."

William Niskanen, a key economic advisor to President Reagan and author of the book *Reaganomics*, has observed that President Reagan delivered on each of his four major policy objectives, but the recovery program was not an unqualified success. The budget deficit rose sharply, the national debt increased, and U.S. trade was hurt by stricter enforcement of U.S. trade laws. But ultimately, Niskanen writes, "the 'stagflation' and 'malaise' that plagued the U.S. economy from 1973 through 1980 were transformed by the Reagan economic program into a sustained period of higher growth and lower inflation."



President signing the Economic Recovery Tax Act HR 4242 and Omnibus Budget Reconciliation Act HR 3982 of 1981, August 13, 1981.



Beginning in 1981 the misery index, which combines unemployment and inflation rates, began to decline.

This booklet was prepared by the National Archives and Records Administration in collaboration with the National Issues Forums Institute and the Kettering Foundation. The booklets in the *"Advise the President"* series lead participants in guided discussions based on historic Presidential decisions.

For information about the Presidential Libraries or to access other books in the series, visit: www.archives.gov/presidential-libraries/

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A Different Kind of Talk, Another Way to Act