

Celebrating Reaganomics

By Joseph A. Palermo

Mr. Palermo is Associate Professor of American History at CSU, Sacramento. He's the author of two books on Robert F. Kennedy: *In His Own Right* (2001) and *RFK* (2008).

The overstated celebrations and commemorations of the centennial of Ronald Reagan's birth, with their razzle-dazzle of Super Bowl tributes and marathon deifying in Simi Valley, are fitting tributes to a president whose public relations guru, Michael Deaver, was a pioneer of this same kind of flim-flammy. But the Reagan centennial's flashy hagiography masks a far more complicated reality. He set the nation's economic agenda, imitated by Democrats Bill Clinton and Barack Obama, which continues to this day.

"Reagan taught us deficits don't matter," Dick Cheney once boasted. But not even the staunchest of Reaganites (Democrat or Republican) would make that assertion today. Those who are celebrating the centennial of President Reagan's birth are rejoicing in the trajectory he put the nation on. And what a trajectory these last three decades have been.

At the start of his 1980 campaign, after undergoing several cram sessions with enthusiasts of "supply side" economic theory, Reagan told an interviewer: "an across the board reduction in tax rates, every time it has been tried, it has resulted in such an increase in prosperity . . . that even government winds up with more revenue." But Reagan had no evidence to support this assertion, which his own vice president, George Herbert Walker Bush, famously denounced during the Republican primaries as "voodoo economics."

There was little question that the new ethos the Reaganites brought to Washington had a profoundly different attitude toward the poor than had been seen in the Capitol for many years. Reagan's friend and ally from California, Edwin Meese III, who later became his attorney general, told reporters that the administration "had considerable information that people go to soup kitchens because the food is free and that's easier than paying for it." Throughout his two-term presidency Reagan blocked any increase in the federal minimum wage. His domestic policymakers sought to roll back federal help to the working poor who were reeling under the worst economic conditions in a generation. In fact, during the 1980s, the word "welfare" itself became strongly associated with failure and waste.

Thirty years ago this month, on February 18, 1981, during Reagan's first State of the Union address, the House chamber boomed with applause when he proposed cuts totaling \$41.4 billion in the federal budget. In his first budget he dropped about 400,000 households from the food-stamp program. At the same time he planned to boost military spending by \$7.2 billion, which added significantly to Carter's earlier defense buildup.

On August 13, 1981, Reagan held an outdoor signing ceremony for the Economic Recovery Tax Act (ERTA) at his 688-acre ranch outside Santa Barbara. Forty-eight House Democrats crossed over to join the Republicans' overhaul of the nation's tax code. The new legislation reduced marginal income tax rates for all Americans by 25 percent. The wealthiest Americans, who paid 70 percent in 1981, would see their tax rate lowered to 50 percent. Rates for lower-income people fell more modestly, from 14 percent to 11 percent. Today, the Republicans scream bloody murder at the thought of raising the top rate from 35 percent to 39.5 percent.

Not only did the rich reap the greatest windfall from the changes in the tax code but during the "sausage-making" mark-up of the legislation congresspersons and senators larded the bill with billion-dollar tax breaks for corporations, oil conglomerates, and other special interests. One corporation that benefited from the new legislation was Reagan's former employer, General Electric. Citizens for Tax Justice, a liberal advocacy group in Washington, D.C., estimated that the new law yielded \$1 billion for GE over the course of five years. GE also paid no income taxes during the first years of the Reagan presidency. Keeping with Reagan's spirit of bipartisan servitude to wealthy elites, President Barack Obama recently tapped the CEO of GE, Jeffrey Immelt, to head his economic team.

The supply-siders' prognostications for increased government revenues turned out to be as whimsical as their critics had suspected. Even with the harsh cuts in social programs and Reagan's signature on subsequent tax hikes designed to mitigate the negative fiscal impact of the initial ERTA, the federal budget deficit swelled from \$74 billion in 1980 to \$300 billion by the middle of the decade. So any honest evaluation of Reagan's legacy on taxes and budget cuts would have to acknowledge that he tilted the playing field in favor of the rich at the expense of the poor.

PATCO

Reagan's National Labor Relations Board (NLRB) favored management over labor far more than any previous administration. Companies now had greater latitude to impose speed-ups, hire scab workers, and violate labor contracts. No battle illustrates this new order in labor relations than how Reagan handled a strike by the Professional Air Traffic Controllers Organization (PATCO) that began early in his presidency.

Ironically, in 1980, PATCO had been one of three national labor unions that had endorsed Reagan for president; the other two were the Teamsters and the Airline Pilots Association. During the previous decade strikes by public workers were usually settled quickly with good-faith negotiations and federal arbitration. Reagan gave PATCO 48 hours to end the strike and when the workers refused he fired all 11,600 of them. He then brought in supervisors and air traffic controllers from the U.S. military to break the strike. Reagan's Justice Department even arrested some of the union's leaders and promised to criminally prosecute them. In a few short weeks PATCO was history. It was the most aggressive stand against organized labor by the federal government since the passage of the anti-labor Taft-Hartley Act of 1947.

The president's decisive stand against PATCO altered long-established norms and provided a context for a string of private sector strikes that ended badly for the unions. Like today, in the recessionary context of the early 1980s it was easy for Reagan and his corporate allies to gain the upper hand against organized labor. Not long after the PATCO action, the Greyhound Bus Company and Eastern Airlines fired striking workers and replaced them with non-union substitutes. The labor leader and co-founder of the United Farm Workers, Dolores Huerta, later noted: "We found that right after the PATCO people were fired the United Auto Workers union accepted an agreement to freeze their wages. That put a lot of pressure on the other unions to do the same thing. So, what you had was a tremendous weakening of the power of labor." Labor's long slide (which has gone on for thirty years and took down a big chunk of the middle class with it) was initiated early in Reagan's first term.

Foxes In Henhouses

Reagan attempted to defang federal regulatory agencies that conservatives had long railed against by elevating lobbyists, corporate lawyers, and executives to pivotal positions inside the administration. The tactics included appointing people to high government posts from the regulated industries themselves, saddling the regulatory agencies with debilitating budget cuts, and encouraging bureaucratic inertia. For example, to head his NLRB, Reagan tapped John Van de Water, who ran a West Coast consulting firm that specialized in union busting.

Other similar appointments followed. To lead the Department of Agriculture's marketing and inspection division, Reagan appointed C.W. McMillian who was formerly the vice president of the National Cattleman's Association; Richard Lyng, a lobbyist for the American Meat Institute, became undersecretary of agriculture. The assistant secretary of energy for conservation and renewable energy, Joseph Tribble, came from the Georgia Pulp and Paper Company, a corporation that had been charged with dumping toxic waste into rivers. James Watt, who became Reagan's secretary of the interior, had been a lawyer for the Mountain States Legal Foundation, a law firm that represented some of the nation's largest mining and timber corporations. Anne Gorsuch (Burford) was put in charge of the Environmental Protection Agency (EPA) who, like Watt, came from Colorado and had built her career fighting against environmental regulations as a state legislator. Secretary of Labor Raymond Donovan had been a construction company executive who instructed the agencies under his command, including the Mine Safety and Health Administration (MSHA), to emphasize "voluntary" compliance by mine operators of health and safety laws.

On the 1980 campaign trail, Reagan had called the Occupational Safety and Health Administration (OSHA) "one of the most pernicious of the watchdog agencies" that sought "to minimize the ownership of private property in this country." He slashed OSHA's budget by 10 percent and chose Thorne Aucter to be an assistant secretary of the agency whose family-run construction business in Jacksonville, Florida had been charged with forty-eight safety violations. To chair the Securities and Exchange Commission (SEC), Reagan recruited the Wall Street insider, John Shad, who worked

diligently to transform the once feared enforcement arm of the federal government into a partner in the prerogatives of brokerage houses and investment banks. Shad also emphasized "voluntary" compliance with financial regulations. During his seven-year tenure at the SEC he froze the number of investigators at its 1981 level even though the number of stock traders nearly doubled in that period. Reagan cut the SEC's budget by roughly 30 percent and the enforcement division's staff was reduced from two hundred investigators to fifty.

Reagan's secretary of the treasury, Donald Regan, who entered government directly from his post as CEO of Merrill Lynch, moved to de-regulate the financial services industry and nurtured an environment where big Wall Street players could manufacture new debt instruments, such as "junk bonds," and engage in Leveraged Buy-Outs (LBOs). Both of these innovations strained the financial system and sapped the productivity of other sectors of the economy. So the appointing of corporate "foxes" to guard the public's "hen houses" began under Reagan and has continued through both Democratic and Republican administrations ever since.

Deregulation

On February 17, 1981, Reagan signed Executive Order 12291 mandating that all federal regulations undergo a "cost-benefit" analysis. Proposals for new guidelines were to be submitted to David Stockman's Office of Management and Budget (OMB) to determine their effects on big business's bottom line. Any rule that corporations did not like would be subjected to an industry-friendly review. **Reagan gave the OMB new powers to reject "burdensome" regulations and he named a corporate lobbyist, Jim Tozzi, to be the deputy administrator of the Office of Information and Regulatory Affairs (OIRA), a division of OMB. Tozzi had specialized in finding ways around federal rules for his clients, and as a high-ranking official he now could "review" many of the same directives he had fought against.**

Reagan appointed J. Peter Grace, chief of W. R. Grace & Company, to head the "President's Private Sector Survey on Cost Control." The Grace Commission had an executive committee consisting of CEOs from some of the nation's largest corporations. Accustomed to working behind closed doors, the panel refused to cooperate when Congress demanded a list of its members. In the mid-1980s, Grace's own company was forced to settle a civil lawsuit that accused it of poisoning two wells in Woburn, Massachusetts that led to the leukemia deaths of five children and one adult. The Woburn case was later chronicled in a best-selling book and even made into a Hollywood movie, *A Civil Action*.

The end result after Reagan's two terms was a tripling of the national debt, from about \$900 billion to \$2.9 trillion. No president in U.S. history had tripled the debt in peacetime. Then, as today, the same politicians who brought us the tax cuts and military spending point to the deficit as an excuse to gut programs that serve not only the poor but the working middle class.

Reaganomics

In his best-selling 1981 book, *Wealth and Poverty*, the conservative author George Gilder offered a spirited defense of laissez-faire capitalism and bluntly stated the underlying premise of supply-side economics. “A successful economy depends on the proliferation of the rich,” he wrote, “to help the poor and middle classes, one must cut the taxes of the rich.”

What transpired throughout most of Reagan's time in office was a patchwork of fiscal measures designed to blunt the negative budgetary effects of the original 1981 ERTA, and shift the tax burden from the wealthy to the working and middle classes. The Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 closed some of the loopholes and raised specific taxes that the ERTA had dropped. Richard Darman, a top White House aide, labeled the \$37.5 billion in new taxes contained in TEFRA, (along with the Highway Revenue Act's \$3.3 billion), “the single largest tax increase in history.” The 1983 Social Security Amendments raised payroll taxes and imposed new restrictions on workers' benefits. The Deficit Reduction Act of 1984 and the Omnibus Budget Reconciliation Act of 1987 both found ways to raise revenues while cutting social spending. In addition, Congress stepped in with its own initiatives in the form of the Gramm-Rudman-Hollings Act of 1985, followed by the Gramm-Rudman Act of 1987, which set fixed deficit targets and a means of theoretically achieving them.

During the Reagan years labor unions suffered their most precipitous decline in the post-war period. The share of private sector workers who belonged to unions fell from close to 20 percent in 1980 to 12.1 percent in 1990. (By the 2000s it had dropped to about 7 percent.) This decrease in private sector unionization is sometimes attributed to changing attitudes among the workers themselves, but public employee unions grew steadily during this period and accounted for most of the new unionization. It was far more difficult for governmental institutions to practice the kind of aggressive anti-union tactics that have become the norm in the private sector since the 1980s.

The Harvard economist, Benjamin Friedman, calculated that the portion of national income invested in plant and equipment during the Reagan administration averaged about 2.3 percent. During the previous three decades it had averaged three percent and had never reached that number in the 1980s. Friedman's analysis undercuts the view that supply-side tax cuts had produced greater investment in domestic plant and equipment.

Throughout the post-World War II period the United States had run modest trade surpluses. But on September 16, 1985, the Commerce Department announced that the United States had become a debtor nation. For the first time since 1914 the United States brought into being a situation where it had to borrow money from abroad to pay for its imports. In 1980, the U.S. still kept up a trade surplus of \$166 billion, but by 1987 the nation owed foreigners \$340 billion. The trade imbalances were, in part, the product of “neo-liberal” trade policies that rewarded American companies that outsourced production to low-wage countries.

In early 1981, Reagan's Secretary of Human Services Richard Schweiker caused a stir when he called for reducing Social Security benefits for those who retired before the age of sixty-five and imposing new requirements to punish early retirees. Reagan had been a harsh critic of Social Security throughout his public career, which he considered a "coercive" government program. Reagan appointed a fifteen-member "bipartisan" commission headed by one of the administration's favorite free market economists, Alan Greenspan, to examine the condition of Social Security and make recommendations.

Greenspan had been a close associate of the free-market guru and *Atlas Shrugged* author, Ayn Rand, and, along with Milton Friedman, was among the academic economists most famous for holding an almost religious devotion to the precepts of laissez-faire capitalism. The Greenspan Commission imposed higher payroll taxes on working people, which accounted for about half of the hike in taxes from 1984 to 1989. The Commission's work was widely praised because the legislation that sprung from it was bipartisan. But the higher payroll taxes, along with the regressive tax increases contained in the TEFRA and other acts of Congress during the 1980s, constituted nearly a 50 percent tax hike on lower-and middle-class workers.

Cash-strapped state and local governments also raised taxes to offset the reductions in federal assistance. When viewed in the context of the substantially lower tax rates for the highest income earners, the changes in the tax structure associated with Reaganomics amounted to one of the largest redistributions of wealth upward in U.S. history.

By 1984, Reagan had largely succeeded in realigning the economic debate away from Keynesianism with its positive view of the role of government and toward a culture that valued deregulation and free markets over all else. Large swathes of the public had become suspicious of social programs and contemptuous of government. In 1987, Reagan appointed Greenspan to chair the Federal Reserve Board, which was a post he held for the next eighteen years, thereby institutionalizing many of the tenets of Reaganomics. Deregulation, along with "free trade" and cutting welfare spending, became bipartisan orthodoxy in Washington as domestic policy moved definitively in the Republicans' direction.

What came after Reagan were bipartisan "free trade" agreements, NAFTA, GATT and the WTO, which ended up outsourcing millions of good-paying American jobs to low-wage countries. Then came the bipartisan deregulation of the Telecommunications industry that gave us Fox News, and at the close of Clinton's second term, the bipartisan deregulation of the financial services industry that took a mere eight years to bring the nation's economy to its knees.

Now, out of the wreckage from the last thirty years of bipartisan Reaganite economic policy designed to serve the richest of global elites, we have the bipartisan calls for shredding what's left of the social safety net, including Social Security, as a way to "make hard choices" to tackle the deficits that were produced by more or less the same politicians that brought on the catastrophe in the first place.

Today, with states, counties, and municipalities reeling under a load of debt, brought to us by failed Reaganomics, the public sector, by which I mean health care services for the poor and elderly, schools, libraries, police and fire fighters, child protective services, as well as social programs of all kinds that help people, are being cut back past the bone and

into the marrow. What we're seeing at the state and local levels is nothing short of the systematic dismantling of public institutions that took decades to build.

“Jobs, Jobs, Jobs” is a nice slogan but it tells us nothing about the quality of those jobs. Today, what's happening all over the country are across-the-board layoffs of public employees who had decent jobs with okay benefits and in their place are either McJobs or no jobs at all. What we've seen happening over the past three or four years is a further deskilling and downgrading of the living standards of the average American worker.

The legacy of Reaganomics continues with the aggressive attempt to turn public school teachers into Wal-Mart workers. Put in its context of austerity and debt reduction, this concerted attack on teachers is just the latest onslaught against the American working middle class. They've already wiped out the manufacturing workers and their unions, now they're going after public employees and their unions. Across the country, right-wing Republican governors are teaming up in a spirit of “bipartisanship” with clueless “education reform” zealots like Michelle Rhee to eliminate teacher tenure, slash pensions, and generally make public school teaching a profession that someone would have to be crazy to want to join.

If you like the way things are in the United States today—with Gilded Age levels of inequality, weak labor unions, low-wage service jobs for most of the workforce, and a public sector that's dying on the vine—then you can thank Ronald Reagan.

If you could have seen the parade of disabled people (many of them severely) who came to the California State Capitol in Sacramento on February 3 begging their elected leaders to block a proposed cut of \$750 million from programs that help them live better lives—one by one, approaching a microphone at a recent hearing, speaking eloquently and poignantly, and calling out for human dignity and compassion—you'd have a better idea of the kind of suffering that this brand of heartless economics have wrought in this country. That's the true Reagan legacy.