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Economic Policies and Actions in the Reagan Administration

Discussions of the Reagan administration's economic policy often make the assumption, implicitly perhaps, that the administration came into office with a plan or policy. If we mean by policy what economists usually mean, that there was a specified or planned path, contingent on events – a set of rules or medium-term strategies to guide fiscal and monetary actions – there is little evidence that the administration had an economic policy. This is not simply a failure of the Reagan administration. The same criticism would apply to the fiscal and monetary actions of other administrations for the past twenty years or more.

The Reagan administration, like some of its predecessors, had a set of goals or objectives that it hoped to achieve. The four goals featured in the administration's first program were (1) reduced government spending, (2) lower tax rates, (3) lower inflation, and (4) deregulation. The administration moved promptly to reduce tax rates, permitted the Federal Reserve to reduce money growth and raise interest rates to slow inflation, made some modest but largely unsuccessful efforts to reduce the level of non-defense spending, and did very little to implement a deregulation policy. If we include protectionist actions affecting imports with deregulation, the Reagan administration's record on deregulation is poor. If we separate protectionist programs, their achievements in deregulation are small; they consist mainly of a shift to less burdensome administration and avoidance of efforts to reregulate. In this area, the Reagan administration's record compares unfavorably to the accomplishments of the Carter administration.

A fifth goal, to increase defense spending as a share of GNP, was not part of the economic program, but it had important consequences for the administration's fiscal actions. In contrast to other areas, the administration developed policies to achieve its defense objectives, including a 600-ship Navy and a space-based program of nuclear defense. Critics may attack each of these programs or their implementation, but few can accuse the Reagan administration of failing to announce operational goals or of working to achieve them. Indeed, the opposite is true. Critics usually complain about the administration's persistence in carrying them out.

This contrast between policies that are related to objectives in some areas and not in others is a feature of many administrations. The Reagan administration is often described by its critics as ideologically motivated, yet it is hard to find evidence that the administration was willing to trade much public support to reduce non-defense spending or entitlements or to end inflation. Indeed, monetary and budget decisions other than tax rates are better described as lacking direction, particularly after 1982, than as purposefully directed toward some goal.

A central question for social scientists is, why is this so? In my view, part of the answer is obvious. The administration was elected on a program which included, prominently, action to reduce taxes, increase defense spending and lower inflation. It achieved these aims, at least in part, and, later, added tax reform as an objective. This objective, too, was achieved in the 1986 tax act. Where the administration faced strong public resistance to change, as in

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