

The Reagan Revolution

The 1980's were the triumph of upper America. It was a celebration of wealth and the political ascendancy of the richest third of the population.

It was the glorification of capitalism, free markets and finance. But at the same time there were growing hordes of homeless sleeping on heater grates.

The 1980's were the second Gilded Age and a new plutocracy had been created which would rule America well into the 1990's.

In terms of the regional distribution of wealth the Washington/Boston megalopolis boomed as did both the coasts in general while the Midwest was left behind.

Wealth was further accumulated in the hands of those already rich.

Now it is important to understand that since the American Revolution the distribution of wealth in America depended significantly on who controlled the federal government.

In this sense the Reagan Revolution of the 1980's reversed what late-20th century Americans had become used to.

The liberal economics and politics in the years between 1932 to 1968 left a legacy of angry and bitter conservatives who had seen for two generations the downward distribution of wealth.

The Reagan years between 1980 and 1988 to be sure had created over 19 million new (low paying) jobs, exploding technology, unprecedented prosperity and had rekindled national pride. It also led to firing of 10 million high paying manufacturing jobs as corporations received tax incentives to move their operations overseas.

In fact in the 1980's so many millionaires had been created that the term essentially had become meaningless. By 1988 it was estimated that there were over 100,000 decamillionaires.

But critics of the time saw another America were the 1980's were one last national fling with credit card economics one filled with beggars

It was also in the decade of the 1980's that the U.S. was transformed from the world's largest creditor nation to the world's largest debtor nation. Throughout the 1980's conservatives argued that this really didn't matter.

At the end of 1986 the U.S. had a national debt of \$269 billion, at the end of 1987 it was \$368 billion, but by 1992 it was \$3.5 trillion. It was the greatest economic miscalculation in recorded world history.

It is not enough to describe the U.S. as the world's richest nation between 1945 and 1992. What is more important is the distribution of its wealth.

The U.S. by 1984 had the greatest gap between rich and poor of any industrialized nation in world history.

In 1953 there were 27,000 millionaires, in 1964 90,000 millionaires, in 1972 180,000, in 1980

574,000, and in 1988 1.3 million.

In 1981 there were perhaps 10 billionaires in the U.S., 26 in 1986, 49 in 1987 and 52 in 1988. No parallel upsurge of riches had ever been seen since the late 19th century of the Vanderbilts, Morgans and Rockefellers.

But the downside to all this concentration of wealth was that wages—the principal source of middle and lower class income had stagnated through 1986. The Reagan decade was a heyday for unearned income as rents, dividends, capital gains and interest gained relative to wages and salaries as a source of wealth and growing economic inequality.

The top 10% of U.S. households controlled over 68% of the wealth of the U.S. by 1988.

The average millionaires income might be soaring, but the average family's income was stagnating since the late 1970's in real dollars. In fact real income in 1987 finally recovered back to 1973 levels.

The income of White males fell through the 1980's especially in the manufacturing sector as corporations received tax breaks to move their operations overseas.

The GAO reported in 1988 that there had been a resurgence of sweatshops and other businesses that openly violated wage, child labor, safety and health laws in almost every sector of the U.S. due to business deregulation.

While wages fell the number of economically active population fell as well throughout the 1980's. By the summer of 1988 45.3% of the inhabitants of New York city were not part of the economically active due to poverty, lack of skills and education, drug abuse, apathy or other problems. The nation of average of economically inactive was 34.5%.

Women were also losers in the Reagan Revolution. Families weren't just shrinking they were breaking down. 53% of all Marriages ended in divorce in the 1980's a trend that continues in the 1990's.

Household headed by women, especially those with children ranked well down on the income scale.

One survey that found that for those working in the 1980's they were working harder than ever before in the 20th century. Americans leisure time declined 37% between 1973 and 1987--from 26.2 hours per week to 16.6 hours.

In addition a new sector of the labor force emerged for the first time in the 1980's, "the contingent work force". Airlines, supermarket chains, offices and almost all businesses began to hire temporary labor rather than full time workers. It was cheaper and also seriously undermined the power of organized labor.

For the first time since the depression a majority of Americans by 1989 could not afford to buy a home.

In each period of American history wealth was redistributed regionally and from one income to another.

The Democratic era was of course the principal period of downward income distribution, first in the

1930's and then in the 1960's through LBJ and his Great Society.

In 1896 farmers and debtor, angry at low farm prices, procreditor deflation policies and so-called Robber Baron industrialism supported William Jennings Bryant the fusion nominee of the Democratic and populist parties.

36 years and another massive economic slump later, FDR would sweep the South the Rocky Mountain states and the Great Plains which were the once-again depressed centers of U.S. farming.

Wealth and Poverty: The Spirit of Reagan Federal Policy and Income Distribution

Accelerating economic inequality under the Republicans was more often a policy objective than a coincidence. But greed was rarely the motive: It was more a matter of investment theory and free-market philosophy.

The cornerstone of the Reagan/Bush era was something called supply-side economics that stressed the idea that supply creates its own demand and that incentive to individual investors was much more important than preoccupation of distribution. In many respects supply side economics was simply the old trickle-down theory in new clothes.

Building on this was new theories on taxation. The Reagan economist Arthur Laffer had the interesting idea that increased tax rates actually lower government revenue. This was called the Laffer Curve and the idea was that tax rates were the key to economic growth.

Interestingly, candidate George Bush called supply-siders and the Laffer Curve of the Reagan agenda "Voodoo Economics".

The new theology of Voodoo economics had even more overtones of the Gilded Age. It wasn't just Anti-tax theory and supply side, Reaganomics flirted with an idea that echoed of Herbert Spencer and social Darwinism. The idea was that commercial selection processes in the marketplace could largely replace government decision-making.

The first part of Reaganomics was tax-reduction. The reduction or elimination federal income tax had been the goal of all three major U.S. capitalist periods, but were a personal preoccupation for Ronald Reagan.

Under Reagan the top personal tax bracket would drop from 70% to 28% in just 7 years.

In terms of income tax history, In 1861 a Republican administration and Congress imposed the first U.S. income tax to finance the Civil War.

After two wartime increases the federal tax was terminated in 1872 which aided the mushrooming fortunes of the Astors, Carnegies, Vanderbilts, Morgans and Rockefellers.

When the U.S. found itself in WWI the tax was resurrected and by 1920 the top rates was 73%.

When Harding took office the tax rates were quickly reduced to a top bracket of just 25% in 1925. Again the prime beneficiaries were the top 5% of Americans. Those were the ones who rode the new technological wave of autos, radios, real estate, service sector such as advertising and consumer finance.

As federal taxation eased the disposable income of the rich soared and they put their windfall tax

savings into conspicuous consumption and financial speculation.

By the crash of 1929 great changes had occurred in the distribution of both taxes and wealth. With the depression the bottom-earning 80% had been cut off the tax roles entirely. As a result the top 1% of taxpayers were paying about 2/3's of all the revenues the Treasury took in.

With the Democrats in power in the 1930's the top tax rate soared to 91% by WWII and this was the incentiveless bracket that so offended Ronald Reagan and his Hollywood friends.

The top rate did not fall until 1964. But the costs of the war in Vietnam generated an inflation that lifted more and more middle-income earners in the top brackets. So by the late-1970's with the war over inflation was still intensifying and a tax reduction movement gathered momentum.

This would eventually lead to things like prop 13 in California and eventually to Reagan's 1981 Economic Recovery Tax Act. Tax rates for corporations and the wealthy were slashed with the middle class bearing the brunt of the new tax rates.

The Crash 1987 --

The stock market was booming throughout the 1980's and there appeared to be no end in sight. By the last week in August 1987 the market had established its 55th record close of the year. Still the boom continued.

At this rate in only four more months the Reagan bull-market would set a record of expansion for the century, exceeding the surge that lasted from 1924-1929.

As Labor Day approached, the Dow stood at 2722.42 and experts were predicting that it would rise another thousand points within the coming year.

As the most important savers in the world the Japanese were pouring much of their excess cash into US markets and real estate. America's leading corporations were buying in more shares than they were selling.

But some analysts saw ominous parallels with 1929. The first was the financing of prosperity by insupportable debt, the erosion of the assets supporting that debt (e.g. farmland and oil), the difficulty in sustaining the boom late in the decade, the flow of wealth to the rich, and wild fluctuations of the market.

The most striking parallel with 1929 was disastrous innovation in financial structures. "Pyramiding" it was called in 29, in 87 it was called leveraged buyouts.

This was evidenced in the wave of corporate takeovers, mergers and acquisitions and the leveraged buyouts. Bank loans and junk bonds were arranged to finance these operations.

The common feature of these activities was the creation of debt. In 1985 alone \$139 billion worth of mergers and takeovers was financed by borrowing. And then \$100 billion per year until 1990. Also nearly \$100 billion per year in junk bonds were used to fund hostile takeovers.

The regressive tax policy of the 1980's did not encourage job growth and savings as it promoted wild speculation in the stock market and real estate.

At the same time real capital spending that would induce genuine economic growth and job formation was rapidly declining throughout the 1980's.

The elite of America reveled in their glory and people like Jack Kemp and Arthur Laffer and George Gilder who brought us reaganomics. In fact they were to hold a conference extolling the virtues of supply-side economics entitled the "Roaring 90's". The invitations were post marked October 19, 1987.

But an economic tidal wave was moving in on the US that Monday morning of October 19, 1987. The Tokyo exchange had experienced a record collapse in prices and panic selling. Japanese investors and corporations pulled out their money and assets to shore up their profit statements at home and this promoted market collapses around the globe.

The economic disaster of 10/19 followed the sun from Asia through Europe and then on to NY. The Hong Kong exchange was wiped out. The European exchanges experienced the worst single day in their history.

In the US panic first hit in the Chicago commodities exchange and within five minutes of the opening the markets went into free-fall. It then spread to Wall Street and the NY exchange.

The Dow-Jones averages fell 508 points. By the time the NY exchange closed up stock market prices had dropped 22.6%, almost double the record losses of the crash of 1929. An astonishing 604.5 million shares had been traded that day more than double that of the crash of 1929. It was the greatest crash in US economic history.

Black Monday was followed by Terrible Tuesday which was never reported by the US press. On the following Tuesday the world's financial system came to within one hair's breadth of extinction. It appeared that by noon that the market had in fact died. All trading in stocks, options, and futures shuddered to halt. For almost one hour the world's capitalist system had completely collapsed. There were no buyers at any price.

At this point of maximum crisis the Federal Reserve Board stepped in and flooded the banks with cheap credit. At 12:38 that afternoon the stock market rose from the dead. The resurrection of the market was the result of the deliberate manipulation by a few major firms to save the markets.

Essentially leading corporations were entering the market after 1pm to buy back their own stocks which they had dumped that morning in order to stabilize the situation.

Buying resumed on the market.

Reagan's reputation suffered grievously during the crisis. On Black Monday he said the free-fall was due to "some people grabbing profits". Sounding eerily like Herbert Hoover Reagan issued a terse statement after Monday's collapse "that the underlying economy remains sound." On Wednesday he stated that it was merely "some kind of correction."

Reagan had emerged from the crisis of 87 as the emperor with no clothes.

But there was a double irony of the orgy of Reagan basing that occurred after 1987. Unlike most presidents Reagan had delivered exactly on what he had promised: deregulation, tax cuts and policy that favored the wealthy and he had created a new American morality that elevated personal greed and glory into national values.

Wall street and Yuppies had cheered Reagan passionately and they had handsomely profited from the speculative boom and stock manipulations.

Then when the dream of easy riches and rising profits and prices disintegrated in the crash of

1987, they turned on Reagan.

The greatest irony of all was that in the end what kept 87 from completely turning into another 29 was the very hand of the federal government that Reagan and the supply-siders had tried for seven years to destroy.