

What Really Happened in the 1980s?

By Peter J. Ferrara

President Bush has secured passage of a bold and sweeping tax relief plan as the centerpiece of his economic program. This plan will benefit every American taxpayer, regardless of income or family status. Just consider these examples:

- 43 million married couples. Their taxes, on average, will be lowered by \$1,730.
- 38 million families with children. They will receive an average tax cut of \$1,463.
- 11 million single mothers with children. They will be able to keep, on average, \$780 more of their income.
- 13 million seniors. Their taxes will be reduced, on average, by \$924.
- And let's not forget the 3.9 million individuals and families who will have their income tax liability completely eliminated.

Such tax relief is sorely needed. Taxes on American workers are too high, and the American family will now be able to keep more of its own money. Total Federal, state and local taxes are over 30% of GDP, the highest in U.S. history in peacetime. The average American family spends more on taxes today than on food, clothing and shelter combined.

Moreover, America is suffering from a hollow economy. While jobs are available, wages and incomes are no longer growing. Indeed, after inflation they have been falling, and after taxes they are tumbling. Instead of gaining through their hard work and creativity, the American people are falling behind. The Bush tax package will help get this country moving again. Its tax reductions will increase investment, job creation and productivity, once again restoring growth in wages and incomes.

Nevertheless, Bush's political opponents have thunderously condemned his tax relief plan, and even plot to repeal it. They claim it has already been tried, and failed disastrously, under President Reagan in the 1980s.

But quite the opposite is true. Yes, the Bush tax cut plan is very similar to the Reagan tax cut plan. But the Reagan plan succeeded spectacularly. That is what this study will show.

The Truth About the 1980s

As Professor Richard B. McKenzie of the University of California says, the 1980s were “the most prosperous decade in American history. That means the vast majority of Americans lived at a higher standard of living than they, or anyone else, ever had before, anywhere on the globe.”¹

Indeed, Ronald Reagan did more than engineer sweeping economic policy changes that produced the longest peacetime boom in American history. He inherited an economic crisis of disastrous proportions that had been developing for over a decade and, in just a few years, reversed it to produce an economic triumph. As Robert Bartley of the Wall Street Journal says:

Lest we forget, in 1979 the world stood on an economic precipice. Inflation ran 13.5 percent in 1980, real production dipped and the prime rate reached 21.5 percent. And economics as conveniently understood provided no intellectual tools for understanding this crisis, let alone curbing it. Worse, the affliction had struck the whole world, and threatened more damage to come.²

In the late 1970s, few believed the persistent inflation that had been building for more than ten years could be stopped, or at least stopped without creating another depression. Interest rates were at a crisis level, unemployment was rising, real incomes

¹ Richard B. McKenzie, *What Went Right in the 1980s* (San Francisco: Pacific Research Institute for Public Policy, 1994), p. 1.

² Robert Bartley, *The Seven Fat Years* (New York: The Free Press, 1992), p. 163.

were falling, poverty was rising, productivity was stagnant, real economic growth had ceased, and both the dollar and the stock market were on the verge of collapse.

Reagan reversed each and every one of these trends. How did he do it? The Reagan economic policy consisted of four basic components:

- Deep across-the-board tax cuts.
- Across-the-board domestic spending cuts.
- Deregulation.
- Sound monetary policies to restrain inflation.

Reagan implemented these policies quickly, and the results were the largest peacetime economic boom in American history and nearly 20 million new jobs. To listen to many in the press today, however, it was a time of misery. The liberal establishment could not abide Reagan's policies of allowing people to keep more of their own money through real tax cuts and generally shifting power from the government to the people, so they have set out to tell us why the boom was a bust and the greatest of successes the greatest of failures.

This is hardly surprising. Liberals must attack Reagan's success if they are to build popular support for higher taxes, more regulation, and higher government spending. The following pages, however, provide the evidence, point by point, that refutes this attempt to rewrite history.

What Happened to Federal Revenues?

There has been a great deal of rhetoric about Reagan tax cuts draining the federal Treasury. The reality is that Federal revenues increased sharply during the 1980s,

- Total federal revenues doubled, rising from \$517.1 billion in 1980 to \$1,031.3 billion, or just over \$1 trillion, in 1990. In constant inflation-adjusted dollars, this was an increase of 26 percent.

- As a percentage of Gross Domestic Product (GDP), federal revenues declined only slightly, from 19.6 percent in 1980 to 18.8 percent in 1990 (see Table 1).
- Revenues from individual income taxes climbed from \$244.1 billion in 1980 to \$466.9 billion in 1990 (see Table 1).

Those who nevertheless insist on denouncing the Reagan tax cuts should consider this. Without the Reagan tax cut, families today earning \$20,000 per year would pay \$1,600 more in Federal income taxes each year. Families with annual incomes of \$45,000 would pay \$5,100 more in Federal income taxes each year. Would the voters support that?

What Happened to Federal Spending?

Despite Reagan's best efforts to cut spending, he could not overcome opposition from Congressional Democrats who maintained their majority in the House of Representatives throughout his Presidency. As a result, federal spending rose dramatically during the 1980s.

- Federal spending more than doubled, growing from \$590.9 billion in 1980 to \$1,252.7 billion, or \$1.25 trillion, in 1990 (see Table 2). In constant, inflation adjusted dollars, this amounted to an increase of 33.4 percent.
- As a percentage of GDP, federal expenditures still grew, climbing from 22.3 percent in 1980 to 22.9 percent in 1990 (see Table 2).

What Happened to Federal Deficits?

With federal revenues doubling in the 1980s, the cause of the deficit during that period is clear: runaway federal spending, which more than doubled (see Table 2). Federal taxes in 1990 amounted to about 19 percent of GDP, which is approximately where they had been for 40 years, since the early 1950s. Federal spending in 1990 was about 23 percent of GDP, having fluctuated around 19 percent to 20 percent of GDP during most of the postwar era until the late 1970s. During the 1980s, taxes were

maintained at historic levels as spending surpassed well-established historic levels, creating the deficit.

In Reagan's last budget year, however, the federal deficit actually had been reduced to \$152.5 billion (see Table 3). As a percentage of GDP, this was about the same as the deficit for 1980.

- The deficit in fiscal 1989 was 2.9 percent of GDP, compared to 2.8 percent in 1980. Reagan had cut the deficit as a percentage of GDP by more than half from 1983, when it was 6.3 percent.
- This was accomplished by reducing federal spending from over 24 percent of GDP to about 22 percent of GDP. The problem is that federal spending started to escalate again after Reagan left office. By 1992, the deficit had leaped to a record \$290.4 billion, about one-third higher than its highest level under Reagan.

Total federal debt held by the public was 44 percent of GDP in 1990 (see Table 5). This was the same level as in 1940 during the liberal-supported New Deal. It was also less than publicly held federal debt as a percentage of GDP during the Kennedy Administration in the early 1960s. Publicly held debt totaled 113.8 percent of GDP in 1946, as a result of World War II, and remained higher than the peak achieved during the Reagan years until 1964; but it did not prevent an American economic boom during the postwar period.

Critics have argued that the 1980s deficits were financed by a massive influx of foreign investment which bought up federal debt and left America vulnerable to economic calamity if foreign investors decided to withdraw. In fact, foreign interests held 16.7 percent of public federal debt at the end of fiscal 1990, compared to 17.5 percent at the end of fiscal 1980.³

Another perspective is gained by comparing U.S. budget deficits in the 1980s with the average budget deficits in the same years for the seven leading industrial countries in

³ Calculated from *Economic Report of the President*, January 1993, Tables B-74, B-84.

the Organization for Economic Cooperation and Development. Calculating deficits as a percentage of GDP for all levels of government within each country, the OECD reports that the total U.S. government deficit (federal, state, and local) was close to the average deficit as a percentage of GDP for all of the G-7 countries throughout the Reagan years (see Table 6).

Finally, interest rates fell sharply and consistently throughout the Reagan years despite deficits, as shown below. The academic literature shows no correlation between federal budget deficits and interest rates.⁴ By 1992, when the federal deficit hit a record \$290.4 billion, interest rates were at their lowest levels since before 1980 (see Table 10).

What Happened to Inflation?

Many Americans seem to have forgotten that inflation threatened the very foundations of the economy in 1980. Inflation soared during the late 1970s, reaching 11.3 percent in 1979 and 13.5 percent in 1980 -- a 25 percent rise in prices in just two years (see Table 7). Many experts doubted that this problem, which had been gathering steam since the mid-1960s, could be cured without causing a deep recession or even a depression. Others doubted that it could be cured at all.

Conservatives argued that this inflation was caused by loose, “easy money” Federal Reserve policies which allowed the money supply to grow too rapidly. Thus, a central plank of the Reagan economic platform was a restrained monetary policy that would hold growth in the money supply to the level necessary to maintain real economic growth. Reagan pursued this policy vigorously and faithfully. The result: inflation was

⁴ See, for example, John Tatom, “Domestic v. International Explanations for Recent U.S. Manufacturing Developments,” St. Louis Federal Reserve Bank *Review*, April 1986, pp. 5-18; William Anderson, Myles S. Wallace, and John T. Warner, “Government Spending and Taxation: What Causes What,” *Southern Economic Journal*, January 1986, pp. 630-639; David Bowles, Holley Ulbrich, and Myles Wallace, “Default Risk, Interest Differentials, and Fiscal Policy: A New Look at Crowding Out,” Clemson University Economics Department, 1988.

reduced by more than half, to 6.2 percent, by 1982 (see Table 7), dropping to 3.2 percent in 1983 and remaining near that level for the rest of Reagan's term.

To this day, the inflation problem that seemed so threatening and unsolvable 15 years ago has not returned. But this overwhelmingly important achievement somehow has been all but forgotten in the debate over Reagan's economic policies and the 1980s.

What Happened to Economic Growth?

By 1983, despite a steep recession in 1982 caused by the tight money policies needed to squeeze out the historic inflation level of the late 1970s, the Reagan policies of reduced taxes, spending, regulation, and inflation were in place. The result was an economic boom.

- This boom lasted 92 months without a recession, from November 1982 to July 1990, the longest period of sustained peacetime growth in U.S. history and the second-longest period of sustained growth, including even wartime. It was also more than twice the average period of expansions since World War II.⁵
- The American economy grew by about one-third in real inflation-adjusted terms. This was the equivalent of adding the entire economy of Germany, East and West, or two-thirds of the economy of Japan, to the U.S. economy.⁶
- The Reagan economic boom doubled the economic growth rate of 1.6% over the prior decade, from 1973 to 1982, as the economy averaged 3.5 percent in real growth from the beginning of 1983 to the end of 1990.⁷

What Happened to Jobs?

A central feature of the 1980s was a boom in jobs and employment. The figures are impressive.

- From 1980 to 1990, 18.6 million new jobs were created, increasing U.S. civilian employment by almost 20 percent. Almost 23 percent -- about 4.2 million -- of these jobs went to black workers.⁸
- By 1989, unemployment for the year had fallen to 5.3 percent, the lowest since 1973 and down from 7.1 percent in 1980 (see Table 8).

⁵ Bartley, *The Seven Fat Years*, pp. 135, 144.

⁶ *Ibid.*, p. 4; McKenzie, *What Went Right in the 1980s*, p. 8.

⁷ Bartley, *The Seven Fat Years*, p. 6.

⁸ *Economic Report of the President*, Table B-32, p. 385.

- In 1989, labor force participation reached a record 66.5 percent, and a record 63 percent of the population was employed. Black labor force participation also hit a record 64.2 percent in 1989, with female labor force participation reaching an all-time record of 57.5 percent in 1990.⁹

In addition, contrary to the myth makers' claims, most jobs created during the 1980s were good jobs.

- About 82 percent were in the higher-paying, higher-skilled (technical, precision production, managerial and professional) occupations. Only 12 percent were in the lowest-paid, low-skilled service occupations, such as retailing and fast-food restaurants.¹⁰
- Data collected by the Bureau of Labor Statistics show that during Ronald Reagan's first term, 48.7 percent of new jobs were in the best-paid managerial and professional category.¹¹ This trend continued into his second term.

This represented a dramatic turnaround from the Carter years, when most new jobs were low-paid (defined as under \$7,000 per year) and the number of high-paid jobs (more than \$28,000 per year) actually declined.

- From 1977 to 1980, 41.77 percent of the new jobs paid under \$7,000 per year in real 1984 dollars, while the number of jobs paying over \$28,000 per year declined by 10 percent (see Table 9).
- During Reagan's first term, only 6 percent of the new jobs paid under \$7,000 and 46.7 percent paid more than \$28,000 per year, both in constant 1984 dollars (see Table 9). This was also a dramatic improvement over the 1973-1977 Nixon/Ford term, when 37.6 percent of the new jobs were in the low-paid category and only 11.2 percent were in the high-paid category (see Table 9).

Critics often claim the period from 1979 to 1984 produced more lower-paying jobs, but this is misleading because it includes two terrible Carter years, 1979 and 1980.

In the words of *The Washington Post* and *Newsweek* columnist Robert Samuelson,

⁹ *Ibid.*, Table B-34, p. 387.

¹⁰ "The Real Reagan Record," *National Review*, August 31, 1992, p. 31.

¹¹ Daniel E. Lungren and Christopher Frenze, "The Chairman's Commentary," House Republican Study Committee, March 2, 1987, p. 18.

“Welcome to Economics Propaganda 101. The notion that the U.S. economy is producing mostly low-paying, unskilled jobs is an economic fiction.”¹²

What Happened to Interest Rates?

President Clinton likes to claim that he reduced interest rates to their lowest levels in 15 years. The truth is that they have been falling steadily ever since Ronald Reagan took office in 1981 (see Table 10).

- **The prime rate** declined from an average of 18.87 percent in 1981 to 6.25 percent in 1992 and was down to 6 percent in December 1992 from a peak of 21.5 percent at the end of 1980.¹³
- **New home mortgage rates** declined from an average of 14.7 percent in 1982 to 8.07 percent in November 1992.
- **AAA corporate bonds** declined from an average of 14.17 percent in 1981 to 8.14 percent in 1992. In December 1992, the yield dropped to 7.98 percent.
- **The yield on new three-month Treasury bills** declined from an average of 14.029 percent in 1981 to 3.45 percent in 1992. In December 1992, it fell to 3.25 percent.

Clearly, today’s low interest rates are a product of the Reagan and Bush years, not the Clinton years.

What Happened to Incomes?

Big government liberals argue that during the 1980s the rich got richer and the poor got poorer. But the truth is that the rich got richer, and the poor got richer, and so did the middle class.

- **Real median family income**, adjusted for inflation, began to decline during the Carter years, falling almost 10 percent from 1978 to 1982. The Reagan recovery reversed this trend. Median family incomes started to rise again in 1983 and had increased by 11.3 percent by 1989.¹⁴

¹² Robert J. Samuelson, “The American Job Machine,” *Newsweek*, February 23, 1987, p. 57.

¹³ Bartley, *The Seven Fat Years*, p. 112.

¹⁴ *Economic Report of the President*, Table B-28, p. 380.

- **Real average income** of U.S. households rose by 15.2 percent from 1980 to 1989, and by 16.8 percent from 1982 to 1989, compared to a 0.8 percent decline from 1970 to 1980.¹⁵
- **Real, per capita**, disposable income increased by 18 percent from 1982 to 1990. In other words, American living standards increased by almost 20 percent during the Reagan economic boom.¹⁶

Critics often cite a decline in income from 1979 to 1989 among families in the lowest 20 percent of incomes. This, too, is thoroughly misleading. Average real household income for the bottom quintile declined by 14.2 percent from 1979 to 1983. The Reagan boom reversed this trend, increasing this group's average real income by 12.2 percent from 1983 to 1989. Average real income was still lower in 1989 than in 1979, but the problem was the precipitous decline in such incomes during the Carter years. Reagan engineered a major recovery in the lowest group's incomes (see Table 9).

Real household incomes also rose for every other 20 percent of income distribution during the Reagan recovery from 1983 to 1989:

- **For the second-lowest quintile, by 10.1 percent.**
- **For the middle quintile, by 10.7 percent.**
- **For the second-highest quintile, by 11.6 percent.**
- **For the highest quintile, by 18.8 percent.**¹⁷

Real incomes rose for every quintile from 1980 to 1989, and from 1980 to 1990 as well, but declined for every quintile during the Carter years from 1977 to 1980.¹⁸ A study by the Bureau of Labor Statistics found that real, per capita, before-tax income rose substantially for every quintile of income distribution from 1984 to 1989:

- **For the lowest quintile, by a stunning 68 percent.**

¹⁵ Alan Reynolds, "Upstarts and Downstarts," in "The Real Reagan Record," pp. 25-26.

¹⁶ Bartley, *The Seven Fat Years*, p. 4.

¹⁷ McKenzie, *What Went Right in the 1980s*, p. 102.

- **For the second-lowest quintile, by 18.7 percent.**
- **For the middle quintile, by 9 percent.**
- **For the second-highest quintile, by 12.1 percent.**
- **For the highest quintile, by 19.2 percent.¹⁹**

Moreover, there is broad movement of people among quintiles in income distribution over time. This is clearly demonstrated in a Treasury study which found that 85.8 percent of those in the bottom 20 percent of income distribution in 1979 had climbed to a higher quintile by 1988, and 65 percent had moved up at least 2 quintiles.

- Only 14.2 percent remained in the bottom 20 percent, and 14.7 percent of those who were in the bottom 20 percent in 1979 were in the top 20 percent by 1988. Thus, people in the bottom quintile in 1979 were more likely to be in the top quintile than in the bottom quintile by 1988.
- 60 percent of those in the second-lowest 20 percent in 1979 had moved into a higher quintile by 1988.
- Of those in the middle 20 percent in 1979, 47 percent had moved up to a higher-income quintile by 1988, and over half (52.7 percent) of those in the top 1 percent in 1979 had fallen to a lower-income category by 1988.²⁰

The results of another study by Isabel Sawhill and Mark Condon of the liberal Urban Institute are similarly instructive.

- The average family income of those who were in the lowest quintile of income distribution in 1977 had increased 77 percent in real inflation-adjusted terms by 1986 when many had moved to higher quintiles.
- The average for those in the second-lowest quintile in 1977 had increased 37 percent in real terms by 1986.
- The average for those in the middle quintile in 1977 had increased 20 percent in real terms by 1986.

¹⁸ Reynolds, "Upstarts and Downstarts," p. 26.

¹⁹ McKenzie, *What Went Right in the 1980s*, pp. 146-147.

²⁰ Reynolds, "Upstarts and Downstarts," p. 26; Ed Rubenstein, "Moving Up," in "The Real Reagan Record," p. 47; McKenzie, *What Went Right in the 1980s*, pp. 114-115.

- The average for those in the second-highest quintile in 1977 had increased by only 10 percent in real terms by 1986.
- The average for those in the top quintile in 1977 had increased only 5 percent in real terms by 1986.

According to Sawhill and Condon, “when one follows individuals instead of statistical groups defined by income, one finds that, on average, the rich got a little richer and the poor got much richer.” The reason:

People who start at the bottom have nowhere to move but up, and are likely to do so as they become older, gain more seniority, and earn higher incomes. People who start at the top, some of whom may be there because of temporary sources of income like capital gains, have nowhere to go but down. This pattern, however, may be surprising to the general public, which has been led to believe that the poor were literally getting poorer over the past decade or two, and that the incomes of the rich were skyrocketing. This is simply not true.²¹

A widely cited study by the formerly Democrat-controlled Congressional Budget Office erroneously contended that the top 1 percent of income earners received 60 percent of the income gains in the 1980s, but this study was filled with faulty calculations.

- Capital gains income was not adjusted for inflation.
- Most capital losses and partnership losses were not counted.
- Appreciation of pension fund assets and homes was not counted, understating the gains of the middle and working classes.
- Incomes of the bottom 60 percent of earners were substantially undercounted, compared to incomes for those groups reported by the Census Bureau.
- Families were assigned to income quintiles with an adjustment for family size, but incomes in the study were not adjusted for family size.
- Most shocking of all, using this same flawed methodology, the real era of greed would have been the Carter years of 1977-1980 when, calculating income distribution in the same way, 100 percent of the income gains went to the top 1 percent.²²

²¹ Isabel V. Sawhill and Mark Condon, “Is U.S. Income Inequality Really Growing? Sorting Out the Fairness Question,” *Urban Institute Policy Bites*, June 1992; McKenzie, *What Went Right in the 1980s*, p. 115-116; Reynolds, “Upstarts and Downstarts,” p. 26; Rubenstein, “Moving Up,” p. 47.

²² Ed Gillespie and Christopher Frenze, “The CBO’s Faulty Data,” in “The Real Reagan Record,” p. 27.

In his careful book *What Went Right in the 1980s*, on the other hand, University of California Professor Richard McKenzie presents the actual distribution of income gains based on data collected and reported by the Bureau of Labor Statistics. He shows the percentages of the increase in real, before-tax, per capita income actually earned by each quintile from 1984 to 1989:

- **For the lowest quintile, 15.4 percent.**
- **For the second-lowest quintile, 11.9 percent.**
- **For the middle quintile, 9.0 percent.**
- **For the second-highest quintile, 16.7 percent.**
- **For the highest quintile, 46.9 percent.**²³

Therefore, the truth is that the top 20 percent earned less than 47 percent of the income gains, rather than the top 1 percent earning 60 percent of the gains.

Other data shows the boom in incomes during the 1980s as well:

- The percentage of families earnings less than \$15,000 in 1990 dollars fell from 17.5% in 1980 to 16.9% in 1990.
- The percentage of families earning more than \$50,000 in 1990 dollars rose from 24.5% in 1980 to nearly 31% in 1990.
- During the 1970s, while the percentage of families earning \$15,000 to \$50,000 in constant dollars fell from 60.5% to 58%, the percentage earning less than \$15,000 rose from 16% to 17.5%, while the percentage earning over \$50,000 rose only from 23.5% to 24.5%.²⁴

A key device often used to distort income or other economic statistics for the 1980s is to include some of the Carter years or other bad years from the 1970s in the calculation. Periods cited may start with 1979, 1977, or even 1973. Shifting the starting

²³ McKenzie, *What Went Right in the 1980s*, pp. 157-158.

²⁴ Reynolds, "Upstarts and Downstarts," pp. 26, 30.

point to years before 1981, when Ronald Reagan took office, lumps declining incomes or other declining economic performance from the 1970s with rising incomes or other economic performance from the Reagan years, leaving a distorted impression.

Indeed, Census Bureau data shows that real median family income was down in 1994 from 1979. Democrats often cite this statistic to discredit the 1980s. But Chart 1 shows how absurdly misleading this statistic is. The decline from 1979 to 1994 is shown in the chart as the Democrat Party line. But the actual data in the chart shows that this decline was far from continuous. A precipitous decline in family income began in 1979 under a Democratic Congress and a Democratic President. But this decline was again turned around in 1983 as a result of Reagan's economic policies, with real median family income climbing 13% through 1989. This increase was again reversed with the tax increases of 1990 and 1993.

What Happened to the Federal Tax Burden?

Probably the greatest myth about the 1980s is that Ronald Reagan slashed taxes dramatically for the rich, so that they no longer pay their fair share. This is, again, totally false:

- The proportion of total income taxes paid by the top 1 percent rose sharply under Reagan from 18 percent in 1981 to 28 percent in 1988 (see Table 11).
- Average effective income tax rates were cut even more for lower-income groups than for higher-income groups. While the average effective tax rate for the top 1 percent fell by 30 percent between 1980 and 1992 -- and by 35 percent for the top 20 percent of income earners -- it was reduced by 44 percent for the second-highest quintile, 46 percent for the middle quintile, 64 percent for the second-lowest quintile, and 263 percent for the bottom quintile (see Table 12).
- The reductions for the lowest-income groups were so large because Reagan doubled the personal exemption, increased the standard deduction, and tripled the earned income tax credit (EITC), which provides net cash for single-parent families with

children at the lowest income levels. These changes eliminated income tax liability altogether for over 4 million lower-income families.²⁵

- By 1990, the top 1 percent of taxpayers in income paid 26 percent of all income taxes, the top 5 percent paid 49 percent, and the bottom 50 percent paid only 6 percent (see Table 11). To suggest that this distribution is unfair because it is too easy on upper-income groups is nothing less than absurd.

Critics often add the Social Security payroll tax and argue that the total federal tax burden shifted more to lower-income groups and away from upper-income groups. But Reagan's changes were in the income tax, not in the Social Security payroll tax. The payroll tax was imposed by liberal members of Congress over the last 50 years, and it is they, not Ronald Reagan, who should be held accountable for its distributional effects.

Even if one counts the Social Security payroll tax, the share of total federal taxes increased for the higher income groups as follows:

- **For the top 1 percent of taxpayers, from 12.9 percent in 1980 to 15.4 percent in 1989.**
- **For the top 5 percent of taxpayers, from 27.3 percent in 1980 to 30.4 percent in 1989.**
- **For the top 20 percent of taxpayers, from 56.1 percent in 1980 to 58.6 percent in 1989.**

Similarly, even if one includes the Social Security payroll tax, the share of total federal taxes declined for everyone else:

- **For the second-highest 20 percent of taxpayers, from 22.2 percent in 1980 to 20.8 percent in 1989.**
- **For the middle 20 percent of taxpayers, from 13.2 percent in 1980 to 12.5 percent in 1989.**
- **For the second-lowest 20 percent of taxpayers, from 6.9 percent in 1980 to 6.4 percent in 1989.**

²⁵ Reynolds, "Upstarts and Downstarts," p. 28; Norman Ture, "To Cut and to Please," in "The Real Reagan Record," p. 39.

- **For the lowest 20 percent of taxpayers, from 1.6 percent in 1980 to 1.5 percent in 1989.**²⁶

What Happened to Poverty?

Despite claims to the contrary, the Reagan economic recovery was effective in reducing poverty.

- The poverty rate actually started to increase rapidly during the Carter years, rising by one-third from 1978 to 1983, when it climbed from 11.4 percent to 15.2 percent. It fell every year from 1984 to 1989, however, dropping by one-sixth from its 1983 peak to 12.8 percent in 1989.²⁷
- The black poverty rate fell to 30.6 percent in 1989, the lowest on record except for 30.3 percent in 1974.²⁸
- From 1978 to 1983, the number of people in poverty increased by about 40 percent, from 24.7 million to 35.3 million. The Reagan recovery again reversed this trend, reducing the poverty population to 31.5 million -- a drop of 3.8 million -- in 1989.²⁹

What Happened to the Misery Index?

A popular indicator of the economic performance of Presidents has been the so-called misery index, defined as the total of inflation and unemployment each year.

Ronald Reagan engineered the largest reduction in the misery index in history. From 1980 to 1988 (Reagan's last year in office), the index fell by over 50 percent. At 9.6, the index in 1988 was lower than in any other year since 1970, except for 1972 (see Chart 2). The Presidency of Jimmy Carter, who invented the term, still holds the record for the highest misery indices.

Harvard University economist Robert Barro has developed a different index of Presidential economic performance. His Economic Report Card for Presidents includes the change each year in inflation, unemployment, interest rates, and growth in Gross

²⁶ McKenzie, *What Went Right in the 1980s*, p. 276.

²⁷ *Economic Report of the President*, Table B-28, p. 380. The poverty rate fell to 14.4 percent in 1984, 14.0 percent in 1985, 13.6 percent in 1986, 13.4 percent in 1987, 13.0 percent in 1988, and 12.8 percent in 1989.

²⁸ *Ibid.*

National Product (GNP) under each President.

Of all eleven Presidents since 1949, Reagan ranks both highest (first term, 1981-1985) and second-highest (second term, 1985-1989) in economic performance under Barro's index (see Table 13).

The Boom in Charity

The 1980s has been labeled by some as the decade of greed. The truth is that total giving to charitable causes in the United States grew at a record pace.

- Between 1980 and 1989, charitable giving in real terms increased by 5.1 percent per year, compared to 3.3 percent per year from 1955 through 1979.³⁰
- Charitable giving per capita in real terms grew at a rate of 4 percent per year, double the rate of 2 percent per year from 1955 to 1979.³¹
- Between 1980 and 1989, charitable giving in real dollars rose by 56 percent to \$121 billion.³²

The Surge in Manufacturing

Another myth holds that during the 1980s, the U.S. economy was deindustrializing as manufacturing became uncompetitive and fell into decline. The facts tell a vastly different story.

- Manufacturing output rose by 38 percent in real inflation-adjusted dollars between 1980 and 1989. This left manufacturing output at 23 percent of GNP in 1989, compared to 21 percent in 1980, and higher as a percentage of GNP in 1988 and 1989 than in any other year since World War II.³³
- The total industrial production index rose by about 30 percent from 1980 to 1990 and by about one-third during the Reagan recovery years of 1983 through 1990, about the same as total real economic growth. The more narrow manufacturing production index rose even faster, climbing by 39.5 percent from 1980 to 1990 and by 43.5 percent from 1983 to 1990.³⁴

²⁹ *Ibid.*

³⁰ Richard B. McKenzie, "Decade of Greed?," in "The Real Reagan Record," p. 52.

³¹ *Ibid.*, p. 53.

³² *Ibid.*, p. 52.

³³ McKenzie, *What Went Right in the 1980s*, pp. 29-31.

³⁴ *Economic Report of the President*, Table B-46, p. 400.

- Manufacturing productivity tripled, climbing almost 42 percent from 1980 to 1990 at a rate of 3.5 percent per year.³⁵

As a result of this sharp rise in productivity, U.S. manufacturing employment fell from 20 percent of total employment in 1980 to 16 percent in 1990, even though manufacturing output was near its highest-ever levels of GNP.³⁶ Producing more and more with fewer workers is a sign of economic health and efficiency, not of failure.

Understanding the Trade Deficit

Critics have made much of the fact that our trade deficit climbed from \$19.4 billion in 1980 to \$109.1 billion in 1984 and \$154.4 billion in 1987 (see Table 14). This is among the most meaningless economic statistics collected, however, and in no way indicates economic weakness during the Reagan years.

Deficits in the international trade in goods and services inevitably are balanced by surpluses in international capital transactions. A dollar earned overseas by selling to the United States ultimately can be used only to buy U.S. goods and services or to invest in the U.S. Therefore, dollars sent overseas for imports must be used to buy U.S. exports or to invest in the U.S., and total transactions must always balance. Even if the money is held overseas, the foreigner is investing in dollars, which is also a form of investment in the U.S.

An inflow of capital investment means generally that foreign interests, instead of buying U.S. goods and services with money made by selling imports to the United States, are using it to buy capital assets in the U.S. The result is a deficit in trade, but a surplus in capital transactions. This is not a sign of economic deterioration, however; it is a sign

³⁵ Paul Craig Roberts, "Debt, Lies, and Inflation," in "The Real Reagan Record," p. 34; Bartley, *The Seven Fat Years*, p. 141.

³⁶ McKenzie, *What Went Right in the 1980s*, p. 32.

of economic strength. It means the U.S. economy is strong enough to attract foreign capital investment to fuel still more economic growth.

This was the chief cause of the rising U.S. trade deficit during the 1980s.

President Reagan's reductions in taxes, regulation, and inflation made the U.S. economy very attractive to foreign investors. The results:

- Foreign private investment in the U.S. more than doubled in just two years, from \$42.6 billion in 1980 to \$88.8 billion in 1982.
- By 1986, it had more than doubled again to \$187.5 billion; by 1989, it had climbed to \$205 billion (see Table 14).

The effect is similar when U.S. citizens who have been investing abroad bring their capital home. Foreign interests, because they no longer are receiving dollars from those investments, also cannot use these dollars to buy U.S. goods and services, offsetting U.S. purchases of goods and services overseas. As a result, everything else being equal, the trade deficit will rise when U.S. capital investment overseas falls and U.S. investors put their money in the U.S.

This was another cause of our rising trade deficit; but like the inflow of capital investment from abroad, it is a sign of strength, not deterioration. It means the economy is attracting the increased investment that leads to still more economic growth. Under Ronald Reagan, the net outflow of U.S. investment abroad collapsed in just two years, from \$111.2 billion in 1982 to \$20.6 billion in 1984 (see Table 14). Reductions in taxes, regulation, and inflation appealed to U.S. investors just as they did to foreign investors, leading them to bring their capital home to invest in the booming U.S. economy.

Booming economies naturally tend to run trade deficits. They import increased inputs from around the world to fuel their rapidly increasing production, which may be

sold to their increasingly rich citizens rather than abroad, leaving a net trade deficit.³⁷

This happened in the U.S. as the Reagan economy boomed from the end of 1982 to the middle of 1990, as discussed above.

It also happened throughout most of U.S. history. The U.S. ran a trade deficit for almost all of its first 100 years as it attracted tidal waves of foreign investment and its economy boomed, bringing in goods and services from around the world to fuel production and create the mightiest economic machine in world history. Trade deficits were an indication not of economic weakness, but of the skyrocketing economic strength of the new, free-market nation. During the Great Depression, by contrast, the U.S. ran trade surpluses.³⁸ Similarly, during the 100 years from Waterloo in 1815 to World War I in 1914, Britain dominated the world economically but also ran chronic trade deficits. As Wall Street financier Evan Galbraith has written, “America in the 1980s should be compared to Britain in its glory years, and not to a country that shows a trade deficit because its products are not competitive.”³⁹

The 1980s trade deficit certainly did not come about because U.S. goods and services were not competitive.

- **U.S. exports of manufactured goods rose by 90 percent from 1986 to 1992, compared to an increase of only 25 percent for the other leading industrial countries in the OECD.** Our share of world manufacturing exports consequently increased from 14 percent in 1987 to 18 percent in 1991.⁴⁰
- **U.S. services are recognized as the best in the world, and net exports of those services multiplied by several times from 1986 to 1992.**⁴¹ Exports accounted for 15.2 percent of GNP by 1990, up from 12.2 percent in 1980.⁴²

³⁷ *Ibid.*, pp. 39-40; Bartley, *The Seven Fat Years*, pp. 54, 200.

³⁸ Bartley, *The Seven Fat Years*, pp. 54, 200; McKenzie, *What Went Right in the 1980s*, pp. 40-41.

³⁹ Evan G. Galbraith, “Fear of the Foreign,” in “The Real Reagan Record,” pp. 57-58.

⁴⁰ McKenzie, *What Went Right in the 1980s*, p. 32.

⁴¹ *Economic Report of the President*, Table B-100, p. 462.

⁴² McKenzie, *What Went Right in the 1980s*, p. 37.

By 1990, the trade deficit was falling rapidly, declining to \$76.8 billion in that year (see Table 14). Of course, U.S. economic growth all but disappeared during these years as well, as the Reagan boom ended in 1990. Just as the 1980s trade deficit was not a sign of economic weakness, its decline around the turn of the decade clearly was not a sign of economic strength. In line with the decline in the trade deficit, foreign investment in the U.S. dropped precipitously, from \$205.2 billion in 1989 to \$65.5 billion in 1990 and \$48.6 billion in 1991 (see Table 14). Private U.S. investment abroad also had climbed back up to \$71.4 billion in 1991, and the weak U.S. economy no longer was pulling imported inputs to fuel booming growth. These factors accounted for the decline in the trade deficit, just as their reverse accounted for its earlier increase.

Understanding Debt and Wealth

The claim that the U.S. economy was burdened with excessive debt during the 1980s also is erroneous. Wealth soared, creating the capacity for additional debt, but debt generally increased no faster than the trends of earlier decades.

- **Real personal assets rose by nearly \$6 trillion, from \$15.5 trillion in 1980 to \$21.1 trillion in 1990, an increase of 36 percent.** Because the increase in real personal assets was three times the increase in personal debt (which rose by \$1.8 trillion), personal real net worth rose by \$3.8 trillion, or 29 percent.⁴³
- **The stock market more than tripled in value from 1980 to 1990, a larger increase than in any previous postwar decade.** The ratio of corporate debt to market value of corporate assets was the same in 1989 as in 1969.⁴⁴
- **Total debt liabilities of all private, non-financial sectors rose at a rate of 5.4 percent, compared to 6.15 percent for the 1950s and 5.01 percent for the 1960s.**⁴⁵ This hardly seems excessive when compared to previous years.
- **Total real private net worth rose by \$4.3 trillion from 1980 to 1989, at which time it totaled \$17.1 trillion in constant dollars, an increase of about one-third over 1980.**⁴⁶

⁴³ McKenzie, *What Went Right in the 1980s*, p. 183.

⁴⁴ *Ibid.*, pp. 7, 187.

⁴⁵ *Ibid.*, pp. 178-179.

Another popular complaint has been that the United States became a “debtor nation” in the 1980s. The value of foreign investment in the United States exceeded the value of U.S. investment overseas for the first time in 1988, we are told, and the “investment deficit” has grown every year since then.⁴⁷ This actually is another sign of economic strength, however, because it means that the United States became more attractive to the world’s investors. Moreover,

- U.S. investment income from overseas continued to exceed income to foreign interests from U.S. investments over this period by close to \$20 billion per year.⁴⁸ This indicates that a true valuation would show that U.S. investments overseas still are worth more than foreign investments in the U.S.
- U.S. investments overseas are older on average, and their historical costs, upon which “debtor nation” statistics are based, underestimate their current market value even more as a result. The government has yet to find a way to account fully for the current market value of investments.
- Much foreign investment is equity investment, which represents no burden of repayment by the American people. It simply will earn the value of what it produces, with no guarantee of profits, as the increased capital invested enhances overall economic growth, jobs, and incomes.⁴⁹

International Comparisons

The United States today remains the wealthiest society on earth.

- Adjusting exchange rates for purchasing power parity, which compares what goods and services families in each country can buy, the U.S. standard of living is easily the highest in the world, exceeding West Germany’s by about 25 percent and Japan’s by about 40 percent.⁵⁰
- Measured by actual physical conditions, the United States has much more and newer housing space, more cars per capita, more appliances, and more comforts generally than Western Europe, Japan, or any other nation or region.⁵¹

⁴⁶ *Economic Report of the President*, Table B-110, p. 473.

⁴⁷ *Ibid.*, Table B-99, p. 461.

⁴⁸ *Ibid.*, Table B-100, p. 462.

⁴⁹ Galbraith, “Fear of the Foreign,” p. 58.

⁵⁰ Bartley, *The Seven Fat Years*, p. 7.

⁵¹ *Ibid.*, pp. 7-8.

Some have argued that America is declining because the U.S. economy has fallen as a percentage of the world economy during the years since World War II. This decline stopped in about 1975, however, with the U.S. economy remaining through the 1980s about 34 percent as large as the rest of the world's economies combined.⁵² Moreover, after World War II, with most of the world's other major economies devastated by the war, the U.S. economy accounted for a huge percentage of the world economy.

One should hardly be surprised to find that our share of the world economy has declined as these other economies have rebuilt; nor should one be surprised or alarmed that it has declined further as some of the world's underdeveloped countries have learned to prosper. Far from indicating a problem with U.S. economic strength, these developments benefit the U.S. as well as the rest of the world. It would have been unrealistic indeed to expect our unusual postwar position relative to other countries not to decline as a result of the mutually beneficial and hoped-for economic development of those countries.

The 1980s v. the 1990s

In the 1990s, the Federal government abandoned the low-tax, free market policies of the 1980s. Two massive tax increases were enacted, in 1990 and 1993. Not surprisingly, the economic record of the 1990s falls far short of the 1980s.

- In the 1990s, the economy has grown at a real rate of only 1.8%, which would be the lowest rate for any decade since the Great Depression. Under the Clinton Administration, the economy has grown at a real rate of 2.5%. In the 1980s, by contrast, the economy grew at a real rate of 3.2%. This includes the recession years of 1981-82, which reflect more Carter's high inflation, high tax big government policies than Reagan's policies. Once Reagan's policies were fully phased in, the economy grew at a real rate of 3.5% from 1983 to 1989.
- Real median family income has declined 5.5% during the 1990s, from its peak in 1989. During the Clinton Administration there has been no significant growth in

⁵² McKenzie, *What Went Right in the 1980s*, pp. 33-34.

median family income. Yet, from 1981 through 1989, real median family income grew by 11%.

- Under Clinton, productivity has grown at an anemic real rate of 0.4% per year. This is the lowest rate of productivity growth for any President since Herbert Hoover. Under Reagan, productivity grew almost four times as fast, as 1.5%.
- Under Reagan, the number of jobs grew about twice as fast as under Clinton (2.0% per year compared to 1.1%).
- Despite the massive tax increases of 1990 and 1993, from 1990 to 1997 federal revenues after inflation are projected to grow by only 20%. In contrast, after Reagan's tax cut was adopted in 1981, federal revenues grew over the following seven years, from 1982 to 1989, by 24%. So federal revenues actually increased faster after Reagan's tax cuts than after the massive tax increases of 1990 and 1993.
- During the 1990s, the personal savings rate has been 5.0%, compared to 6.5% during the 1980s, or 30% higher. Similarly, the net investment rate during the 1990s has been an anemic 3.8%, compared to 5.3% in the 1980s, or about 40% higher.
- Perhaps most remarkably, it is in the 1990s that the rich have gotten richer and the poor have gotten poorer. While median family income has fallen since its peak in 1989, the income of the top 5% has grown by about 2%. The incomes of the lowest 20% of the population have fallen about 7% since that time, with incomes for every quintile except the top 20% also declining. In contrast, during the 1980s, real incomes for the poorest fifth of the population grew by 6%, and incomes for every quintile from the bottom 20% to the top 20%, grew as well. (See Table 15.)

This superior performance of the 1980s over the 1990s is all the more remarkable because the economic legacy left at the start of the 1980s was a thorough disaster, with inflation soaring by 25% over 1979 and 1980, prime interest rates climbing to 21% in 1980, and climbing rates of unemployment and poverty. The 1980s had to turn around these disastrous trends to achieve its accomplishments. By contrast, the economic legacy left at the end of the 1980s for the 1990s to build on was just the opposite: low inflation, low and declining interest rates, and steadily declining unemployment and poverty rates. Yet, the 1990s has worsened rather than improved this performance.

Conclusion

The conclusion is inescapable. The low tax, free market policies of the 1980s will lead to increasing and widespread prosperity as we begin the 21st century.

Table 1

Federal Revenue During the 1980s⁵³

Fiscal Year	Total Federal Revenues (Billions of Current Dollars)	Total Federal Revenues (Billions of FY87 Dollars)	Total Federal Revenues (As a Percent of GDP)	Total Individual Income Tax Revenues (Billions of Current Dollars)
1980	\$517.1	\$728.1	19.6%	\$224.1
1981	599.3	766.6	20.2	285.9
1982	617.8	738.2	19.8	297.7
1983	600.6	674.3	18.1	288.9
1984	666.5	730.4	18.0	298.4
1985	734.1	776.6	18.5	334.5
1986	769.1	790.0	18.2	349.0
1987	854.1	854.1	19.2	392.6
1988	909.0	877.3	18.9	401.2
1989	990.7	916.2	19.2	445.7
1990	1,031.3	914.0	18.8	466.9
1991	1,054.3	894.2	18.6	467.8
1992	1,091.6	894.0	18.4	476.0
1993	1,147.6	918.0	18.3	509.7

⁵³ Source: Budget of the United States Government, Historical Tables, Fiscal Year 1993, Table 1.3, p. 17.

Table 2

Federal Spending During the 1980s⁵⁴

Fiscal Year	Total Federal Expenditures (Billions of Current Dollars)	Total Federal Expenditures (Billions of FY87 Dollars)	Total Federal Expenditures as a Percent of GDP
1980	\$590.9	\$832.1	\$22.3
1981	678.2	867.7	22.9
1982	745.8	891.1	23.9
1983	808.4	921.1	24.4
1984	851.8	933.5	23.1
1985	946.4	1,001.3	23.9
1986	990.3	1,017.3	23.5
1987	1,003.9	1,003.9	22.5
1988	1,064.1	1,027.1	22.1
1989	1,143.2	1,057.2	22.1
1990	1,252.7	1,110.2	22.9
1991	1,323.8	1,122.8	23.3
1992	1,380.9	1,132.1	23.3
1993	1,408.2	1,120.6	22.4

⁵⁴ Source: Budget of the United States Government, Historical Tables, Fiscal Year 1993, Table 1.3, p.17.

Table 3

Federal Deficits During the 1980s⁵⁵

Fiscal Year	Total Federal Deficits (Billions of Current Dollars)	Total Federal Deficits (Billions of Constant FY87 Dollars)	Total Federal Deficits as a Percentage of GDP
1980	\$73.8	\$104.0	2.8%
1981	79.0	101.0	2.7
1982	128.0	152.9	4.1
1983	207.8	236.8	6.3
1984	185.4	203.2	5.0
1985	212.3	224.6	5.4
1986	221.2	227.3	5.2
1987	149.8	149.8	3.4
1988	155.2	149.8	3.2
1989	152.5	141.0	2.9
1990	221.4	196.2	4.0
1991	269.5	228.6	4.8
1992	290.4	238.1	4.9
1993	254.7	202.7	4.0

⁵⁵ Source: Budget of the United States Government, Historical Tables, Fiscal Year 1993, Table 1.3, p.17.

Table 4
Federal Taxes and Spending
As a Percent of GDP, 1947-1963⁵⁶

Fiscal Year	Federal Taxes	Federal Spending
1947	17.3%	15.5%
1948	16.8	12.1
1949	15.0	14.8
1950	14.8	16.0
1951	16.5	14.5
1952	19.4	19.9
1953	19.1	20.9
1954	18.9	19.3
1955	17.0	17.8
1956	17.9	17.0
1957	18.3	17.5
1958	17.8	18.4
1959	16.5	19.2
1960	18.3	18.3
1961	18.3	18.9
1962	18.0	19.2
1963	18.2	19.0
1964	18.0	19.0
1965	17.4	17.6
1966	17.8	18.3
1967	18.8	19.8
1968	18.1	21.0
1969	20.2	19.8
1970	19.6	19.9
1971	17.8	20.0
1972	18.1	20.1
1973	18.1	19.3
1974	18.8	19.2
1975	18.5	22.0
1976	17.7	22.1
1977	18.8	21.3
1978	18.5	21.3
1979	19.1	20.7
1980	19.6	22.3
1981	20.2	22.9
1982	19.8	23.9
1983	18.1	24.4
1984	18.0	23.1
1985	18.5	23.9
1986	18.2	23.5
1987	19.2	22.5
1988	18.9	22.1
1989	19.2	22.1
1990	18.8	22.9
1991	18.6	23.3
1992	18.4	23.3
1993	18.3	22.4

⁵⁶ Source: Budget of the United States Government, Historical Tables, Fiscal Year 1993, Table 1.3, p. 17.

Table 5
Federal Debt Held by Public as a Share of GDP, 1940-1993⁵⁷

Fiscal Year	Total Federal Debt Held by Public
1940	44.8%
1941	42.9
1942	47.8
1943	72.8
1944	91.6
1945	110.9
1946	113.8
1947	100.6
1948	87.7
1949	81.6
1950	82.4
1951	68.4
1952	63.1
1953	60.0
1954	61.1
1955	58.9
1956	53.4
1957	50.0
1958	50.5
1959	48.9
1960	46.9
1961	46.1
1962	44.7
1963	43.5
1964	41.1
1965	38.9
1966	35.9
1967	33.6
1968	34.2
1969	30.0
1970	28.7
1971	28.8
1972	28.1
1973	26.8
1974	24.5
1975	26.1
1976	28.3
1977	28.6
1978	28.2
1979	26.3
1980	26.8
1981	26.5
1982	29.4
1983	34.1
1984	35.2
1985	37.8
1986	41.2
1987	42.4
1988	42.6
1989	42.3
1990	44.0
1991	47.4
1992	50.5
1993	51.6

⁵⁷ Source: Budget of the United States Government, Historical Tables, Fiscal Year 1993, Table 7.1, p.89

Table 6

Total Government Deficits in the Leading Industrial Countries During the 1980s⁵⁸

Fiscal Year	Total Government Deficit in the U.S. as a Percentage of GDP	AAverage Total Government Deficit in G-7 Nations as a Percentage of GDP
1980	1.3	2.7
1981	1.0	2.8
1982	3.5	4.0
1983	3.8	4.1
1984	2.8	3.4
1985	3.3	3.2
1986	3.4	3.2
1987	2.4	2.2
1988	2.0	1.5
1989	1.7	1.0
1990	2.4	1.5

⁵⁸ Source: Robert Bartley, *The Seven Fat Years*, p. 181.

Table 7

Inflation: 1965-1990⁵⁹

Fiscal Year	Annual Change in Consumer Price Index
1965	1.6
1966	2.9
1967	3.1
1968	4.2
1969	5.5
1970	5.7
1971	4.4
1972	3.2
1973	6.2
1974	11.0
1975	9.1
1976	5.8
1977	6.5
1978	7.6
1979	11.3
1980	13.5
1981	10.3
1982	6.2
1983	3.2
1984	4.3
1985	3.6
1986	1.9
1987	3.6
1988	4.1
1989	4.8
1990	5.4

⁵⁹ Source: Economic Report of the President, January 1993, Table 13-59, p. 462.

Table 8
Unemployment: 1948-1992⁶⁰

Fiscal Year	Unemployment Rate (%)
1948	3.8
1949	5.9
1950	5.3
1951	3.3
1952	3.0
1953	2.9
1954	5.5
1955	4.4
1956	4.1
1957	4.3
1958	6.8
1959	5.5
1960	5.5
1961	6.7
1962	5.5
1963	5.7
1964	5.2
1965	4.5
1966	3.8
1967	3.8
1968	3.6
1969	3.5
1970	4.9
1971	5.9
1972	5.6
1973	4.9
1974	5.6
1975	8.5
1976	7.7
1977	7.1
1978	6.1
1979	5.8
1980	7.1
1981	7.6
1982	9.7
1983	9.6
1984	7.5
1985	7.2
1986	7.0
1987	6.2
1988	5.5
1989	5.3
1990	5.5
1991	6.7
1992	7.4

⁶⁰ Source: Economic Report of the President, January 1993, Table 13-69, p. 428.

Table 9

Job Creation by Administration and Income Level⁶¹

Administration	Percent of Jobs Created Paying Under \$7,012 (1984 Dollars)	Percent of Jobs Created Paying \$7,012-\$28,048 (1984 Dollars)	Percent of Jobs Created Paying Over \$28,048 (1984 Dollars)
Nixon-Ford 1973-1977	37.67%	51.32%	11.2%
Carter 1977-1980	41.77	68.2	-9.9
Reagan 1st Term 1980-1984	6.0	46.2	46.1

⁶¹ Source: Joint Economic Committee, based on data from Bureau of Labor Statistics, U.S. Department of Labor.

Table 10

Interest Rates, 1980-1992⁶²

Fiscal Year	Prime Rate	New Home Mortgage Yields	AAA Corporate Bonds	3-Month Treasury Bills
1980	15.27%	12.66%	11.94%	11.506%
1981	18.87	14.70	14.17	14.029
1982	14.86	15.14	13.79	10.686
1983	10.79	12.57	12.04	8.63
1984	12.04	12.38	12.71	9.58
1985	9.93	11.55	11.37	7.48
1986	8.33	10.17	9.02	5.98
1987	8.21	9.31	9.38	5.82
1988	9.32	9.19	9.71	6.69
1989	10.87	10.13	9.26	8.12
1990	10.01	10.05	9.32	7.51
1991	8.46	9.32	8.77	5.42
1992	6.25	X	8.14	3.45
12/1992	6.0	8.07 (11/92)	7.98	3.25

⁶² Source: Economic Report of the President, January 1993, Table 13-69, p. 428.

Table 11

**Share of Federal Income Taxes
Paid by Income Groups, 1981-1988⁶³**

Fiscal Year	Top 1%	Top 5%	51st-95th Percentile	Bottom 50%
1981	18%	35%	57%	8%
1982	19%	36%	56%	7%
1983	20%	37%	56%	7%
1984	21%	38%	55%	7%
1985	22%	39%	54%	7%
1986	25%	42%	52%	7%
1987	25%	43%	51%	6%
1988	28%	46%	49%	6%
1989	25%	44%	50%	6%
1990	26%	49%	50%	6%
1991	25%	43%	51%	5%

⁶³ Sources: Richard McKenzie, *What Went Right in the 1980s*, p. 277; Christopher Frenze, *The Federal Income Tax Burden, 1981-1987*, Joint Economic Committee, 1990.

Table 12

Reductions in Effective Income Tax Rates, 1980-1992⁶⁴

Income Group	Effective Tax Rate	Effective Tax Rate	Difference
	Under 1980 Tax Law	Under 1992 Tax Law	
Lowest 20%	1.7%	-2.8%	-263.6%
2nd Lowest 20%	7.3	2.6	-64.1
Middle 20%	11.7	6.3	-46.3
2nd Highest 20%	15.6	8.7	-44.2
Highest 20%	25.2	16.3	-35.2
Top 1%	23.2	23.7	-30.2

⁶⁴ Source: Richard McKenzie, What Went Right in the 1980s, p. 278.

Table 13

Economic Report Card of the Presidents⁶⁵

	Inflation Change	Unemployment Change	Interest Rate Change	Shortfall in GNP Growth	Misery Index Change	Rank	Expanded Misery Change	Rank
Administration	(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)
Truman II 1949-52	-0.4	0.4	0.3	-2.6	0.0	4	-2.3	4
Eisenhower I 1953-56	0.3	1.6	0.6	0.7	1.9	9	3.2	9
Eisenhower II 1957-1960	-0.8	1.3	0.5	1.1	0.5	5	2.1	8
Kennedy/ Johnson 1961- 64	-0.5	-0.8	0.3	-1.7	-1.3	3	-2.7	3
Johnson II 1965-68	2.2	-1.1	1.5	-1.4	1.1	7	1.2	6
Nixon I 1969- 72	0.0	1.6	0.0	0.0	1.6	8	1.6	7
Nixon/Ford 1973-76	4.8	1.5	0.8	1.1	6.3	11	8.2	10
Carter 1977-80	3.9	-1.3	5.5	0.3	2.6	10	8.4	11
Reagan I 1981- 1984	-5.7	1.4	-0.7	0.7	-4.3	1	-4.3	1
Reagan II 1984-88	-0.6	-0.8	-2.1	-0.2	-3.7	2	-3.7	2
Bush 1989-92 (est.)	-0.2	1.0	-2.1	2.1	0.8	6	0.8	5

⁶⁵ Source: Richard McKenzie, What Went Right in the 1980s, p. 282.

Table 14

The Trade Deficit and the Capital Surplus During the 1980s⁶⁶

Fiscal Year	Trade Balance in Goods and Services (Billions of Dollars)	Private Foreign Investment in the United States (Billions of Dollars)	Private U.S. Investment Abroad (Billions of Dollars)
1980	-\$19.4	\$42.6	\$73.7
1981	-16.2	78.1	103.9
1982	-24.2	88.8	111.2
1983	-57.8	77.5	52.7
1984	-109.1	68.9	20.6
1985	-122.0	132.1	27.4
1986	-138.7	187.5	89.4
1987	-145.4	184.6	72.6
1988	-114.3	179.7	91.8
1989	-89.9	205.2	90.9
1990	-76.8	65.5	56.5
1991	-28.1	48.6	71.4

⁶⁶ Source: Economic Report of the President, January 1993, Table 13-100, p. 462.