THE REAL REAGAN RECORD

Ronald Reagan inherited an economy that was in the midst of its worst crisis since the Great Depression. In January 1981 the unemployment rate stood at 7.4 per cent, on its way up to 10 per cent. Persistent double-digit inflation had pushed interest rates to an unbelievable 21 per cent. Real pre-tax income of the average American family had been dropping since 1976, and—thanks to bracket creep—after-tax income was falling even faster. The supply of oil and other raw materials seemed precarious. The outgoing President warned of a bleak economic future.

That era, roughly coinciding with the Carter Administration, was the last time liberal policies held sway over the economy.

Two years into Ronald Reagan's Presidency the economy began to recover. By most conventional indices the recovery was strong and sustained, outlasting Mr. Reagan's Presidency by nearly two years. And yet it was widely felt that the recovery was illusory—"smoke and mirrors," as Mario Cuomo memorably put it—and that the stock market crash in 1987 was merely the foretaste of the post-1990 recession. We propose to examine these claims in detail in the balance of this section.

—ED RUBENSTEIN

UPSTARTS AND DOWNSTARTS

Alan Reynolds

THE ECONOMIC policies presided over by Ronald Reagan were stunningly successful—except to informed opinion, as represented by the academy and the major media. The principal charge against Reagan has become almost a chant: The rich got richer, the poor got poorer, and the middle class was squeezed out of existence.

A key player in the campaign to popularize this view has been Sylvia Nasar of the *New York Times*, who relied on statistics concocted by Paul Krugman of MIT, who, in turn, garbled some already disreputable estimates from the Congressional Budget Office (CBO).

The purpose of the crusade was obvious. Mr. Krugman has been advocating that we somehow double tax collections from those earning over $200,000, so as to greatly increase federal spending. Miss Nasar openly boasted about "supplying fresh ammunition for those . . . searching for new ways to raise government revenue." Governor Clinton immediately seized upon the Krugman–Nasar statisics as the rationale for his economic plan to tax us into prosperity.

R. Kenton Nelson

Since the question is what happened in the 1980s, after the Carter Administration, it makes no sense to begin with 1977, as Mr. Krugman and Miss Nasar do, or with 1973, as the Children's Defense Fund does. Real incomes fell sharply during the runaway inflations of 1974–75 and 1979–80. Median real income among black families, for example, fell 15 per cent from 1973 to 1980, then rose 16 per cent from 1982 to 1990.

The table on p. 26 shows the actual real income of households by fifths of the income distribution, for the most commonly cited years. There is no question that *all* income groups experienced significant income gains from 1980 to 1989, despite the 1981–82 recession, and were still well ahead of 1980 even in the 1990 slump. For all

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U.S. households, the mean average of real income rose by 15.2 per cent from 1980 to 1989 (from $33,409 to $38,493, in 1990 dollars), compared with a 0.8 per cent *decline* from 1970 to 1980.

This table shows that the "income gap" did not widen merely between the bottom fifth and any "top" group, but also between the bottom fifth and the next highest fifth, the middle fifth, and so on.

A common complaint about these figures is that they exclude capital gains, and therefore understate income at the top. However, the figures also exclude *taxes*. Average income taxes and payroll taxes among the top fifth of households amounted to $24,322 in 1990, according to the Census Bureau, but capital gains among the top fifth were only $14,972. To add the capital gains and not subtract the taxes, as some CBO figures do, is indefensible. Indeed, all CBO estimates of income gains are useless, because they include an estimate of capital gains based on a sample of tax returns. Since lower tax rates on capital gains after 1977 induced more people to sell assets more often, the CBO wrongly records this as increased income. It also ignores all capital losses above the deductible $3,000, and fails to adjust capital gains for inflation.

Average Household Income

(In 1990 Dollars)

	Lowest Fifth	Second Fifth	Third Fifth	Fourth Fifth	Highest Fifth	Top 5%
1990	7,195	18,030	29,781	44,901	87,137	138,756
1989	7,372	18,341	30,488	46,177	90,150	145,651
1980	6,836	17,015	28,077	41,364	73,752	110,213
1977	7,193	17,715	29,287	42,911	76,522	117,023

Bureau of the Census, *Money Income of Households, Families & Persons: 1990*, p. 202.

The Middle-Class Boom

ONE THING that we know with 100 per cent certainty is that *most* Americans—far more than half—did very well during the long and strong economic expansion from 1982 to 1989. In those fat years, real after-tax income per person rose by 15.5 per cent, and real *median* income of families, before taxes, went up 12.5 per cent. That means half of all families had gains *larger* than 12.5 per cent, while many below the median also had income gains, though not as large. Many families had to have gained even more than 12.5 per cent, since the more familiar *mean* average rose 16.8 per cent from 1982 to 1989. Even if we begin with 1980, rather than 1982, median income was up 8 per cent by 1989, and mean income by 14.9 per cent. And even if we end this comparison with the slump of 1990, median family income was still up 5.9 per cent from 1980, and mean income was up 12 per cent.

In *U.S. News & World Report* (March 23, 1992), Paul Krugman claimed that "the income of a few very well-off families soared. This raised average family income—but *most* families didn't share in the good times" (emphasis added). Mr. Krugman apparently does not understand what a rising median income means.

The whole idea of dividing people into arbitrary fifths by income ignores the enormous mobility of people in and out of these categories. What was most unusual about the Eighties, though, was that the number moving *up* far exceeded the number moving *down*. A Treasury Department study of 14,351 taxpayers shows that 86 per cent of those in the lowest fifth in 1979, and 60 per cent in the second fifth, had moved up into a higher income category by 1988. Among those in the middle income group, 47 per cent moved up, while fewer than 20 per cent moved down. Indeed, many more families moved up than down in every income group except the top 1 per cent, where 53 per cent fell into a lower category. Similar research by Isabel Sawhill and Mark Condon of the Urban Institute found that real incomes of those who started out in the bottom fifth in 1977 had risen 77 per cent by 1986—more than 15 times as fast as those who started in the top fifth. Miss Sawhill and Mr. Condon concluded that "the rich got a little richer and the poor got much richer."

This remarkable upward mobility is the sole cause of "The Incredible Shrinking Middle Class," featured in the May 1992 issue of *American Demographics*. Measured in constant 1990 dollars, the percentage of families earning between $15,000 and $50,000 fell by 5 points, from about 58 per cent to 53 per cent. This is what is meant by a "shrinking" middle class. We know they didn't disappear into poverty, because the percentage of families earning less than $15,000 (in 1990 dollars), dropped a bit, from 17.5 per cent in 1980 to 16.9 per cent in 1990. What instead happened is that the percentage earning more than $50,000, in constant dollars, *rose* by 5 points—from less than 25 per cent to nearly 31 per cent. Several million families "vanished" from the middle class by earning much more money!

It is not possible to reconcile the increase in median incomes with the often-repeated claim that low-wage service jobs ("McJobs") expanded at the expense of high-wage manufacturing jobs. Actually, there were millions more jobs in sectors where wages were rising most briskly, which meant competitive export industries but also services. From 1980 to 1991, average hourly earnings rose by 6.8 per cent a year in services, compared with only 4.8 per cent in manufacturing. The percentage of working-age Americans with jobs, which had never before the 1980s been nearly as high as 60 per cent, rose to 63 per cent by 1989.

The Myth of Low-Wage Jobs

AN EDITORIAL in *Business Week* (May 25) claimed that, "according to a just-released Census Bureau study, the number of working poor rose dramatically from 1979 to 1990." This is completely false. In fact, the report shows that the percentage of low-income workers who are in poverty *fell* dramatically. Among husbands with such low-income jobs, for example, 35.7 per cent were members of poor families in 1979, but only 21.4 per cent in 1990.

Low incomes, in this report, were defined as "less than the poverty level for a four-person family" ($12,195 a year in 1990). Yet very few people with entry-level or part-time jobs are trying to support a family of four. Husbands now account for only a fifth of such low-income jobs, which are instead in-

creasingly held by young singles and by dependent children living with their parents. Wives had 34 per cent of such jobs in 1979, but fewer than 28 per cent in 1990. That reflects the impressive fact that the median income of women rose by 31 per cent in real terms from 1979 to 1990.

It is true that the absolute *number* of low-income jobs increased in all categories, but that increase was not nearly as large as the increase in medium- and high-income jobs. All that the rise in low-income jobs really shows is that students living with their parents and young singles found it much easier to find acceptable work. The only reason fewer young people had low-income jobs back in the glorious Seventies is a larger percentage of them had no jobs at all! Only 51.4 per cent of single males had full-time jobs in 1974, but 61.8 per cent did by 1989. Young people always start out with low earnings, if they get a chance to start out at all.

In his new book, *Head to Head*, Lester Thurow writes that "between 1973 and 1990, real hourly wages for non-supervisory workers . . . fell 12 per cent, and real weekly wages fell 18 per cent." Yet these averages include part-time workers, which is why *average* wages appeared to be only $355 a week in 1991, even though half of all full-time workers (the *median*) earned more than $430 a week. Because many more students and young mothers were able to find part-time jobs in the Eighties, that diluted both the

NR, April 17, 1981

The CBO's Faulty Data

Myth: The top 1 per cent of earners got most of the income gains of the 1980s.

"We all know that there has been a redistribution of income in America. That redistribution over the last 12 years has been from average working Americans to the wealthiest 1 per cent in our nation."

—*Rep. Steny Hoyer (D., Md.),* Wall Street Journal, *April 8, 1992*

"Even Among the Well-Off, the Richest Get Richer—Data Show the Top 1 Per Cent Got 60 Per Cent of the Gain in the '80s Boom."

—New York Times *front-page headline, March 5, 1992*

THE Texas education establishment was rocked last year by the discovery of 230 mistakes in history books distributed in the state's schools. Among the interesting "facts" in these texts were that *Sputnik* was the Soviet Union's first intercontinental ballistic missile, that the United States easily settled the Korean conflict by using "the bomb," and that Japan attacked Pearl Harbor in 1942.

These errors were the results of innocent (albeit stupid) mistakes. The same cannot be said of the endless stream of newspaper accounts and "economic studies" purporting to show that, contrary to our best recollections, the decade of the 1980s was not a period of prosperity after all.

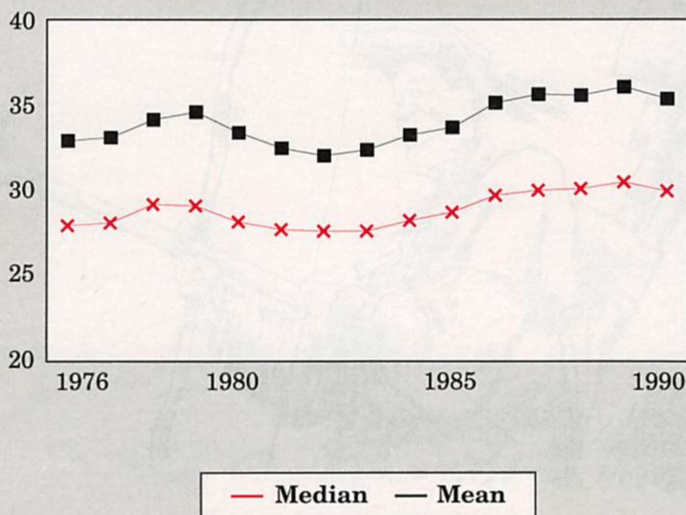
The CBO's figures are particularly suspect. Alan Reynolds details some of its errors above; another is that reporting capital gains, it does not adjust the cost of the asset for inflation. The general effect of the CBO's methodology is to exaggerate the income of the affluent while understating that of middle- and lower-income groups. Net capital losses are capped and most partnership losses are ignored, even though all capital gains and partnership income is fully counted. Furthermore, capital gains and other income accruing to the middle-income brackets in the form of pension funds (which amount to some $3 trillion) or home values are not counted.

The CBO also adopts a bizarre method of compiling income data. It assigns families to fifths with an adjustment for family size, but the income measured is not adjusted for family size. The CBO indicates that family income in the bottom three quintiles dropped between 1977 or 1980 and 1989. This is flatly contradicted by the Census Bureau, whose data show the average level of income in all quintiles rising between 1977 or 1980 and 1989. The bottom line is that middle-class real family income jumped 13 per cent during the 1982–89 expansion years.

Even if these faulty CBO data were taken at face value, they would place the era of greed, when the top 1 per cent of families had 100 per cent of net income growth, in the Carter years, 1977–80. The share of income gains going to the top 1 per cent of families was 160 per cent higher under Carter than under Reagan.

—ED GILLESPIE & CHRISTOPHER FRENZE

Mr. Gillespie is Republican staff director of the Joint Economic Committee. . . . Mr. Frenze is an economist for the Joint Economic Committee.



Bureau of the Census, P-60, No. 174

weekly and the hourly "average" wage. It most definitely did not mean that the wages of the "average worker" went down, but rather that otherwise unemployed part-time and entry-level workers were able to raise their wages above zero. The increase in part-time jobs also does not mean that families are poorer; rather, they are richer. Out of 19.3 million part-time workers in 1991, only 1.2 million were family heads, and only 10 per cent said they were unable to find full-time work.

The Rich Work Harder

ALTHOUGH the vast majority clearly had large income gains in the Eighties, Mr. Krugman and Miss Nasar nonetheless assert that those at the top had even larger gains, and that this is something that ought to provoke resentment or envy. Yet the figures they offer to make this point are grossly misleading. Moreover, the whole static routine of slicing up income into fifths is bound to show the highest percentage increases in average (mean) incomes among the "top" 20 per cent or 1 per cent. *That is because for top groups alone, any and all increases in income are included in the average, rather than in movement to a higher group.*

In his *U.S. News* article, Krugman first claimed that CBO figures show that "Ronald Reagan's tax cuts" boosted after-tax income of the top 1 per cent "by a whopping 102 per cent." That figure, though, is based on a "tax simulation model" which estimates "adjusted" incomes as a multiple of the poverty level. The top 1 per cent supposedly earned less than 22 times the poverty level in 1980, but 44 times the poverty level in 1989—hence the gain of 102 per cent. Yet this is a purely relative measure of affluence, not an absolute gain in real income. As more and more families rose further and further above the unchanged "poverty line" in the Eighties, thus lifting the income needed to be in the "top 1 per cent," the CBO technique had to show a "widening gap."

Furthermore, the share of federal income tax paid by the top 1 per cent soared from 18.2 per cent in 1981 to 28 per cent in 1988, though it slipped to 25.4 per cent in 1990. Indeed, this unexpected revenue from the rich was used to double personal exemptions and triple the earned-income tax credit, which was of enormous benefit to the working poor.

By the time Mr. Krugman's alleged 102 per cent gain at the top had reached the *New York Times*, it had shrunk to 60 per cent. However, the CBO wrote a memo disowning this estimate too, noting that "of the total rise in aggregate income . . . about one-fourth went to families in the top 1 per cent." By fiddling with "adjusted" data, the CBO managed to get that share of the top 1 per cent up to one-third. Whether a fourth or a third, these estimates still begin with 1977, not 1980. Between 1977 and 1980, the CBO shows real incomes falling by 6.6 per cent for the poorest fifth. The top 5 per cent fared *relatively* well before 1980, because everybody else suffered an outright drop in real income.

Even if the Krugman–Nasar figures had been remotely accurate, the whole exercise is conceptually flawed. In every income group except the top, many families can move up from one group to another with little or no effect on the average income of those remaining in the lower group. Above-average increases in income among those in the lower groups simply move them into a higher fifth, rather than raising the average income of the fifth they used to be in. Only the top income groups have no ceiling, as those in such a group cannot possibly move into any higher group. A rap star's first hit record may lift his income from the lowest fifth to the top 1 per cent, with no perceptible effect on the average income of the lowest fifth. But two hit records in the next year would raise the total amount of income counted in the top 1 per cent, and thus raise the average for that category.

Nobody knows exactly how much income is needed to be counted among the top 1 per cent, because the Census Bureau keeps track only of the top 5 per cent. Census officials argue that apparent changes in the small sample used to estimate a "top 1 per cent" may largely reflect differences in the degree of dishonest reporting. When marginal tax rates fell from 70 per cent to 28 per cent, for example, more people told the truth about what they earned, so "the rich" *appeared* to earn much more.

One thing we do know, though, is that the minimum amount of income needed to be included among the top 1 per cent has to have risen quite sharply since 1980, because of the huge increase in the percentage of families earning more than $50,000, or $100,000. This increased proportion of families with higher incomes pushed up the income ceilings on all middle and higher income groups, and thus raised the floor defining the highest income groups.

While $200,000 may have been enough to make the top 1 per cent in 1980, a family might need over $300,000 to be in that category a decade later. Clearly, any average of all

the income above $300,000 is going to yield a much bigger number than an average of income above $200,000. The CBO thus estimates that average pre-tax income among the top 1 per cent rose from $343,610 in 1980 to $566,674 in 1992. But this 65 per cent increase in the average does *not* mean that those specific families that were in the top 1 per cent in 1980 typically experienced a 65 per cent increase in real income. It simply means that the standards for belonging to this exclusive club have gone way up. That is because millions more couples are earning higher incomes today than in 1980, not because only a tiny fraction are earning 65 per cent more.

Sylvia Nasar totally misreported the CBO's complaints with her first article, and audaciously quoted her own discredited assertions in a later *New York Times* piece (April 21). This front-page editorial changed the subject—from income to wealth. It claimed a "Federal Reserve" study had found that the wealthiest 1 per cent had 37 per cent of all net worth in 1989, up from 31 per cent in 1983. Paul Krugman, writing in the *Wall Street Journal*, likewise cited this "careful study by the Federal Reserve." Yet the cited figures are from a mere *footnote* in a rough "working paper" produced by one of hundreds of Fed economists Arthur Kennickell, along with a statistician from the IRS, Louise Woodburn. It comes with a clear warning that "opinions in this paper . . . in no way reflect the views of . . . the Federal Reserve System."

At that, all of the gain of the top 1 per cent was supposedly at the expense of others within the top 10 per cent, not the middle class or poor. In any case, the figures are little more than a guess. The authors acknowledge that they "cannot offer a formal

Adding at the Bottom

THE soundbite about the richest 1 per cent of the population is untrue in itself, as Alan Reynolds demonstrates above; it also lacks context, particularly the historical trends in the share of total income received by the richest 5 per cent of families.

Income was much more unequally distributed in the first half of this century. In 1913 the richest 5 per cent received about 30 per cent of aggregate income (excluding capital gains), and this share held until 1933, when it began a slow but steady decline, followed by a rapid decline during World War II. By 1947 the share of the top 5 per cent had fallen to 17.5 per cent of aggregate income; it declined further (to about 15.5 per cent) in the 1960s and 1970s but increased in the 1980s back to the neighborhood of 17.5 per cent. This small increase in the share of the rich is in sharp contrast with the soundbite's message of runaway inequality.

Should government attempt to reverse increases in inequality? Those who view any increase in inequality as horrendous are already proposing schemes for redistributing income. However, any response requires that we first know what caused the increased inequality, a relatively small change in historical perspective.

Many commentators attribute the change to the Reagan Administration's tax policies. But the changes in income distribution look quite similar whether based on pre-tax or post-tax income. Moreover, general increases in the inequality of earnings started a decade before the 1982 tax cut. So we must look to other causes.

Accumulating research shows that changes in the labor market have resulted in higher wages for college graduates and depressed wages for young men with lower levels of schooling. These shifts in relative wages are partly due to advances in technology, boosting productivity and increasing the demand for highly skilled workers. This trend occurred not only in the United States, but internationally.

Within the United States, however, another trend is also at work: a huge wave of immigration has reduced the wages of low-skill workers. In the 1970s 4.5 million immigrants were legally admitted, and many more came illegally; in the 1980s legal immigration rose to 7.4 million, with additional millions of illegal entrants. The vast majority of immigrants from Central and South America (who make up about one-half of the total) have considerably lower levels of schooling than native-born Americans. (In 1980 Mexican immigrants on average had completed only seven years of school, five years less than the average worker in the U.S.). The most obvious effect in the U.S. is to add a new group of workers with lower skills who are available for low-wage work (by U.S. standards). This depresses *average* wages and income in the lowest brackets. The immigrants themselves typically enjoy large wage increases over what they were earning in their native countries. And while some low-skill native-born workers may find their wages lowered still more by this increased supply, many move up into higher brackets.

Not only have relative wages and incomes of Hispanics in the U.S. declined over the past 15 years as the Hispanic population has nearly doubled through immigration, but wage inequality among the Hispanic population has also increased, and this is probably due to the increasing diversity of that population. The earnings gap widened between native-born Hispanics, with higher education levels and English-speaking skills, and the new Hispanic immigrants.

In the past, waves of immigration caused transitional increases in wage and income inequality that faded as the immigrants' skills increased. The much greater levels of income inequality that existed early in this century were probably partly traceable to the very heterogeneous amalgam of immigrants and native-born Americans. We again appear to be moving through one of these transitional phases of increased inequality due to surges in immigration. Only this time we have an additional factor—increased demand for skilled labor due to technological changes and trade patterns—adding to inequality. —JUNE O'NEILL

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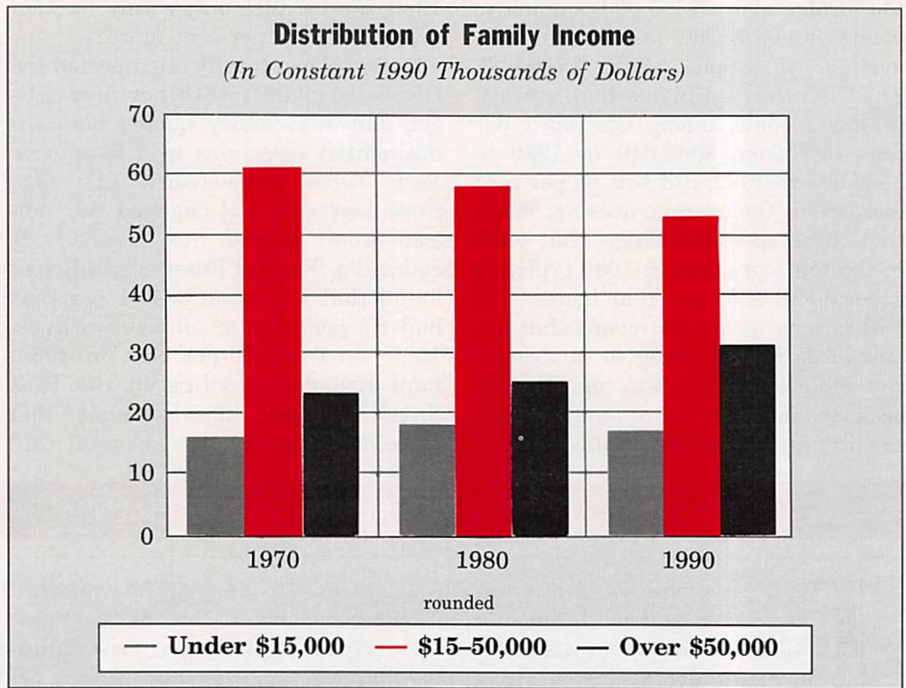
statistical test of the significance of the change."

"The 1983 and 1989 sample designs and the weights developed are quite different," they write. "The effect of this difference is unknown." Their estimated range of error does not account for "error attributable to imputation or to other data problems." Yet it is nonetheless within that range of error for the share of net worth held by the top 1 per cent to have risen imperceptibly, from 34.5 to 34.6 per cent. This is why Kennickell and Woodburn say their estimates merely "suggest that there may have been an increase in the share of wealth held by this top group in 1989." Or maybe not.

The actual, official Federal Reserve study tells a quite different story. It shows that real net worth rose by 28 per cent among 40 per cent of families earning between $20,000 and $50,000, but by only 6.6 per cent for the top 20 per cent, earning more than $50,000. Since this huge increase in net worth among those with modest incomes means their assets grew much faster than their debts, this also puts to rest the myth that the Eighties was built upon "a mountain of debt." It was, instead, built upon a mountain of assets, particularly small businesses.



Children without Fathers

WHAT about the poor? There is no question that there has been a stubbornly large increase of people with very low incomes. However, annual "money income" turns out to be a surprisingly bad measure of ability to buy goods and services. In 1988, average consumer spending among the lowest fifth of the population was $10,893 a year—more than double their apparent income of $4,942. That huge gap occurs partly because annual incomes are highly variable in many occupations, and many people have temporary spells of low income, due to illness or job loss. People can and do draw upon savings during periods when their income dips below normal.

Another reason why those in the bottom fifth are able to spend twice their earnings is that many in-kind government transfers (such as food stamps) are not counted as "money income." Census surveys also acknowledge that a fourth of the cash income from welfare and pensions is unreported. And, of course, very little income from illegal activities is reported. In CBO figures, incomes of low-income families are further understated by counting singles as separate families, as though young people stopped getting checks from home the minute they get their first apartment.

Despite such flaws in measured income, nearly all of the income differences between the bottom fifth and the top fifth can nonetheless be explained by the number of people per family with full-time jobs, their age, and their schooling. Among household heads in the lowest fifth, for example, only 21 per cent worked full-time all year in 1990, and half had no job all year. In the top fifth, by contrast, the average number of full-time workers was more than two.

The May 25 *Business Week* editorial noted that "the percentage of Americans below the poverty line rose from 11.7 per cent in 1979 to 13.5 per cent in 1990." Yet this poverty rate is exaggerated, because it is based on an obsolete consumer price index that mismeasured housing inflation before 1983. Using the corrected inflation measure, the poverty rate was 11.5 per cent in 1980 and 11.4 in 1989, before rising to 12.1 per cent in 1990. That 12.1 per cent figure, though, is only one of 14 different Census Bureau measures of poverty, and not the most credible. Like income for the "bottom fifth," the usual measure of poverty excludes many in-kind transfer payments, as well as cash from the earned-income tax credit. By instead including such benefits, and also subtracting taxes, the Census Bureau brings the actual poverty rate down to 9.5 per cent for 1990, or to 8.5 per cent if homeownership is considered (those who own homes need less cash because they don't pay rent).

Even by the conventional measure, the poverty rate among married-couple families dropped slightly, from 5.2 per cent in 1980 to 4.9 per cent in 1990, and poverty rates among those above age 65 have fallen quite substantially. On the other hand, among female household heads with children under the age of 18 and "no husband present," poverty rose from 37.1 per cent in 1979 to 39.9 per cent in 1980, and then to 41.6 per cent by 1990.

The poverty rate among fatherless families, then, is slightly higher now than it was in the previous decade, and is lower if these young women work. (Among female householders with children under the age of 6, the poverty rate among those with jobs dropped from 20.2 per cent in 1979 to 17.9 per cent in 1989, and the percentage of such mothers who worked full-time rose from 24.9 to 30.6 per cent.) But there are so many more female-headed households, and so few of these women work, that the net effect is nonetheless to keep the overall poverty rate from falling. The number of female-headed households with children under age 18 rose from 5.8 mil-

lion in 1979 to 7.2 million in 1989. In too many cases, these mothers are so young that child-labor laws would not allow them to work in any case.

In March 1991, the average money income of female-headed families with children was only $17,500, and most of that money (plus food stamps, housing allowance, and Medicaid) came from taxpayers. For married couples who both worked full-time, average income was $55,700 before taxes—about enough to put the *average* two-earner family in the top fifth. Taxing hard-working two-earner families to subsidize broken, no-earner families can only discourage the former, encourage the latter, and thus exacerbate the problems it pretends to solve.

To summarize what actually happened in the 1980s, the "middle class," and the vast majority by any measure, unquestionably experienced substantial gains in real income and wealth. With millions more families earning much higher incomes, it required much higher incomes to make it into the top 5 per cent or top 1 per cent, which largely accounts for the illusion that such "top" groups experienced disproportionate gains. The rising tide lifted at least 90 per cent of all boats. About 9 to 12 per cent continued to be poor, but this group increasingly consisted of female-headed households with young children. More and better jobs cannot help those who do not work, improved investment opportunities cannot help those who do not save, and increased incomes cannot help families whose fathers refuse to support their own children. □

DEBT, LIES, AND INFLATION

Paul Craig Roberts

THE pro-entrepreneurial policies supported by Ronald Reagan and supply-side economics pose a massive threat to interests of the rent-seeking Democratic and Republican establishments, as well as to the ideological commitments of left-leaning media and academic pundits. It is not surprising, then, that the American public has been subjected to an unprecedented disinformation campaign against "Reaganomics." The campaign was carefully crafted to appeal to conservatives who have long been convinced that public debt is a certain road to national collapse. President Reagan was shown to have increased the public debt even more

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More than McJobs

Myth: Most of the jobs created during the Eighties were of the dead-end, burger-flipper variety.

"Caught between the lawmakers in Washington and the dealmakers on Wall Street have been millions of American workers forced to move between jobs that once paid $15 an hour into jobs that now pay $7.

"As a result, the already-rich are richer than ever; there has been an explosion in overnight new rich; life for the working class is deteriorating, and those at the bottom are trapped."

—Donald L. Barlett and James B. Steele, "America: What Went Wrong," Philadelphia Inquirer, *October 20, 1991*

Contrary to what everyone knows to be true, 82 per cent of the jobs created during the Reagan recovery were in the higher-paying, higher-skilled occupations (technical, precision production, managerial, and professional). Many of these are "service" jobs, including positions in law, advertising, computers, and medicine. Only 12 per cent of the increase in employment occurred in the lowest-paid, low-skilled service occupations such as retailing and fast-food restaurants.

Studies purporting to show an erosion of job quality are quite often flawed. In December 1986, for example, a report commissioned by the Democratic members of the Joint Economic Committee concluded that six out of every ten new jobs created during the expansion paid less than $7,000 per year. The study, however, failed to note the high-proportion of (voluntary) part-time workers among newly employed individuals. —ED RUBENSTEIN

Job Creation in the Eighties

Job Category	Jobs Created, Jan. 1982-Dec. 1989: Number (Mils.)	Percentage Increase	1989 Median Earnings
Managerial/ Professional	7.600	33.1%	$32,873
Production	2.194	19.0	25,831
Technical	6.630	21.8	20,905
Operators	1.374	8.2	19,886
Services	2.210	16.8	14,858
Farming	–0.116	–3.7	13,539
Total	19.892	20.3%	$23,333

Source: BLS (employment); Census Bureau (earnings)

Mr. Rubenstein is NR's economics analyst.

than the despised Jimmy Carter. President Reagan's policies had left Americans uniquely burdened with red ink, and the country was collapsing beneath the "Twin Towers of Debt." Only another tax increase could save us.

The twin towers of debt were budget and trade deficits, and the implication was that only Americans were burdened with these ills. As the result of them, we had been rendered economically uncompetitive, hopelessly in debt to foreigners, and at their mercy. The day the Japanese stopped buying our Treasury bonds, interest rates would skyrocket, and our economy would plunge over the precipice. Moreover, federal irresponsibility had encouraged corporate and household debt to explode as well. Wherever one looked, the U.S. was smothered in debt.

This story has been repeated relentlessly for a decade despite its lack of any factual basis. Throughout the disinformation campaign, the Organization for Economic Cooperation and Development (OECD) twice a year published internationally comparable statistics on public, corporate, and household debt that reveal nothing unique about U.S. debt levels. If we have too much debt, so do our competitors in the Group of Seven industrialized countries. If we are dependent on our G-7 partners to finance our debts, who is financing theirs?

As the information in the table below shows, U.S. public debt as a share of gross domestic product is below the G-7 average. U.S. corporate debt as a share of GDP is the lowest of the G-7 countries. And U.S. household debt as a share of GDP, while above average, is lower than Japanese and British household debt.

How Much Debt?

Household Debt as % of GDP

	'80	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90
U.S.	55	53	54	55	56	60	64	66	67	69	72
Japan	54	56	58	60	61	61	63	68	71	74	76
Germany	10	10	10	10	10	11	11	11	11	11	11
France	44	44	42	42	45	45	44	48	51	55	53
Italy	6	6	6	6	7	7	8	8	9	10	NA
U.K.	39	43	46	50	54	58	63	68	73	77	80
Canada	56	51	49	50	48	50	53	56	58	60	62

Corporate Debt as % of GDP

	'80	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90
U.S.	74	74	76	77	82	85	89	91	92	93	91
Japan	149	149	151	159	160	161	162	182	187	191	196
Germany	90	88	90	93	94	109	104	95	99	107	102
France	137	130	127	142	152	166	201	187	242	289	246
Italy	98	100	91	90	93	131	152	122	127	NA	NA
U.K.	94	96	105	112	124	128	147	152	159	183	168
Canada	174	179	176	169	168	169	170	170	167	168	169

Government Debt as % of GDP

	'80	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91
U.S.	19	19	22	24	25	27	30	31	31	31	34	36
Japan	17	21	23	26	27	27	26	21	18	15	11	8
Germany	14	18	20	21	22	22	22	23	24	22	23	24
France	14	14	18	20	21	23	26	25	25	25	25	25
Italy	54	58	64	69	74	81	86	91	94	96	98	101
U.K.	47	46	46	46	47	46	45	43	36	31	30	30
Canada	12	11	17	23	27	33	37	38	37	40	43	48

Source: OECD; percentages rounded to nearest percentage point

The OECD's measure of public debt, which includes federal, state, and local, reveals nothing unusual about the growth or level of U.S. public debt. During the 1980s, only Germany and France have had public-debt ratios consistently lower than the United States', and the difference is not large. The UK has had a lower ratio only since 1990, and Japan's ratio has been lower only since 1986. Italy and Canada have substantially higher ratios. The U.S. ratio has almost doubled since 1980, but Canada's has increased fourfold. All the public-debt ratios have increased except the Japanese and British, which fell during the second half of the decade—proof governments can bring debt under control. Moreover, the British ratio fell following the massive Thatcher tax-rate reduction—proof that tax-rate reduction does not cause debt to rise.

U.S. non-financial corporations may be over-leveraged and burdened with junk bonds, but their aggregate gross debt ratio is by far the lowest in the Group of Seven.

The gross household debt ratios suggest that if the American consumer is overburdened, so are the British, Japanese, and Canadians. It is Germany and Italy, with extremely low ratios, that are the anomalies.

Overall, there appears to be a rough balance of sorts. Countries with relatively high public-debt ratios tend not to have high corporate and household debt ratios also, and vice versa. But whatever we make of the figures, one thing is clear: The United States is not uniquely burdened with debt.

The Twin Towers of Debt argument was constructed by economists such as Martin Feldstein, who apparently lack the ability to read balance-of-payments statistics. According to their totally spurious argument, large budget deficits from the loss of tax revenues brought high interest rates. Lured by high interest rates, foreign money poured into the U.S., pushing up the dollar and causing the trade deficit. Thus, the two pillars of debt were both due to cutting tax rates. Between 1982 and 1983, when the U.S. became a net importer of capital, many academic economists joined Feldstein in putting out the story of foreign money pouring into America to finance over-consumption caused by the Reagan tax-rate re-

duction. Reaganomics was portrayed as an extreme form of Keynesianism that was causing America to disinvest and deindustrialize.

In fact, the official balance-of-payments statistics show no evidence of the foreign money that allegedly was financing excessive U.S. consumption. As the table below shows, between 1982 and 1983 foreign-capital inflow into the U.S. actually fell by $9 billion. The change in the capital account of the balance of payments resulted from a $71-billion fall in U.S. capital *outflows*. During 1982–84 there was no significant change in the inflow of foreign capital into the United States. However, U.S. capital outflows dropped from $121 billion to $22 billion—a decline of 80 per cent—throwing the U.S. capital account into a $100-billion surplus. It was this collapse in U.S. capital outflow that created the large trade deficit, which by definition is a mirror image of the capital surplus.

U.S. Capital Account, 1980 to 1987

(Billions of Dollars)

	1980	1981	1982	1983	1984	1985	1986	1987
1. Capital inflow to U.S.	58	83	94	85	102	130	213	203
2. Less: Capital outflow from U.S.	86	111	121	50	22	31	96	64
3. Equals: Net Identified capital inflow	–28	–28	–27	35	80	99	117	139
4. Plus: Statistical discrepancy and other inflows	26	21	36	11	27	18	24	22
5. Equals: Net capital inflow to U.S.	–2	–7	9	46	107	117	141	161
6. Current account balance	2	7	–9	–46	–107	–116	–141	–161

Source: U.S. Department of Commerce; + implies inflow, – outflow

Why did American investors suddenly cease exporting their capital and instead retain it at home where it supposedly was subject to reckless policies of inflationary debt accumulation? After all, such a dangerous program as Reagan's was alleged to be should have resulted in capital flight. Why then the sudden preference of American capital for the U.S. as compared, for example, to West Germany, a country with an economic policy that everyone considered sound?

The answer is so obvious that the only mystery is how economists and financial writers missed it. The 1981 business-tax cut and the reductions in personal-income-tax rates in 1982 and 1983 raised the after-tax earnings on real investment in the U.S. relative to the rest of the world. Instead of exporting capital, the U.S. retained it and financed its own deficit.

The spectacle of almost every economist misinterpreting the source of the capital surplus is extraordinary. Economists looked at the net figure, ignored its composition, and, seeing what they wanted to see, erroneously concluded that the net inflow was foreign money financing American overconsumption.

After convincing themselves and many others on the basis of this fundamental error that the U.S. was dangerously dependent on foreign capital, economists began warning of the consequences. The inflow of foreign money to finance our consumption, they declared, was keeping the dollar high, thus wrecking the competitiveness of U.S. industry. Furthermore, our addiction to foreign capital meant that the U.S. would have to maintain high interest rates in order to continue to attract the money, thus undermining U.S. investment and deindustrializing America. If U.S. interest rates or the dollar were to fall, foreign capital would flee, depriving us of financing for the "twin deficits."

This doomsday scenario was picked up by journalists and kept international markets unnerved. U.S. economic policy came under ever-stronger criticism from our allies. America's "twin deficits" became the scapegoat for every country's problems.

Then, in the autumn of 1985, Secretary of the Treasury James A. Baker III engineered the political fall of the dollar, which plunged, along with U.S. interest rates, in 1986 and 1987. Remarkably, foreign capital inflows to the U.S. promptly doubled.

There's More . . .

THE TWIN TOWERS of Debt argument was also contradicted by the behavior of interest rates. As the budget deficit rose, interest rates fell. The high interest rates that retirees fondly recall *preceded* the large deficits. An inverted yield curve, with short-term rates above long-term rates, characterized the economy in 1979, 1980, and 1981. The inverted yield curve is a sign that high interest rates are caused by stringent monetary policy. The federal-fund rate, an overnight rate set by the Fed, was higher than the interest rate on long-term triple-A corporate bonds from October 1978 to May 1980, from October 1980 to October 1981, and from March 1982 to June 1982. The federal-funds rate exceeded the corporate-bond rate by 5.57 percentage points in April 1980 and by 5.69 percentage points in December 1980. In January 1981, when Mr. Reagan was inaugurated as President, the gap peaked at 6.27 percentage points. Overall, interest rates peaked in 1981, with the budget deficit unchanged from its previous year's level. Reagan's budget deficit peaked in 1986 at three times the size of the 1981 deficit, with the federal-funds rate only one-third as high as it was in 1981. By the summer of 1992, Bush's budget deficit was twice the size of Reagan's, and interest rates (long and short) had fallen to the lowest levels since the 1960s. None of the predicted financing problems of the debt have materialized.

But what about the debt? Isn't it historically high, and, unlike the past when we "owed it to ourselves," don't foreigners hold a dangerously high percentage? The answer to both questions is "no." The accumulated public debt today as a share of GNP is less than half what it was in 1946. We financed World War II by borrowing, and at the close of the war the public debt was 127 per cent of GNP. This huge debt overhang did not prevent

the postwar expansion of the U.S. economy. Taxes were not raised to pay off the debt, and government spending was not cut. Government spending has grown consistently during the postwar period, as has the public debt. But the economy grew, too, and we grew out from under the debt.

During the 1980s, the ratio of public debt to GNP rose slightly, back to where it had been under John Kennedy. Under George Bush the ratio has risen further, due in part to his resumption of tax-and-spend policies and to a weak economy, but primarily to the negative impact the 1986 Tax Reform Act has had on real-estate values and insured financial deposits. Unless the bailout of insured deposits becomes an ongoing activity of the government, the deficit should decline again, both absolutely and as a share of GNP, as it did in the latter part of Reagan's second term.

As for foreign holdings of U.S. debt, the official U.S. statistics show they peaked in 1978 as a percentage of the total. The recycling of petrodollars had a bigger impact on foreign holdings of U.S. debt than the budget and trade deficits of the 1980s.

But what about investment? Isn't it true that investment measures show the U.S. to be in decline? The illusion of the U.S. as a disinvesting nation was created by incompetent economists measuring investment in net nominal terms, without adjusting for inflation and for shifts in the composition of investment. During the 1980s, prices of capital goods in the U.S. rose only about half as fast as the overall U.S. inflation rate. Unless an inflation-adjusted measure of investment is used, the decline in the relative price of capital goods can be misinterpreted as a fall in investment's share of GDP.

Measuring investment net of depreciation or replacement of the capital used in production has the same result. On the surface net investment seems to be a more reliable measure than gross investment. However, net investment fails to make any adjustment for the shift in the composition of investment from longer-lived assets, such as buildings, to shorter-lived assets, such as equipment, that generate more rapid depreciation. Net investment has been falling as a share of U.S. GNP for the past 25 years as a result of a rise in the depreciation rate corresponding to an increase in equipment's share of investment. By misinterpreting a change in asset mix as a decline in investment, economists painted a false picture of disinvestment. As the table below shows, real gross investment's share of GNP in the 1980s was unprecedented in the postwar era.

Prompted by criticisms from economists that U.S. Government statistics were failing to detect a weakening in the nation's industrial base, the Commerce Department undertook a two-and-a-half year study of American manufacturing. The study, released in 1991, shows that the 1980s were years of an almost unbelievable revival by U.S. industry.

Real Gross Business Fixed Investment As a Percentage of GNP

Years	Total	Structures	Equipment
1960–64	8.76%	4.05%	4.72%
1965–69	10.23	4.38	5.85
1970–74	10.36	4.12	6.24
1975–79	10.57	3.80	6.77
1980–84	11.51	4.52	6.99
1985–89	11.40	3.95	7.45
1959–90	10.44	4.11	6.32

In a front-page story that must have been galling for that paper's editorial writers, the *New York Times* reported on February 5, 1991, that the rate of growth in U.S. manufacturing productivity had tripled during the 1980s and now was on a par with Japan's and Europe's, and that manufacturing's share of GNP had rebounded to the "level of output achieved in the 1960s when American factories hummed at a feverish clip." Far from losing its competitiveness, the report revealed, the U.S. had experienced an unprecedented export boom.

Turning Japanese

ON the rare occasion when they are confronted with facts, the purveyors of disinformation retreat to lesser theses. Foreigners, they say, can afford more debt than Americans because they save more. The high Japanese saving rate is invoked as proof of the failure of Reagan's tax cuts. If only we had not cut taxes, we would not have the deficits and, therefore, would be saving more.

But the high Japanese saving rate, used to deflate American economic success in the 1980s, is apparently another fable. In the spring 1989 issue of the *Quarterly Review* of the Federal Reserve Bank of Minneapolis, University of Pennsylvania Professor Fumio Hayashi points out that most of the "apparent savings-rate gap between Japan and the U.S. is a statistical illusion attributable to differences in the way the two countries compile their national income accounts."

The Japanese value depreciation at historical cost rather than at the higher replacement-cost figure that Americans use. As a result, Japanese accounting understates the value of assets used in production and makes Japanese investment look higher than it is. Another source of the saving-gap illusion is the U.S. practice of counting all government expenditures—including money spent on roads, schools, and warships—as consumption, whereas Japan counts such spending as investment. Once the accounting systems are put on an equal footing, Hayashi finds, the notoriously wide difference in the savings rate disappears.

Economists who look carefully at the subject have found that the gloomy view of the U.S. as a community of spendthrifts is without foundation. For example, Robert E. Lipsey of Queens College and Irving B. Kravis of the University of Pennsylvania studied savings and investment rates in industrialized countries and found that America's bad reputation is based on careless comparisons and narrow measures of investment. This is consonant with other distortions, for example the myth that Reaganomics was based on the belief in self-financing tax cuts and that the deficits prove its failure. In fact, all the official public documents setting out the Reagan program show that the tax reductions at the heart of the 1981–85 budget plan are based on the traditional Treasury static-revenue estimate that every dollar of tax cut would lose a dollar of revenue.

President Reagan's economic program was set forth in an inch-thick document, "A Program for Economic Recovery," made available to the public and submitted to Congress on Feb-

ruary 18, 1981. Tables in the document make it unmistakably clear that the Administration expected the forthcoming tax cut to reduce revenues substantially below the amounts that would be collected in the absence of such a cut. Without the tax cut, revenues were projected to rise from $609 billion in 1981 to $1,159.8 billion in 1986. With the tax cut, they were projected to rise from $600.2 billion in 1981 to $942 billion in 1986. The total six-year revenue cost of the tax cut was thus estimated at $718.2 billion.

As the tax-rate reduction was expected to slow the growth of revenues, receipts as a percentage of GNP were expected to fall from 21.1 per cent in 1981 to 19.6 per cent in 1986. Accordingly, the document spelled out the necessity of slowing the growth of spending in order to avoid rising deficits. The Administration planned to hold the annual growth of spending to 6 per cent during 1981–84 and to 9 per cent during 1984–86. On this basis, the Reagan budget projected a rise in spending (including the defense buildup) from $654.7 billion in 1981 to $912.1 billion in 1986.

A summary fact sheet showing the expected revenue losses and planned spending reductions was put out for wire transmission. Months of testimony and debate followed, during the course of which the massive revenue losses were in the forefront. After the Economic Recovery Tax Act of 1981 was passed, the Treasury Department issued to the media a comprehensive report on the legislation, including a three-page table detailing the revenue loss for each of its provisions. (Between introduction and final passage of the bill, the estimated total six-year revenue cost had grown slightly, from $718.2 to $726.6 billion.)

The Reagan deficit forecast was off, not because of a "Laffer curve forecast," but because the inflation rate unexpectedly collapsed. This surprised almost everyone, especially the critics who had repeatedly claimed that the Reagan tax cuts would be inflationary. Since monetary policy was a "weak sister," pundits proclaimed that not even tight money (itself unlikely) could subdue the inflationary impact of such a large tax cut.

As any economist should know, a budget forecast is based on an assumption about the growth path of nominal GNP. If the inflation forecast

"Ever have one of those days where you don't give a damn what's *deductible?"*

is wrong, so will be the GNP, revenue, and deficit forecasts. The consumer price index tells the story: For 1981 the Reagan Administration forecast 11 per cent inflation versus 8.9 per cent actual; for 1982, 8.2 per cent versus 3.9 per cent; for 1983, 6.2 per cent versus 3.8 per cent; for 1984, 5.4 per cent versus 4.0 per cent. (In 1981 critics had derided what turned out to be a pessimistic inflation forecast as "optimistic," a "rosy scenario," and "not credible.") The unanticipated disinflation, together with the loss in real output from the 1981–82 recession resulted in GNP during 1981–86 being $2.5 trillion less than forecast—with an estimated loss of federal revenue of $500 billion, and higher real spending than intended. This is the cause of the budget deficits.

Lest we forget, supply-side economics was controversial because of its claim that worsening "Phillips curve" tradeoffs between inflation and employment were the product of a policy mix that pumped up demand while reducing incentives to supply. By reducing the growth rate of money while improving incentives, the economy could escape from its malaise.

Supply-side economics made good on its promise, and Ronald Reagan delivered both the longest peacetime U.S. expansion and disinflation. This achievement has been buried under a pack of lies told by people whose reputations exceed what their integrity warrants. They succeeded in their goal of pushing the Bush Administration away from successful policies and toward self-destruction. □

TO CUT AND TO PLEASE

Norman B. Ture

ONE of the standard allegations is that the very large budget deficits were caused by the Reagan tax cuts. As Representative Donald J. Pease (D., Ohio) put it (June 11, 1992): "Let us look at the big deficits we have and try to find out what caused them. . . . Fundamentally, our $4-trillion deficit or debt is caused by loss of revenue. The $4-trillion debt is caused by the 1981 tax cut and misguided supply-side economics." The facts give the lie to this charge.

The initial Reagan game plan, as detailed in the February 18, 1981, White Paper referred to by Paul Craig Roberts, projected a shift in federal budget outcomes from deficit to surplus occurring in fiscal year 1984. Although federal revenues as a percentage of gross national product were projected to fall from 21.1 per cent in 1981 to 19.3 per cent in 1984, the dollar amount of budget receipts was expected to increase from $600.2 billion in the former year to $772.1 billion in the latter. In the same period, federal outlays were to rise from $654.7 bil-

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> "Tragically, during the 1980s, American families with children saw their incomes fall—by an average of $1,600. To top it off, their taxes went up while the taxes of the richest Americans were being cut—by an average of $42,000."
>
> —Lloyd Bentsen, *USA Today*, October 23, 1991

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Growth in Federal Outlays

(Billions of Dollars)

Fiscal Year	Outlays: Real (1987 Dollars) Amount	Real (1987 Dollars) % Increase	Current Dollars Amount	Current Dollars % Increase
1980	$ 832.1	6.4	$ 590.9	17.4
1981	867.7	4.3	678.2	14.8
1982	891.1	2.7	745.8	10.0
1983	921.1	3.4	808.4	8.4
1984	933.5	1.4	851.8	5.4
1985	1001.3	7.3	946.4	11.1
1986	1017.3	1.6	990.3	4.6
1987	1003.9	(1.3)	1003.9	1.4
1988	1027.1	2.3	1064.1	6.0
1989	1057.9	3.0	1144.2	7.5

Source: Budget of the United States Government, FY 1993, Supplement 1992, Table 1.3, Part 5-18.

lion to $771.6 billion, although falling in relation to GNP from 23.0 per cent to 19.3 per cent. In essence, this budget policy represented an effort to bring receipts and outlays in relation to GNP more nearly in line with the average postwar experience.

The 1981–82 recession that had been developing in the late 1970s and in 1980 undid the Reagan plan. The revenue projections in the White Paper assumed prompt enactment and implementation of the proposed individual rate reductions and changes in depreciation provisions that would have raised the level and rate of growth of GNP. Although these tax changes were expected to reduce tax revenues compared to the amounts that would have been obtained under prior law, revenues in 1981 were nevertheless expected, at the higher levels of income produced by the tax changes, to exceed those in 1980 and to continue to grow each year thereafter.

Federal Budget Outlays, Proposed and Actual

(Dollar Amounts in Billions)

Fiscal Year	Outlays: Proposed	Outlays: Actual
1981	$655.2	$678.2
1982	695.3	745.8
1983	773.3	808.4
1984	862.5	851.8
1985	940.3	946.4
1986	973.7	990.3
1987	994.0	1003.9
1988	1024.3	1064.1
1989	1094.2	1144.2

Source: Budget Message of the President, Fiscal Years 1981–89; Budget of the United States, FY 1993, Part Five, Table 1.3, page 5-18. Proposed outlays for 1981 from the March 1981 FY 1982 Budget Revisions.

In fact, under the influence of the recession and the unexpectedly sharp deceleration of inflation, budget receipts fell far short of those projected in the White Paper. Receipts were virtually the same in fiscal 1983 as in fiscal 1981 and were about $110 billion below the White Paper estimate. From 19.6 per cent of GNP in 1981, receipts fell to 18.1 per cent of GNP in fiscal 1983.

With the recovery beginning in late 1982, budget receipts expanded rapidly, on the average by slightly over 8 per cent a year, through fiscal 1990. By that year, budget receipts were 18.9 per cent of GNP. Whether the several substantial tax increases from 1982 through 1989—particularly the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982, the Deficit Reduction Act (DEFRA) of 1984, and the Tax Reform Act of 1986 (TRA86)—contributed to rather than retarded this growth in revenue is, at the least, debatable. Unless one believes, however, that tax increases necessarily lose revenue (a not entirely implausible proposition), there is no basis in fact for insisting that tax-policy developments were responsible for the budget deficits of the Reagan years.

A major element in the initial Reagan budget policy was a slowdown in the growth of federal outlays and a change in their composition. The White Paper contemplated total budget outlays rising from $654.7 billion in fiscal 1981 to $771.6 billion in fiscal 1984, an annual rate of increase of 5.6 per cent. Defense outlays were to increase from 24.1 per cent of the total to 32.4 per cent, and the so-called "safety net" programs were to increase from 36.6 to 40.6 per cent, while all other programs and interest were to fall from 38.3 to 27.0 per cent.

This part of the budget plan, too, was not realized. Although the growth in federal outlays, in both nominal and real terms, slowed materially from fiscal 1980 through fiscal 1989, total outlays substantially exceeded those proposed in every Reagan budget. As a result, even had the revenues projected in the White Paper been realized, the budget would have failed to come into balance in 1984, when actual outlays of $851.8 billion were $80 billion more than had been contemplated.

Federal spending growth slowed more in Reagan's second term under the constraints imposed by the Gramm–Rudman–Hollings deficit-reduction targets. Contrary to the widespread assertion that it failed of its purpose, G-R-H was amazingly effective in slowing the growth of federal outlays. From fiscal 1985 through fiscal 1989, total outlays, measured in constant 1987 dollars, increased at an average annual rate of only 1.4 per cent, just over one-third the annual rate of increase in fiscal years 1981–85. Even measured in current dollars, G-R-H slowed the growth of spending, from an annual rate of 8.69 per cent in fiscal years 1981–85 to 4.86 per cent over the next four years.

Had federal outlays in the ensuing fiscal years increased no more rapidly than the 4.86 per cent average rate of 1985–89, federal outlays in fiscal 1992 would have totaled $1,319.2 billion, $156.2 billion less than the amount projected in the February 1992 budget document. Even with the recession-depressed revenues projected in the budget for the current fiscal year, the 1992 deficit would be $243.5 billion, not the $399.7 billion forecast.

Despite the success of G-R-H until its emasculation by the Omnibus Budget Reconciliation Act of 1990, total federal outlays grew too rapidly to achieve anything like fiscally prudent budget results. Political memories are short, but surely neither Dem-