



In DEFENSE of Capitalism

“Let’s Win One for the Gipper”

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Introduction

February 6, 2011 marks the 100th anniversary of the birth of Ronald Wilson Reagan, the 40th president of the United States. President Reagan was born in Tampico, Illinois to John and Nelle Reagan. From the time he was old enough to remember, Reagan took a genuine interest in people, culture and his surroundings. He credits his mother for his strong faith, and his upbringing for his belief in small town values and the American Dream.

Reagan earned a bachelor’s degree in economics and minored in sociology at Eureka College in Illinois where he also played football and was active in the school’s theatre program. President Reagan was a sports broadcaster and a noted actor before he became active in politics, becoming governor of California and eventually President of the United States.

Reagan took 50.7% of the popular vote and 90.89% of the electoral vote in 1980. He increased his margin to 58.8% of the popular vote and 97.58% of the electoral vote when he secured his second term as president in 1984. His ideas were popular with many and controversial and polarizing to others both in America and around the world. Reagan came to office during the worst economic downturn since The Great Depression with U.S. foreign policy at a post World War II low and the U.S. Embassy in Iran under siege. When he left office eight years later, U.S. standing in the world was at or near its pinnacle and the U.S. economy was once again the envy of the world.

As president, Reagan’s policies were guided by the simple belief that free people can and do accomplish great things. He believed that free economies were more productive than less-free economies and the role of government should be narrow in scope and promote growth and prosperity. He was suspicious of big government and firmly believed in the American competitive free enterprise system. Reagan would be the first to say that he was a flawed, imperfect human being who made mistakes as president. Yet, history tells us he had every right to be proud of what his administration accomplished during his eight years in office.

The Economy

Reagan was a democrat for much of his life and admired President Kennedy. In fact, policy makers today should look to the fiscal policies of John F. Kennedy and Ronald W. Reagan, and relearn the stimulative effect of tax cuts during difficult times. In 1962 President Kennedy argued: “In short, to increase demand and lift the economy, the federal government’s most useful role is not to rush into a program of excessive increases in public expenditures, but to expand the incentives and opportunities for private expenditures.” President Kennedy’s tax cut was implemented by President Johnson in 1964. Personal income tax rates declined 23.1% for the top earners and 30% for the lowest.

Corporate income tax rates were reduced by 9.6%. The economy responded with an average annual real growth rate of 4.65% from 1963-1968, and unemployment dropped from 6.6% in 1961 to 3.7% in 1968.

Inspired by Kennedy, Reagan’s across the board tax cut of 25% was phased in from 1981-1983 and helped bring the U.S. economy out of the severe recession of 1981-82, which saw the prime interest rate peak at 21.5% in 1981 (the highest since the Civil War), real GDP decline by 2.2% and unemployment reach 10.8% in 1982. The economy responded with average annual real GDP growth of 3.87% from 1982-1988, unemployment declined to 5.4% by 1988, and real tax revenue grew by 25.5% from 1983-1988. One of Reagan’s few regrets was that he did not use the veto more often to reign in government spending and control the growth of government during his presidency.

The economy, spurred by tax cuts and a renewed belief in American enterprise rebounded from the depth of recession with unprecedented strength and conviction by 1989. Real growth in GDP increased 31%, manufacturing output increased 48%, American labor productivity increased 10.6% per hour, U.S. exports increased 92.6%, gross private investment increased 32%, real disposable income per capita increased 18%, and U.S. standards of living were about 40% higher than the average for Europe and Japan when Reagan left office. Perhaps most

impressive was the fact that charitable giving under Reagan grew at 5.1% per year compared to an average rate of 3.5% annual growth for the previous 25 years. It is also important to note that Ronald Reagan's policies were largely bi-partisan in nature. He often debated and disagreed with Democratic Speaker of the House, Tip O'Neill in public, yet much of the Reagan Revolution can be attributed to their shared vision of America's greatness and their friendship and admiration for each other.

Foreign Policy

On the centennial of his birth, we remember President Reagan as the Great Communicator for how he connected with the American public through his warm and disarming style. However, in retrospect, the Great Communicator may have had even more impact on the global stage, particularly vis-à-vis the Soviet Union. Reagan signaled a sea change and perhaps served as a catalyst to the end of the Cold War with his messages that cut through the media noise and gained traction as Soviet President Gorbachev pursued opening and liberalization within the Soviet bloc.

During the Cold War, "peaceful coexistence" delicately balanced the United States and the Soviet Union with their tremendous nuclear arsenals aimed at each other. Reagan sent clear signals that were variously perceived as classic Cold War rhetoric or out of touch, particularly in the latter years of his presidency. However, those who took his messages seriously feared that he was destabilizing the Cold War order. In spite of this, Reagan pursued the "Star Wars" Strategic Defense Initiative that potentially undermined the nuclear deterrent of mutually assured destruction. Declassified documents show that the 1986 Reykjavik Summit at which Reagan and Gorbachev discussed arms reductions dubbed the "zero option" was much more of a success than their glum faces showed when the summit concluded without an agreement. At that summit both sides learned that the other was willing to move toward significant nuclear arms reductions.

The Berlin Wall stood at the epicenter of a polarized world in which the United States and the Soviet Union had divided the world into two blocs and kept peace through the nuclear deterrent of mutually assured destruction. On June 12, 1987 Reagan stood at the Brandenburg Gate and exhorted the Soviet president, "Mr. Gorbachev, tear down this wall!" At the time, Reagan's speech was viewed as classic Cold War posturing rather than something that could be a reality, at least peacefully. However, just over two years later, the Berlin Wall had come down.

Gorbachev hadn't given a command to open the wall, but he showed restraint in not ordering force to contain the individuals that initially breached the wall and the jubilant crowds that later danced on it in celebration. Reagan was no lon-

ger President of the United States when Germany unified or during the dismantling of the Soviet bloc but the Great Communicator had moved beyond predictable rhetoric to unleash the forces of freedom that ended the Cold War.

Conclusion

Reagan often spoke of America as an exceptional place, a "shining city on a hill," "a beacon for all to see, admire and emulate," a place whose "best days were ahead." We believe he was right then and that it still is true today. Some say President Reagan's greatest role as an actor was his portrayal of Notre Dame's legendary football player George Gipp in the movie "Knut Rockne All American." We agree. Others believe it is a simple coincidence that we celebrate the 100th anniversary of Reagan's birth on Super Bowl Sunday? We do not. Recall the scene when George Gipp is in the hospital on his death bed and Coach Rockne visits him for the last time and Gipp says "Rock, sometime when the team is up against it and the breaks are beating the boys, tell them to go out there with all they've got and win just one for the Gipper." Perhaps if all Americans, especially those residing in Washington, DC, reflect on the life, vision and accomplishments of our 40th president, we can learn from our past, change our present, and go out and "win one for the Gipper" and ourselves. Happy Birthday Mr. President!

The authors are employed by Northwood University where Dr. Keith A. Pretty is president and CEO, Dr. Kristin K. Stehouwer is executive vice president and CAO and Dr. Timothy G. Nash is a vice president and the Fry Chair in Free Market Economics.

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