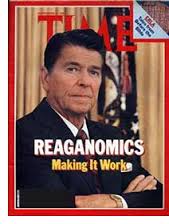
**Reaganomics**

“Reaganomics” was the name that people gave to Reagan’s theory of trickle- down or supply-side economics. Reagan did not invent this economic philosophy; it had originated as a practice during the early days of big business and industry. Like many conservatives before him, Reagan believed in removing regulations on big business. His thinking followed this path: Without regulations, businesses can increase their profits. Increased profits lead to higher wages. Higher wages mean that people have more money to spend. More spending means economic growth and prosperity.

The major flaw in the theory of supply-side economics is the idea that wages go up when businesses profit. Because the only purpose of any business is to increase its profits, owners do not raise wages unless they are forced to do so. This means that profits never “trickle down” to the lower middle class or the workers; they watch prices go up while their incomes stay the same. However, by 1983, Reagan’s policies had resulted in a substantial drop in inflation and a stock market boom. For those who were well-off to begin with, the Reagan years meant great prosperity.

Under President Reagan, Congress cut spending on social programs. This meant that poor and working-class Americans suffered by being deprived of benefits they badly needed for survival. Unemployment was high across the nation, especially in the old manufacturing centers in the Midwest and in all cities. Spending and buying on credit grew. The economy in the 1980s was somewhat reminiscent of the 1920s, when spending had been reckless and had rested on a very shaky foundation of unpaid debts.

Reagan had promised to balance the federal budget, but his business-friendly policies had the opposite effect. The federal deficit soared under Reagan and also under his successor George Bush. By the time President Bush left office in 1992, the deficit stood at $291 billion. Bush had been forced to take the unpopular step of raising taxes to try to boost government revenue and offset the deficit, but the deficit was so immense that the higher taxes accomplished little. The United States had also begun to import far more than it exported, and both Reagan and Bush were unsuccessful in trying to persuade Japan and other foreign nations to buy more U.S. products.