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THE WALL STREET JOURNAL.

WSJ.com

OPINION | AUGUST 26, 2011

Obamanomics vs. Reaganomics

One program for recovery worked, and the other hasn't.

By STEPHEN MOORE

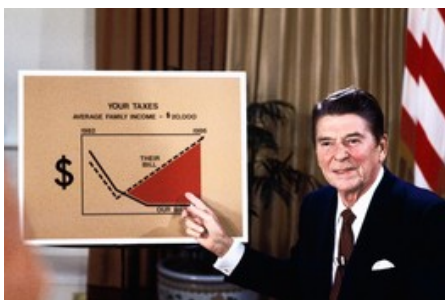
If you really want to light the fuse of a liberal Democrat, compare Barack Obama's economic performance after 30 months in office with that of Ronald Reagan. It's not at all flattering for Mr. Obama.

The two presidents have a lot in common. Both inherited an American economy in collapse. And both applied daring, expensive remedies. Mr. Reagan passed the biggest tax cut ever, combined with an agenda of deregulation, monetary restraint and spending controls. Mr. Obama, of course, has given us a \$1 trillion spending stimulus.

By the end of the summer of Reagan's third year in office, the economy was soaring. The GDP growth rate was 5% and racing toward 7%, even 8% growth. In 1983 and '84 output was growing so fast the biggest worry was that the economy would "overheat." In the summer of 2011 we have an economy limping along at barely 1% growth and by some indications headed toward a "double-dip" recession. By the end of Reagan's first term, it was Morning in America. Today there is gloomy talk of America in its twilight.

My purpose here is not more Reagan idolatry, but to point out an incontrovertible truth: One program for recovery worked, and the other hasn't.

The Reagan philosophy was to incentivize production—i.e., the "supply side" of the economy—by lowering restraints on business expansion and investment. This was done by slashing marginal income tax rates, eliminating regulatory high hurdles, and reining in inflation with a tighter monetary policy.



Getty Images

Ronald Reagan talks taxes, 1981.

The Keynesians in the early 1980s assured us that the Reagan expansion would not and could not happen. Rapid growth with new jobs and falling rates of inflation (to 4% in 1983 from 13% in 1980) is an impossibility in Keynesian textbooks. If you increase demand, prices go up. If you increase supply—as Reagan did—prices go down.

The Godfather of the neo-Keynesians, Paul Samuelson, was the lead critic of the supposed follies of Reaganomics. He wrote in a 1980 Newsweek column that to slay the inflation monster would take "five to ten years of austerity," with unemployment of 8% or 9% and real output of "barely 1 or 2 percent." Reaganomics was routinely ridiculed in the media, especially in the 1982 recession. That was the year MIT economist Lester Thurow famously said, "The engines of economic growth have shut down here and across the globe, and they are likely to stay that way for years to come."

The economy would soon take flight for more than 80 consecutive months. Then the Reagan critics declared what they once thought couldn't work was actually a textbook Keynesian expansion fueled by budget deficits of \$200 billion a year, or about 4%-5% of GDP.

Robert Reich, now at the University of California, Berkeley, explained that "The recession of 1981-82 was so

severe that the bounce back has been vigorous." Paul Krugman wrote in 2004 that the Reagan boom was really nothing special because: "You see, rapid growth is normal when an economy is bouncing back from a deep slump."

Mr. Krugman was, for once, at least partly right. How could Reagan not look good after four years of Jimmy Carter's economic malpractice?

Fast-forward to today. Mr. Obama is running deficits of \$1.3 trillion, or 8%-9% of GDP. If the Reagan deficits powered the '80s expansion, the Obama deficits—twice as large—should have the U.S. sprinting at Olympic speed.

The left has now embraced a new theory to explain why the Obama spending hasn't worked. The answer is contained in the book "This Time Is Different," by economists Carmen Reinhart and Kenneth Rogoff. Published in 2009, the book examines centuries of recessions and depressions world-wide. The authors conclude that it takes nations much longer—six years or more—to recover from financial crises and the popping of asset bubbles than from typical recessions.

In any case, what Reagan inherited was arguably a more severe financial crisis than what was dropped in Mr. Obama's lap. You don't believe it? From 1967 to 1982 stocks lost two-thirds of their value relative to inflation, according to a new report from Laffer Associates. That mass liquidation of wealth was a first-rate financial calamity. And tell me that 20% mortgage interest rates, as we saw in the 1970s, aren't indicative of a monetary-policy meltdown.

There is something that is genuinely different this time. It isn't the nature of the crisis Mr. Obama inherited, but the nature of his policy prescriptions. Reagan applied tax cuts and other policies that, yes, took the deficit to uncharted peacetime highs.

But that borrowing financed a remarkable and prolonged economic expansion and a victory against the Evil Empire in the Cold War. What exactly have Mr. Obama's deficits gotten us?

Mr. Moore is a member of the Journal's editorial board.

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