

Questions 7 and 5: The History of the USA, 1945–1990

7 How successful was Reaganomics? [30]

Mark scheme

7 **How successful was Reaganomics?** [30]

Reaganomics was the economic policy associated with President Reagan. It involved a mixture of supply side economics and monetarism. **Supply side economics** focused on the supply side of the economy rather than demand. It meant removing the obstacles to increasing the supply of goods and ensuring more competition between companies. These obstacles included high direct taxes, especially on the rich, restrictive practices, especially by labour unions, and excessive public expenditure on welfare. **Monetarism** meant control of money supply to curb inflation, which in 1979–80 was very high. In general, Reaganomics opposed Keynesian economics, which had been economic orthodoxy since the 1940s. Keynesian economics focused on the demand side of the economy, aiming to ensure economic growth by means of public expenditure and levels of taxation. It was an approach which by 1980 seemed to have failed, resulting only in stagflation.

The most dramatic illustration of Reaganomics was Reagan's decision in August 1981 to sack some 11 000 striking air traffic controllers, showing how far he was prepared to go in attacking the power of labour unions. His federal budget of the same year reduced higher-rate income taxes as well as welfare entitlements. However, it also increased defence expenditure at a time of the Second Cold War. Thus the Reagan Presidency ran an increasingly large budget deficit, which did not fit traditional fiscal orthodoxy. Inflation fell in the 1980s but not because the government limited the supply of money. Monetarism was soon abandoned – if it was ever practical. Instead, an initial recession of the early 1980s had resulted in falling prices, a trend accelerated by falling oil prices after the second oil price crisis of 1979–81. By the mid-1980s, the US economy was growing again. Reagan could claim a success for his economic policy, for breaking with Keynesianism. In reality, especially via his hugely expanded defence budget, Reagan had acted to increase demand for US goods and services.

Example candidate response – high

Reaganomics was the economic theory of president Ronald Reagan which focused on the supply-side of the economy. This economic theory was used during the years of Reagan's presidency from 1981-1989, and it achieved relative economic success, especially compared to the state of the economy during the late 1960's and throughout the 1970's. Reaganomics achieved success through its reduction in taxes, but it furthered the gap in income between the rich and the poor and it encountered a recession in 1982.

The policies of Reaganomics focused on increasing military defense spending, cutting taxes on businesses, and encouraging the aggregate supply of the country to shift to the right. This policy is also known as the "trickle down" theory in which Reagan believed if he helped out the big businesses and the wealthy, the benefits would trickle down to the middle class and the poor. His policies did help in getting more people back to work because the reduction in regulation and taxes on businesses gave the businesses more prosperity; therefore, they could hire more people.

However, the income gap between the rich and the poor widened during the policies of Reaganomics. Reagan furthered Nixon's policies of cutting back on social programs and the welfare state.

Example candidate response – high, continued

In doing this, Reagan ~~made~~ upset the lower and middle classes who were hurting due to the high inflation of the 1970's. His "trickle-down" theory did not really work because the lower socioeconomic groups didn't reap the benefits like the wealthy did. However, they did like Reagan as president due to his charm and bold nature. ~~His~~ His likeable qualities made ~~more~~ more people believe in his economic policy even if it wasn't helping out ~~the~~ everyone equally.

One negative economic event during Reagan's years has been used by critics to say Reaganomics was not successful. This was the Recession of 1982 which was the worst recession since the 1930's. It was marked by high inflation and economic stagnation, also known as "stagflation." However, this recession was less than a year after Reagan became president, so it was not wholly due to his Reaganomics. It was mainly due to inflation and cuts in funding of social programs. ~~These~~ This reduced spending for people since they didn't have as much money without the social programs. However, Reaganomics allowed the economy to move past this recession and grow for the rest of the decade.

Overall, Reaganomics ~~was~~ was relatively successful. It helped ~~the~~ more people become employed, and it really helped the wealthy which helped the economy grow as a whole.

Example candidate response – high, continued

However, it caused a huge increase in the gap between the wealthy and the impoverished as well as a huge increase in the country's debt. His military defense spending for programs ~~called~~ nicknamed "Star Wars" that were meant to defend against Communist threats combined with tax cuts caused the huge debt. This debt had to be dealt with by later presidents like Bush senior and Clinton. ~~Reaganomics~~ Reaganomics, overall, helped the country recover economically from the late 1960's and 1970's, but ~~it also~~ it also caused future problems. Therefore, it was relatively successful.

Examiner comment – high

This started sensibly and immediately started to gain credit. The term 'Reaganomics' was defined and reasons for this economic policy was included in the answer. There was not too much initial detail and there were indications of balance as well. The second paragraph was a little too descriptive; there was a need to make the point more firmly and link it directly to the possible success/failure issue. The section on the recession of 1982 was well done, as were the comments on the 'trickle down' effect (or intention). There was consistently good focus in this answer and a good level of comment and understanding which lifted it just into Level 5. For the very top marks there needed to be greater depth and more emphasis in the answer on the degree of 'success' attained.

Mark awarded = 25 out of 30

Example candidate response – middle

Reaganomics, also known as 'Trickle-down', 'Voodoo', or 'Supply-side' Economics, was fairly successful for businesses and the upper class, however, it did not help the middle or lower classes, and ended up worsening the economy.

Ronald Reagan's economic policy tried to combat the stagflation left from Carter's presidency, and involved cutting business regulations, and taxes on the rich, so the wealthy would therefore spend more money, circulating this money into the economy. The theory was that the increased spending would 'trickle down' money into the lower classes. Businesses on the upper level thrived under Reaganomics, as they no longer had to comply with an extensive list of regulations, so they saved money and could afford to supply more product (hence the synonym, 'supply-side economics'). The rich also fared well - cutting taxes left them with more money to presumably spend. Reagan's economic policy also had negative consequences.

Middle-class and lower-class citizens did not benefit much from Reaganomics. Their taxes were not lowered, and the decrease in business regulations left some in unsafe working conditions and not being paid very much. Wealthy people, instead of spending the money that they saved after the tax decrease, held onto their funds and did not end up spending more than usual. As this was the primary ~~the~~ necessity of Reaganomics, this economic policy did not do much to actually boost the economy. Although rich people had extra money to spend, this money failed to 'trickle down' into the hands of the less fortunate. Thus, poverty and homelessness was on the rise in many communities.

Another aspect of Reaganomics coincided with the Cold War and Reagan's stark anti-communist views. He tripled the defense budget, and spent substantial

Example candidate response – middle, continued

amounts of money on nuclear weaponry and his failed, but proposed, Strategic Defense Initiative. This money could have instead gone to funding America's lower class. This drastic military spending dramatically increased the national debt, which in turn hurt the economy, and the status of the US government.

Rather than increasing the minimum wage or offering more job opportunities throughout the country, Ronald Reagan relied on the actions of the rich to benefit the poor, ^{while keeping the government uninvolved}. This was the major flaw of Reaganomics – it tried, and failed, to coax the rich to spend more in order for the money to reach the lower classes. Businesses thrived, and Reaganomics seemed to be working in boosting the economy initially, however, this success was short-lived, as lower classes ceased to benefit from a lack of wealthy spending. Also, the increase of military spending hurt the American economy by growing the national debt. Relying on one group of people to help another based on hypothesis – unsure of whether or not that group would act as expected – left Reaganomics a failure. Reaganomics was only successful to a small extent, but the consensus can be made in which helping the supply-side to theoretically benefit the poor was not the right action to take.

Examiner comment – middle

This was a brief, but quite good response which started with a clear definition. More reflection on the criteria by which successes could be judged would have been helpful. The first paragraph looked at how Reaganomics could be seen as a success whilst the second considered how it could be seen to have failed. In both cases relevant points were made, but what kept this response at a middle level was the shortage of relevant points and supporting detail. While the response was convincing and it was clear that the candidate fully grasped the topic there are questions about how 'deep' the study has been. The whole answer was relevant and accurate, but it was too brief and undeveloped. To improve this essay needed more points and supporting facts whilst sustaining the focus and analysis needed to answer the question.

Mark awarded = 23 out of 30

- 5 Assess the reasons why the 1950s were a period of economic growth. [30]

Mark Scheme

- 5 **Assess the reasons why the 1950s were a period of economic growth.** [30]

The reasons why the 1950s were a period of economic growth include both international and domestic factors. The former included the comparative trade advantage that the USA had gained as a result of the Second World War. After 1945, the USA produced 60% of the world's manufactured goods. The needs of the economies of western Europe and Japan, rebuilding after the war, provided markets for US goods. The growth in trade was further encouraged by the reduction of national tariffs on foreign imports following the establishment of GATT [General Agreement on Tariffs and Trade] in 1947. By 1960, there had been four GATT agreements to reduce tariffs. In addition, the onset of the Cold War further stimulated American economic growth, especially following the Korean War of 1950–53.

By 1960, the US defence expenditure was almost three times what it had been in 1950 – and that is in real terms. The Cold War in space following the launch of the first sputnik in 1957 further stimulated federal expenditure; NASA was formed in 1958. These external developments were supplemented by domestic factors such as increased social expenditure, e.g. on education, especially via the extension of the 1944 G I Bill in 1952. Within the USA, full employment enabled families to spend more money on new consumer goods, the most obvious of which were televisions.

Example candidate response – low

5) The 1950s was a period of economic growth in the United States because of conformity and the ~~re~~start of war defense spending. ^{However,} Immediately following the end of ~~the~~ world war II in 1945, the US economy took a dive as the majority of the productions and factories in the US reverted from war production back to production of non-war materials. ^{For example,} Ford factories went from manufacturing tanks and other armed vehicles to manufacturing producing cars and car parts again. ~~But~~ This caused the economy to dip because there was less money being put out for things and less for imports and less money coming in for exports. ~~Causes~~ The economy began to grow in the 1950s because the US started defense spending. In 1950, with the introduction of NSC-68 (National Security Council memo 68), the ~~use~~ US took on a policy of much ~~more~~ harsher than containment towards Communism. ~~The~~ ~~increased~~ defense the US increased defense spending to better prepare themselves and their allies from the threat of Communism. Similarly, the US involvement in the Korea war helped increase the economy because of increase in war production and defense spending. The Truman Doctrine and then the ~~United States~~ Marshall Plan from the late 1940s helped increase the US economy by helping to rebuild other

Example candidate response – low, continued

country countries economies. By ~~not~~ improving others' economies, it ~~also~~ boosts the US economy because now that the economies are improved these other countries can resume trade and purchasing from the US to help improve our ~~eco~~ economy.

This movement the US economy follows Keynesian theory model re the a ntry ~~sp~~ rds ~~like~~ secret money release the nomy.

In addition to defense spending and policies such as the Truman Doctrine and Marshall Plan, ~~ca~~ the conformity of the American household also helped the economic growth of the 1950s. Following During WWII, the idea of the "traditional American family" did not exist. This was because since many of the men, (fathers, brothers, ~~husbands~~ and husbands, and sons) were away at war, the women took up the "traditional male" jobs, such as factory workers. Following the war, when the men came back wanting jobs ~~they~~ they took ~~those~~ back those in the factories and farms where the women had been working. This put the women back into the housewife position or ~~to~~ into "traditional female" jobs such as secretary or ~~to~~ teacher, thus the idea of the "Traditional American family" was born. The traditional American family, with their working father, stay-at-home mother and 2.5 children, helped boost the economy because they were so uniform. The idea of conformity and "Keeping up with the ~~Jones~~ ~~Jones~~ Jones" led to an increase in the economy because it was so predictable what

Example candidate response – low, continued

people were spending their money on. Throughout the 1950s and even after that, the US economy was experiencing a time of economic growth due to an increase in defense spending and the "traditional American Family".

Examiner comment – low

This answer had a poorly developed opening paragraph. Answers which achieved higher marks identified a range of reasons and reflected on which might have been the most significant and why. Some argued that the factors which were important in the early fifties later declined in significance and others eventually replaced them as drivers of growth. The section in the first paragraph about the 'dip' after the war gained no credit as it was not relevant. There were valid points about the growth of defence spending as a result of NSC-68 and the Korean War and the Marshall Plan, but no attempt was made to assess these or reflect on their actual importance. There was an absence of any statistical evidence to back up points. The section about the American family had limited relevance and the reason why women were staying at home was linked to economic growth was not explained. Major points about interstate highways and motor manufacturing were not included.

The essay consisted of a limited list of reasons which were not evaluated. It could have included a much wider range of factors, considered and supported with more relevant detail. It could also have included an attempt to assess those factors and indicate which were the most important, when and why.

Mark awarded = 13 out of 30