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Ronald Reagan, Staying the Course, and the Cost of Presidential Virtue
By: Steven F. Hayward

Consider the scene: the new president, at the end of his first full year in office, is facing a poor economy, stubborn inflation, foreign policy challenges that don't appear to be moving toward any improvement or resolution, and falling public approval ratings. The budget deficit is soaring, and the Federal Reserve is uncertain what to do. His opposition in a divided Congress is saying loudly that his policies have failed already, and need to be reversed. His party is expecting large losses at the upcoming mid-term election.

President Joe Biden in 2022? Actually this describes President Ronald Reagan's precarious position at the beginning of his second year in office 40 years ago. How he sized up the political scene, and the course he chose for his difficult second year, is a case study in determined yet practical presidential leadership, as well as a reminder of the persistence of political realism.

President Reagan's first nine months in office in 1981 rank among the most successful of any modern president. The Reagan Revolution was in full stride. His ambitious economic policy agenda of tax cuts and spending restraint had passed Congress with substantial bipartisan support by late summer, while executive branch agencies were deregulating or reforming regulation of key industries. The mood of the nation, as measured in opinion surveys at the end of summer, was upbeat. Public and private economic forecasts all expected an expanding economy in the coming year. The Congressional Budget Office, thought to be hostile to Reagan, issued a bright forecast for the coming year and projected declining budget deficits. CBO director Alice Rivlin told the media, "We are quite optimistic about the outlook for the economy." Reagan basked in robust public approval ratings, already high after his bravado recovery from the assassination attempt in late March. *Time* magazine's Walter Isaacson wrote, "Not since the first six months of Franklin Roosevelt's Administration has a new President done so much of such magnitude so quickly to change the economic direction of the nation."

What could go wrong? The next six months are a lesson in how quickly circumstances and political fortunes can change. The economy, which had recovered weakly in 1981 after several years of slow-growth "stagflation" (that is, simultaneously high unemployment and inflation), began to slump back into recession in the fall of 1981. Unemployment was rising fast, indicating it could be a steep and deep recession. Interest rates remained punishingly high, and went up again. Industrial output was falling. In the last quarter of 1981, real GDP fell at an annual rate of 5.2 percent. The stock market slumped. The slowdown was quickly blowing up the federal budget deficit, which Reagan had promised to eliminate in his first term. His own budget office was projecting the deficit for the coming fiscal year could top $100 billion—an unimaginable and alarming figure at that time. Reagan's job approval ratings started to fall precipitously by the end of the year. *Fortune* magazine was typical of the media coverage at the end of 1981: "Rarely has the public mood turned so swiftly."

This reversal was a heavy blow to Reagan, and placed him on the defensive after a year of dominating Washington. His Democratic opposition seized the initiative to go on the attack. "It's a shame that it takes the human tragedy of unemployment to show the Reagan economic nonsense for what it is," House Speaker Tip O'Neill said. Democrats—and some leading Republicans and even some of his own White House staff—wanted Reagan to reverse course, and scale back the income tax cuts that had barely begun to take effect. There was some reason to think he might be amenable to a major course correction: as governor of California in his first term in 1967, Reagan reluctantly supported a major income tax increase to eliminate a serious budget deficit. Maybe, his critics in both parties thought, history would repeat itself.

But political course corrections in Washington don't happen overnight, and the story of how Reagan responded over the next six months are a master class in patient presidential leadership. Privately Reagan admitted that his plan wasn't unfolding as promised, and that Tip O'Neill and the Democratic opposition had a valid point that some kind of course correction on economic policy was justified. Reagan was committed to preserving the core of his policy—income tax rate reductions—that were the primary target of Democrats. But as a skilled negotiator, Reagan knew that any early concession could turn potential compromise adjustments into a rout. So he stuck to his guns, offering only the most meager of opening positions on possible changes.

When faced with adverse circumstances, the standard practice in Washington is to grab for short-term policy patches to demonstrate crowd-pleasing "action," such as an emergency "stimulus" spending plan (what Democrats wanted). Although Reagan and his team throughout his presidency conducted their own share of "photo ops" and announcements designed to affect the news cycle in a positive way, he decided against dealing with the economic setback with any glittering gimmicks.

As tax and budget negotiations with Capitol Hill would drag on for months and involve much bruising give and take, Reagan knew he needed not only to have patience himself, but also the patience of the public. Over in Britain, Prime Minister Margaret Thatcher was under fire for similar economic difficulties, but famously declared "this lady's not for turning." Reagan's version of the same point was to make a public case to "stay the course," and endure short-term pain for long-term gain. The "great communicator" needed to summon all his skills of persuasion.

The centerpiece of his effort was his annual State of the Union address in late January 1982. Although Reagan had made two addresses to joint sessions of Congress in 1981, neither were formal State of the Union speeches, as it is customary for new presidents to wait until their second year to make their first such address.

The address was a classic Reagan mixture of humor to break the ice and strong argument gently put. One of Reagan's rare talents was to argue directly and strenuously with his opposition without using pejorative or openly partisan attacks. As was also typical, Reagan did unveil another long-term idea that was intended to help him regain the political initiative.

His opening was classic self-deprecation, with the laughter in the chamber noted in the transcript:

> *President Washington began this tradition in 1790 after reminding the Nation that the destiny of self-government and the "preservation of the sacred fire of liberty" is "finally staked on the experiment entrusted to the hands of the American people." For our friends in the press, who place a high premium on accuracy, let me say: I did not actually hear George Washington say that. [Laughter] But it is a matter of historic record. [Laughter]*

As he drew into the heart of the speech, he didn't try to deflect or minimize the mounting economic difficulties the nation was experiencing. He acknowledged the unemployment in the industrial heartland, the distress in the farm belt, the discouraged youth in the inner cities, and the financial insecurity of middle-class Americans everywhere. He also emulated the rhetorical model of two of his favorite predecessors—Lincoln and Franklin Roosevelt—of giving an extended history of how we got to the current moment and why he advocated the course he chose upon taking office. Reagan, like Lincoln and Roosevelt, was as much a teacher as a persuader.

> *The situation at this time last year was truly ominous. . . A year ago, Americans' faith in their governmental process was steadily declining. Six out of 10 Americans were saying they were pessimistic about their future. A new kind of defeatism was heard. . .*
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> *The last decade has seen a series of recessions. There was a recession in 1970, in 1974, and again in the spring of 1980. Each time, unemployment increased and inflation soon turned up again. We coined the word "stagflation" to describe this.*

From here Reagan explained why the policies tried in the previous decade had failed or made things worse: "Government's response to these recessions was to pump up the money supply and increase spending. . . Late in 1981 we sank into the present recession, largely because continued high interest rates hurt the auto industry and construction." His extended argument against returning to the policy framework of the past no doubt rankled Democrats in the chamber, and while he had a residue of public support on his side, patience was wearing thin even with many Republicans.

Republicans on Capitol Hill were angry at the tight money strategy of the Federal Reserve under its Carter-appointed chairman Paul Volcker. Several Republican leaders publicly called for the Fed to lower interest rates, and many privately complained to Reagan that if the Fed didn't back off high interest rates Republicans would face massive losses in the midterm election a few months ahead. Some of Reagan's senior White House staff were heard to complain, "This guy [Volcker] is killing us." And Rep. Jack Kemp, a chief architect of Reagan's tax reduction plan, urged Reagan to fire Volcker.

Despite the pressure, Reagan held firm in his support for the Fed's drive to bring inflation down, despite the short-term pain. "I want to see the Fed continue monetary restraint and be the fourth leg of our economic program." Milton Friedman, the godfather of monetarism, wrote of this period years later: "No other president would have stood by and let Volcker push the economy into recession by restricting the money supply so sharply." (President Biden recently stated that he supports the independence of the Fed, too, though like Reagan his disposition toward the Fed may be tested if interest rate increases bring about an economic slowdown.)

Reagan prudently didn't address the controversy over the Fed in his State of the Union speech, which would have poured gasoline on a bipartisan fire that saw House members of both parties introduce legislation to curb the independence of the Fed. Confining himself chiefly to fiscal policy, Reagan pledged:

> *I will seek no tax increases this year, and I have no intention of retreating from our basic program of tax relief. I promise to bring the American people—to bring their tax rates down and to keep them down, to provide them incentives to rebuild our economy, to save, to invest in America's future. I will stand by my word. Tonight I'm urging the American people: Seize these new opportunities to produce, to save, to invest, and together we'll make this economy a mighty engine of freedom, hope, and prosperity again.*

This merely restated what Reagan had been saying throughout the fall of 1981 as the drumbeat for a tax increase grew. In November he said, "We will not go back to business as usual. Our plan for economic recovery is sound. . . I am determined to stick with it and stay on course, and I will not be deterred by temporary economic changes or short-term political expediency." He repeated this again in a December press conference: "I have no plans for increasing taxes in any way."

Reagan would have to relent on his "no tax increase" pledge by the end of summer of 1982 and the deadline for a new budget, which generated a lot of criticism—and some cries of betrayal—from his conservative base. He probably knew this at the time of his SOTU speech (although in his diary entries for most of 1982, he claimed to be holding fast against any tax increase), as he had authorized quiet, back-channel negotiations between his budget team and Democratic leaders on Capitol Hill over a compromise package that would likely have to include both tax increases and spending cuts. But by sticking to his guns publicly, Reagan knew it would help him get better terms in a deal from his point of view. Above all, he wanted to preserve the core of his fiscal policy—the reduction in income tax rates.

In his SOTU speech, Reagan articulated an appeal to virtue which became a shorthand slogan for the year ahead: "Stay the course."

> *No one pretends that the way ahead will be easy. In my Inaugural Address last year, I warned that the "ills we suffer have come upon us over several decades. They will not go away in days, weeks, or months, but they will go away . . . because we as Americans have the capacity now, as we've had it in the past, to do whatever needs to be done to preserve this last and greatest bastion of freedom." '*
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> *The economy will face difficult moments in the months ahead. But the program for economic recovery that is in place will pull the economy out of its slump and put us on the road to prosperity and stable growth by the latter half of this year. And that is why I can report to you tonight that in the near future the state of the Union and the economy will be better—much better—if we summon the strength to continue on the course that we've charted.*

One thing that marks out Reagan's political strategy throughout his entire career was keeping the initiative with new ideas to build on his existing policies. Thus he wasn't content with a defensive posture in his SOTU speech. After making his no-tax-increase pledge, Reagan then proceeded to reiterate and explain in some depth that the cause of the large federal deficit was the unrestrained growth of government over the previous two decades. In typical fashion, Reagan gave some numbers to illustrate:

> *In 1960 the Federal Government had 132 categorical grant programs, costing $7 billion. When I took office, there were approximately 500, costing nearly a hundred billion dollars—13 programs for energy, 36 for pollution control, 66 for social services, 90 for education. And here in the Congress, it takes at least 166 committees just to try to keep track of them. . .*

Reagan renewed his 1980 campaign proposal to abolish the Department of Education and the Department of Energy, but beyond simple budget cuts and program eliminations, he offered a new remedy, which he called "the new federalism." In a nutshell, he wanted to return many government functions—and revenue resources—to the states:

> *The growth in these Federal programs has—in the words of one intergovernmental commission—made the Federal Government "more pervasive, more intrusive, more unmanageable, more ineffective and costly, and above all, more [un] accountable." Let's solve this problem with a single, bold stroke: the return of some $47 billion in*

Federal programs to State and local government, together with the means to finance them and a transition period of nearly 10 years to avoid unnecessary disruption. . .

By 1988 the States will be in complete control of over 40 Federal grant programs. The trust fund will start to phase out, eventually to disappear, and the excise taxes will be turned over to the States. They can then preserve, lower, or raise taxes on their own and fund and manage these programs as they see fit.

In a single stroke we will be accomplishing a realignment that will end cumbersome administration and spiraling costs at the Federal level while we ensure these programs will be more responsive to both the people they're meant to help and the people who pay for them.

Reagan's new federalism proposal never got very far (like his renewed call in the spring of 1982 for a balanced-budget amendment to the Constitution). This was for a variety of reasons, among them being the powerful constituencies in favor of centralized government administration, and the unwillingness of state governors to assume larger program responsibilities. But the proposal for significant reform, alongside a reiteration of his core policy principles behind "stay the course," served him well in at least two distinct ways. Reagan's practice, since he first entered electoral politics in the 1960s, was always to supplement criticism of existing policy with an ambitious positive alternative of his own. When he first ran for governor of California as a critics of President Lyndon Johnson's "Great Society," he offered his own vision for the "Creative Society." He knew that political battles are seldom won from a purely defensive or alarmist position: Americans want to hear positive alternatives.

Second, sticking to his principles and offering new reform ideas strengthened Reagan's bargaining position over the immediate fiscal problem the nation faced. He surely knew that he would have to compromise with Democrats (and some Republicans) at some point with a tradeoff of new taxes for spending cuts. Months of tough negotiations followed, sometimes with tense and argumentative face-to-face meetings between Reagan and Speaker O'Neill. At length, Reagan agreed to a budget deal which included about $100 billion in tax increases with $300 billion in budget cuts over the next three years. Reagan thought he had the best of this deal because it fully preserved his income tax cuts, while raising excise taxes and other peripheral levies that, in his view, did not depress investment and economic growth. Much later, Reagan expressed regret over this deal because he thought Congress didn't live up to its end of the bargain (this point is disputed as the arcane bookkeeping of the federal budget makes it hard to establish exactly what happened in subsequent years). But at the time, Reagan was justified in thinking he had achieved a fiscally responsible compromise that would reduce federal spending.

The economy during the rest of 1982 continued to spiral down, and by mid-term election day in November the unemployment rate topped 10 percent—the highest since the Great Depression. Throughout the summer and fall Reagan repeated the "stay the course" message he launched in his State of the Union address, but on election day Republicans lost 26 seats in the House. A loss is a loss, but many political scientists who looked carefully over the data and historical precedents in the months and years after the 1982 election concluded that losing “only” 26 seats amidst such a dismal economy was something of a victory for Reagan, and actually showed his relative strength, despite Reagan’s low public approval ratings on election day.

The veteran political analyst Kevin Phillips was astounded: “Never before in the post-1954 competitions has the party out of power scored such piddling gains in the face of massive and increasing unemployment.” After a close analysis of polling data, political scientist Alan Abramowitz concluded that “Democratic gains were limited because, despite a severe recession, many voters had not given up hope that Reaganomics would eventually work.” Other scholars agreed. Robert Rowland and Rodger Payne of Baylor University wrote that “When the historical trend [of off-year election losses] is considered, the Republican loss of twenty-six seats not only seems relatively small, but might be interpreted as a kind of political victory.” Harvard’s Harvey Mansfield argued that Reagan’s appeal to virtue and sacrifice implied in his “stay the course” message resulted in an election that should be regarded not as a repudiation of Reagan, but as a mere course correction. Evidence for this conclusion is the fact that, as everyone knows, just two years later Reagan swept to a 49-state re-election landslide.

There was one other notable feature of Reagan’s 1982 State of the Union speech: it began a feature that all of Reagan’s successors have embraced—introducing a special guest in the audience. Two weeks before Reagan’s State of the Union, an airliner taking off in a severe snowstorm from National Airport crashed into the Potomac River shortly after takeoff. A number of survivors of the impact were struggling in the icy waters while helicopters were attempting to rescue the people in the water. Watching from the nearby 14th Street Bridge was a federal employee (ironically with the Congressional Budget Office with whom Reagan’s economics team often clashed), Lenny Skutnik, who put his own life at risk when he dove from the bridge to help a survivor who was not able to grasp a helicopter rescue line. Skutnik brought the survivor, Priscilla Tirado, over to the river bank.

Reagan invited Skutnik to attend the State of the Union, and sat him with First Lady Nancy Reagan. Reagan told the story of Skutnik’s deed and had him stand up to receive the applause of the assembled lawmakers, calling it “the spirit of American heroism at its finest.” The “Lenny Skutnik” has, since, become a regular feature of every State of the Union speech by Reagan’s successors (with the sole exception of George H.W. Bush).

President Biden faces his first State of the Union address in similar, though not identical, circumstances. Like Reagan, his approval ratings are very low at the moment, though the economy is rebounding quickly from the COVID-induced slump of two years ago. Inflation is high, however; the COVID crisis is not yet conquered, and the public mood is sour. In contrast to Reagan in his first year, President Biden was unable to get Congress to enact his chief economic proposal, the ambitious and sweeping “Build Back Better” plan, and as of this writing it is unclear whether parts of it might still pass. If there is an applicable lesson from Reagan’s 1982 State of the Union address, it is for President Biden to articulate his own version of “stay the course.” As Reagan said in his First Inaugural Address and then repeated in his State of the

Union address, our economic problems “will not go away in days, weeks, or months, but they will go away.”

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