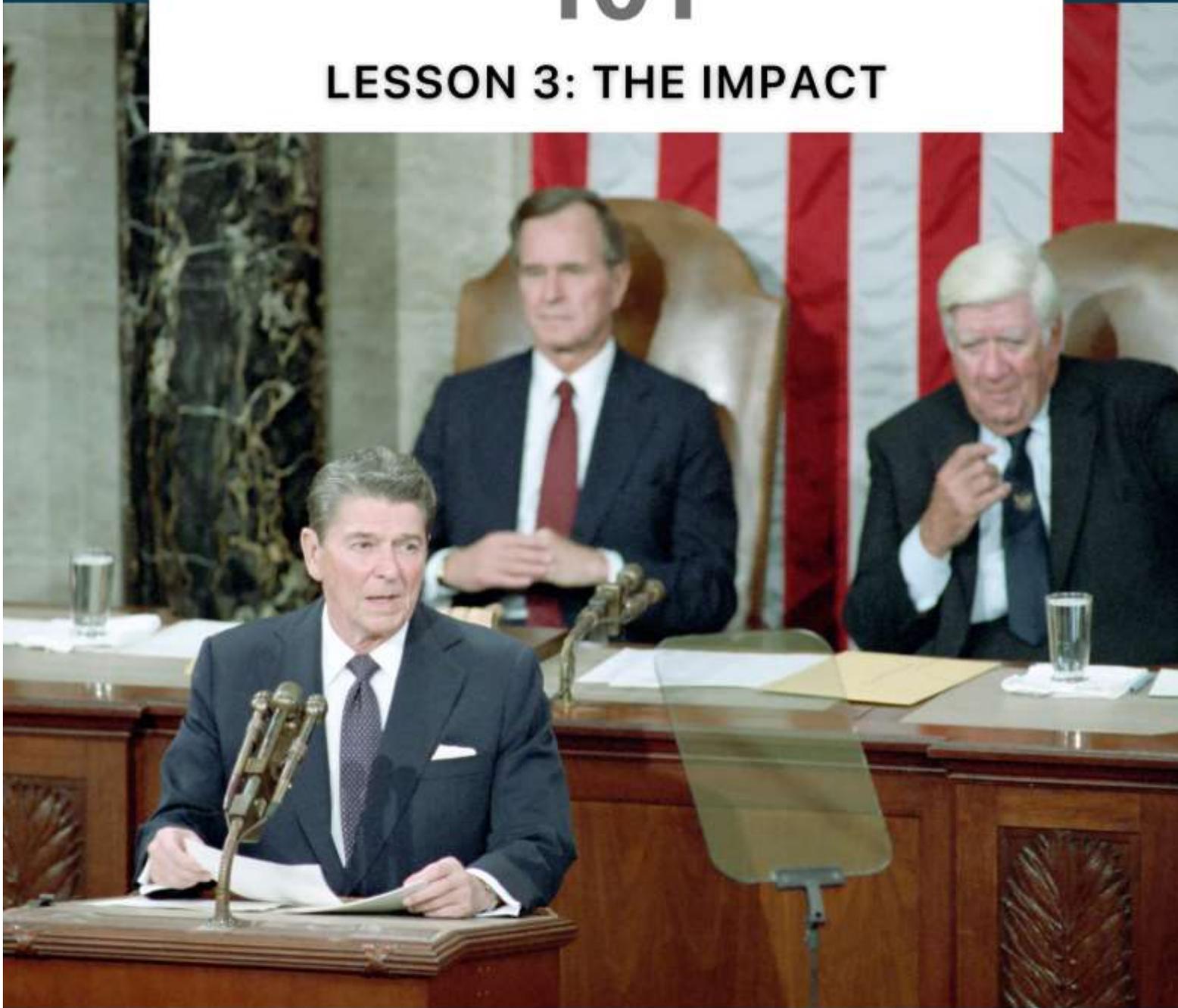




REAGANOMICS

101

LESSON 3: THE IMPACT



*An Interactive,
Primary-Source Based Unit
developed by*



EDUCATION



**California
COUNCIL ON
Economic
Education**

LESSON 3: THE IMPACT

A RETROSPECTIVE: PRESIDENT REAGAN'S FAREWELL ADDRESS



Ronald Reagan prepares to deliver his Farewell Address to the Nation.

Photo Courtesy of the Reagan Library.

SNAPSHOT

It is the end of his second term in office and Inauguration Day for in-coming President George Bush is nine days away; Ronald Reagan delivers his final address as President. In his address, he gives a retrospective of his eight years in office. He entered office during a time of considerable economic challenges and he set out a bold economic agenda to address these conditions. He succeeded in reigning in inflation and reducing unemployment. Appealing to the voters for their help to convince Congress, he largely prospered during his two terms. He was successful at achieving some tax reform but was unable to completely address the federal government deficit and debt situation.

TIME NEEDED

(2) 45-minute class periods (if Exercise 1 is done as homework) **OR**
(1) 45-minute class period

KEY CONCEPTS

federal budget, budget deficit, budget surplus, government expenditures, government revenue, taxes, incentives, nominal & real variables

STUDENTS WILL BE ABLE TO:

- Identify the identify the sources of U.S. government revenues.
- Identify the categories of U.S. government spending.
- Evaluate the effectiveness of what is commonly known as Reaganomics.

STANDARDS

CA H-SS Content Standards: 12.3.2 & 12.3.3

12.3 Students analyze the influence of the federal government on the American economy.

2. Identify the factors that may cause the costs of government actions to outweigh the benefits.



3. Describe the aims of government fiscal policies (taxation, borrowing, spending) and their influence on production, employment, and price levels.

CA H-SS Content Standards: 12.5.1 & 12.5.2

12.5 Students analyze the aggregate economic behavior of the U.S. economy.

1. Distinguish between nominal and real data.
2. Define, calculate, and explain the significance of an unemployment rate, the number of new jobs created monthly, an inflation or deflation rate, and a rate of economic growth.

RESOURCES

Activities & Exercises

- Exercise 1.0 – Federal Spending & Revenue Activity
- Exercise 1.5 – Virtual, Interactive Federal Spending & Revenue Activity
 - [Single Student Version](#)
 - [Classroom Version](#)
 - [In-Person Version](#)
 - [Teacher Key + presenting slides](#)
- Exercise 2.0 – President Ronald Reagan's Farewell Address to the Nation. January 11, 1989 Worksheet (may be assigned in advance as homework)

VIDEOS

- President Ronald Reagan's Farewell Address to the Nation. January 11, 1989:
<https://www.youtube.com/watch?v=FjECSv8KFN4>
- History Channel: Reaganomics. April 19, 2018:
https://www.youtube.com/watch?v=EeyGdy_SdhQ

ARTICLES/DOCUMENTS

- Transcript of “President Ronald Reagan's Farewell Address to the Nation. January 11, 1989
- Joint Economic Committee Staff Report: President Reagan’s Economic Legacy: The Great Expansion, October 2000. https://www.jec.senate.gov/public/_cache/files/62cfde42-3fbc-4b6e-b308-c78dd32515e6/president-reagan-s-economic-legacy-great-expansion-oct-2000.pdf
- Reaganomics: <https://en.wikipedia.org/wiki/Reaganomics>

LESSON PROCEDURE (All module segments):

1. Tell your students that in the previous lessons, they have set the stage for the economic challenges that the Reagan Administration encountered upon taking office, and his proposed remedies for those challenges.
2. Recap the following conditions:
 - a. Unemployment was the highest it had been since the Great Depression
 - b. Inflation was the highest it had been on a sustained basis (approx. 8% for the entire decade of the 1970s)
 - c. There was growing concern about the federal government budget deficits and trajectory for the federal government debt.
 - d. The ongoing geopolitical conflict with the Soviet Union with its military and economic consequences.
3. President Reagan proposed a range of policy changes intended to address these economic challenges and alter the incentives and generally remove the barriers in the ‘rules of the game’ that were limited the economy’s nascent potential to grow and overcome market frictions more quickly.



4. Remind them that they've participated in exercises that illustrated the condition of the economy when President Reagan took office and the rationale for the policies that he proposed to correct those conditions.
5. Inform students that they will be doing an activity to assess one dimension of the changes proposed by President Reagan's economic reforms: The impact on the Federal Budget (spending and Revenue).

NOTE: If this lesson is being conducted virtually, make use of Exercise 1.5. There are two options: a single student option, where students can do their own work and then you can have them submit their work to you OR a classroom option (recommended) where students can conduct the activity in real time, using Google Sheets.

IN-CLASS DELIVERY INSTRUCTIONS

1. Have students work in pairs or small groups. Provide each pair or small group with a single-sided copy of page 1 and page 2 from Exercise 2.0 (the accompanying PDF).
2. Provide each pair or small group with 100 tokens, pennies, or small uniform counters. Each token/penny/counter represents 1% of Federal Spending and Federal Revenue by major category.
3. Part 1: Federal Expenditures 1981
 - a. Instruct students to illustrate the percentage of Federal spending per category, in 1981, the first year of President Reagan's presidency. They will do this by placing the tokens/pennies/counters in each segment of the spending sheet provided. For example, if students believe that National Defense took 15% of Federal Spending in 1981, they will place 15 tokens/pennies/counters on that box. Tell students to continue until they have assigned all 100 tokens/pennies/counters, representing 100% of federal spending for that year.
 - b. Show students slide 3 of the Exercise 1.0 PDF **OR** show them the following figures by major category which are an estimate of actual spending by category in 1981:
 - National Defense – 22%
 - International Affairs – 2%
 - General Science etc. – 3%
 - Natural Resources etc. – 4%
 - Commerce, housing, etc. – 5%
 - Community Development etc. – 7%
 - Health Care – 4%
 - General Government etc. – 3%
 - Medicare – 5%
 - Social Security – 34%
 - Veteran's Benefits – 3%
 - Net Interest – 8%
 - c. Discuss with students the differences of their estimates from the actual values. What were common overestimates by students? What were common underestimates? What actual values surprised them and why?
 - d. Have your students update their PDFs to conform to the "actual" amounts budgeted in 1981.
 - e. Some students may have noticed that the bottom 4 boxes/categories are in red and bolded. Share with students that this is to distinguish those categories, which represent "mandatory spending" or spending required by law, due to previously passed legislation, and which are not subject to change as part of the ordinary budget reconciliation process. The other boxes/categories represent "discretionary spending" which is able to be changed in the normal course of budget reconciliation.
4. Part 2: Federal Revenue 1981
 - a. Now that students are familiar with the process, have them clear their spending boards and gather their 100 tokens/pennies/counters and repeat the process for the Federal

Revenue by Major Category. Remind students that Federal Revenue is another way of saying Taxes, and the categories are broken down by major types of tax categories.

- b. It may be beneficial to speak to the 4 tax categories briefly:
 - **Income tax** – taxes collected on income, whether from wages/salary or income from personal investments or certain types of small business income.
 - **Corporate taxes** – taxes collected from businesses, based on the legal organization of the business and how the taxes are filed.
 - **Payroll taxes** – these are taxes that payroll employees (most workers) and self-employed individuals pay that have fixed amounts and are capped at some income threshold. In most jobs, the employer pays half of the amount on behalf of the worker and the employee pays the other half. Usually listed on one’s paycheck as FICA.
 - **Other taxes** – this is the catch all for a range of other taxes, most specific to certain activities or purchases, such as a gas tax, cigarette tax, etc.
 - c. Show students slide 4 of the Exercise 1.0 PDF **OR** share with them the following figures by major category:
 - **Individual Income Taxes** – 48%
 - **Corporate Income Taxes** – 10%
 - **Payroll Taxes** – 30%
 - **Other Taxes** – 12%
 - d. Discuss with students the differences of their estimates from the actual values. What were common overestimates by students? What were common underestimates? What actual values surprised them and why?
5. Part 2: Federal Expenditures and Revenue 1988
- a. Now that students have completed their estimates for the Spending Board and the Revenue Board, inform them that they will be repeating both steps, but that they will be making their estimates for 1988, the last full year of President Reagan’s presidency. Invite students to reflect on the policy changes that President Reagan proposed, as they make their new estimates.
 - b. Repeat the previous procedure for Federal Spending and Federal Revenue by sharing slide/page 5 & 6 of the PDF, and/or sharing slides 7 & 8.
 - c. Ask your students to compare the differences in expenditure and revenue categories between 1981 and 1988. Which categories showed an increase and which showed a decrease? Were the changes your students observe changes that President Reagan intended?
 - d.

VIRTUAL DELIVERY INSTRUCTIONS

1. All procedures are the same as the in-class version, except that rather than having a printed, paper copy of the spending and revenue boards, students will have access to their own board via the interactive slides.
2. If using the “Classroom Version” assign each student 2 slides (one for spending and one for revenue, i.e., Jorge will use slide 7 & 8 in the classroom copy, Amy will use slides 9 & 10, etc.) and let them know they will use the dollar icon/tokens as counters. Each dollar icon represents 1% of the Federal Spending or Revenue, and there are 100 such dollar icons on each student board. They simply will drag the number of tokens they believe represent a given category, to its spot on the interactive Google slide they are assigned. They can select and move multiple icons at a time.
3. All other procedures (e.g., comparing students estimates with the actual values for Spending and Revenue for 1981 and 1988 are the same).



EXERCISE 2

These instructions apply if Exercise 2 is completed in class rather than as a homework assignment.

1. Provide students with a copy of **Exercise 1.0** “President Ronald Reagan's Farewell Address to the Nation. January 11, 1989, Worksheet” and the transcript to the same address. (This can be done prior to this class as a homework assignment).
2. Students may complete Exercise 1 over the remainder of this period, working in groups (recommended) or on their own.
3. If all students complete Exercise 1 with ample class time remaining, encourage students or groups to share their answers to the final worksheet question, “Was President Reagan correct in his assertions concerning the economy? Why or why not?”
4. After your students have completed Exercise 1.0 (or 1.5) and Exercise 2.0 (whether in class or as a homework) as them to share their impressions:
 - Was President Reagan able to achieve his goals?
 - Were there other improvements that were secondary to these policy changes?
 - Why did federal deficits and federal debts increase over his presidency?
 - What were the consequences (if any) on the economy as a whole?



Exercise 1.0

President Ronald Reagan's Farewell Address to the Nation. January 11, 1989

Homework/In-class Worksheet

Read or listen to "President Ronald Reagan's Farewell Address to the Nation. January 11, 1989" and Answer the following questions after reading and/or watching the video and by doing an internet search.

President Reagan identifies two great triumphs during his two terms of office. What did he say he was most proud of? (Refer to line 44)

Triumph 1: _____

Triumph 2: _____

In the realm of economics, to whom did President Reagan give credit for the favorable economic outcomes during his term in office? (Refer to line 68)

What did he identify as the favorable economic outcomes during his term in office? (Refer to line 77)

1: _____

2: _____

3: _____

4: _____

5: _____

Was President Reagan correct? Did the favorable economic outcomes he listed actually occur?

- In what year during the Reagan presidency did the economic expansion begin? When did it end? For how many months did it last? See: "List of economic expansions in the United States:" A good source is [CLICK HERE](#)

Year the expansion began: _____ Year the expansion ended: _____

Number of months it lasted: _____

- Was it the longest peacetime expansion since the end of World War II? _____

- Was the 1961-1969 a peacetime expansion? _____

- Have there been longer expansions since the end of the Reagan expansion?

Yes/No? _____

If so, when were they? _____

- What was the level of median real family income in 1981 and in 1989? [CLICK HERE](#)

Median real family income 1981: _____ Median real family income 1989: _____

- What was the poverty rate in 1981 and in 1989? See: "Historical Poverty Tables: People and Families 1959-2018 Table 13" [CLICK HERE](#)

Poverty rate 1981: _____ Poverty rate 1989: _____

- As a proxy for expansion of entrepreneurship, how many business income tax returns were filed in 1981 and in 1989? See: "The State of Small Business" [CLICK HERE](#)

Number of tax returns 1981: _____ Number of tax returns 1989: _____

- In real dollars, how much was spent on research and development by private firms in 1981 and in 1989? See: "Research and Development: U.S. Trends and International Comparisons: Sources of R&D Funding" [CLICK HERE](#)

Real Dollars spent 1981: _____ Real Dollars spent 1989: _____

- In real dollars, how much were U.S. exports in 1981 and in 1989? See: "Real Exports of Goods and Services" [CLICK HERE](#) and "Real Net Exports of Goods and Services" [CLICK HERE](#)

Real Dollars exported Q1 1981: _____ Real Dollars exported Q4 1989: _____

Real Dollars net exports 1981: _____ Real Dollars net exports Q 4 1989 _____

President Reagan said: "Common sense told us that when you put a big tax on something, the people will produce less of it." (Refer to line 74) Do you agree with his assertion? Why or why not?



In saying, "I think we have stopped a lot of what needed stopping." President Reagan is referring to reducing rules and regulations. Was he successful? See: [CLICK HERE](#)

Refer to "Total Pages Published in the Code of Federal Regulations:" [CLICK HERE](#)

Pages published in 1981: _____ Pages published in 1989: _____

Refer to "Total Pages Published in the Federal Register:" [CLICK HERE](#)

Pages published in 1981: _____ Pages published in 1989: _____

He also said, "As government expands, liberty contracts. Do you agree? Why or why not?"

What did President Reagan list as one of his regrets? (Refer to line 149) _____

Closure

Based on your answers, was President Reagan correct in his assertions concerning the economy? Why or why not?

Class Debrief

In real dollars:

- How much did the Federal government spend in 1981? _____
- How much did the Federal government spend in 1989? _____
- What were Federal government tax receipts in 1981? _____
- What were Federal government tax receipts in 1989? _____
- What was the budget deficit in 1981? _____
- What was the budget deficit in 1989? _____
- How much was the total public debt in 1981? _____
- How much was the total public debt in 1989? _____

As a percent of real GDP:

- How much did the Federal government spend in 1981? _____
- How much did the Federal government spend in 1989? _____
- How much was the total public debt in 1981? _____
- How much was the total public debt in 1989? _____



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