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Reagan's Address to the Nation on October 13, 1982

By Phil Gramm¹

On October 13, 1982, twenty days before the 1982 elections, President Reagan delivered an address to the Nation on the state of the American economy. The address was a no excuses, tough love message about the gravity of the problems facing the Nation, the spending control and tax cut program that Congress had adopted and the need to stay the course and resist the siren song of more government spending. In the midst of the nation's deepest postwar recession and therefore Reagan's darkest hour, he raised a voice for hope that would make him the great communicator who would ultimately deliver to America a quarter century of economic prosperity and unprecedented world peace.

When President Reagan took office in January of 1981, the inflation rate was 12.5% and the tax burden and level of federal spending were both at postwar highs, 19.1% and 20.6% of Gross Domestic Product respectfully. The Nation was in the midst of a double dip recession that had sent the unemployment rates to the highest level in postwar America and by October of 1982 while inflation appeared to be moderating, it was still painfully high.

In the nine years prior to 1982, the inflation rate had averaged an extraordinary 9.2%, far surpassing the average inflation rate of 3.3% between 1946 and 1972 and the subsequent 2.7% from 1982 to 2019. Over the previous nine years total federal spending as a percent of GDP had soared by 2.6 percentage points, defense spending had fallen by 1.5 percentage points and social spending had grown by an extraordinary 4.1% of GDP, exceeding the real growth in social spending during the Depression. Over the previous nine years every time some marginal progress was being made on inflation, political pressure had induced the government to back off its tightening of both monetary and fiscal policy.

The President's budget had passed Congress with a clear majority but the reconciliation bill, which actually implemented the spending cuts and made it in order to adopt the 1982 tax cuts, had proven to be a significant challenge. In what would be a good lesson for the newly sworn 118th Congress, the legislative success

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of the Reagan program was only achieved through numerous and often painful compromises.

The President's budget, which I co-sponsored in the House with Delbert Latta, a Republican from Ohio, was an update of a bi-partisan budget that David Stockman and I had offered in 1980. While no one noticed, at the time, that budget received 45 Democrat votes in the House and with 190 Republican members in the new Congress, a potential bipartisan majority existed for a major change in federal spending. But getting 218 votes for a budget that actually reduced non-defense spending was no easy task. Governing in a democracy requires compromise and a strong stomach.

There is no better example of this than when my friend Congressman John Breaux from Louisiana approached the White House and me with the proposal that he and his Democrat colleagues from Louisiana would vote for the budget and against all weakening amendments if the President would agree that we would leave the nation's sugar program alone. For those unfamiliar with the vile innards of American government, the sugar program is a protective tariff that steals from 340 million American consumers to provide subsidies to an industry that has less than 77,000 employees. Someone prone to dramatic rhetoric could validly claim the sugar program takes food out of the mouths of American children to benefit a small powerful special interest.

When the proposal was made, I went to the White House to visit the President. Our discussion started with the President asking me my reaction to the proposal. In an embarrassing moment I became a little emotional explaining how I did not come to Washington to save the sugar program. The President assured me that he didn't come to Washington to save it either, but he posed the relevant question. Can we pass the budget reconciliation without making this commitment?

I told him that we had enough public support that we might get Breaux's colleagues to vote yes on final passage of the reconciliation bill without making the commitment, but we could easily have the budget gutted with an amendment before we ever got to final passage. The President then asked me what I thought we should do. I could tell the President's Chief of Staff, Jim Baker, was getting impatient but the President's body language made it clear to him to hear me out. I told the President that while I hated to make this commitment that I believed the passage of the reconciliation bill with the spending cuts and tax cuts was so important to the future of the country that we should make the commitment and leave the sugar program alone. Reagan sighed and said he hated to do it too. Reagan then said "I guess this is what they call kissing the pig". Baker laughed and said we weren't going to be able to get rid of the sugar program anyway. "When you guys are dead and gone the sugar program will still be here". And while I am not dead and gone yet, the sugar program is still here and it will almost certainly be here when I am gone.

Compromise is an indispensable ingredient in forming a majority and governing. We couldn't change America by simply voting no. We had to convince at least 218 members of the House to vote yes. And we did it, but barely.

The vote on the reconciliation bill was tied and one Democrat had not voted, his name was Sam Hall, a conservative Democrat from Marshall, Texas. As Sam stood considering his vote, the Speaker, Tip O'Neill, left the speaker's rostrum, came down and personally urged Sam Hall to vote no. Sam drew a deep breath inserted his voting card into the machine and voted yes. Immediately a handful of Democrats switched their vote and the Reagan program became law.

The President also was willing to say no when the proposed changes undercut his program. When a group of his strongest supporters led by Congressman Jack Kemp urged him to break with Paul Volcker and call for a loosening of monetary policy "before tight money made the Reagan program unworkable", Reagan said no. Even though Volcker's monetary policy sent prime lending rates spiraling to 21.5%, the unemployment rate up to 10%, the highest level in the postwar period, and endangered the Reagan presidency, the President never wavered. Reagan believed he needed to do his job and let Volcker do his job.

Reagan could not only say no to friends and allies and yes to required compromise, he could inspire. As the House vote approached on the crucial reconciliation bill, some 30 Republicans asked for a meeting with the president to demand changes in the reconciliation bill. I was asked to join the discussion, and before the meeting I was taken to the Oval Office to meet with Reagan. He asked me what I thought we should do. I said that before offering my advice I needed to remind him that three years ago I was teaching college economics and that I had never done anything remotely this important in my life. Reagan smiled and said, "Well, neither have I."

When we stopped laughing, I asked, "If we fix one group's problems, won't another demand changes? Where do we stop? It is one thing to commit to Breaux what we will do in the future on some tariff bill or farm bill but another thing all together to change our program this late in the process."

Without responding, Reagan got up and led the way to the meeting. Sitting down at the cabinet table the president said, "You called this meeting, so let me listen to what you have to say." The first speaker assured the president that he was for our program but he had problems with his constituents. It quickly became clear that the attendees had planned out what they were going to say, and almost every member raised concerns about his constituency. When they had all spoken, the president said nothing for what seemed like five minutes as he looked at each of the 30 members in puzzled silence.

"I have been confused," he said finally. "I thought this vote was about the future of our country. I didn't know it was about our political constituencies." He then got up and walked out of the room. The stunned silence continued for several

minutes and more than a few congressmen teared up as they got up to leave. When the final vote was taken, not one person who had been in that room voted no.

With the die cast in 1981, the price would be paid in 1982, as the economy suffered withdraw pains from decades of abusing the addictive stimulus of government spending. In his October 1982 speech, given just over a year after his program became law, the President outlined how “out of control government spending” had produced “sky-rocketing inflation and interest rates that lead to unemployment”. The President made it clear that there was “plenty of blame to go around” as he said “the problem isn’t who to blame; it is what to blame”.

The President then turned to the crux of the problem that had defined the previous nine years. The spending spree and the boom and bust cycle it caused “hasn’t stopped, because in the past, when the crunch came, too many in government resorted to quick fixes instead of getting to the root of the cause.” As Reagan made clear in the speech the cause was runaway spending and bracket-creep tax increases caused by inflation. He was willing to stay the course to fix the problem.

The President made it clear that he realized “the terrible consequences of all those years playing politics as usual while the economic disaster lines crept higher and higher”. To Reagan this failure to make hard decisions and stay the course was eroding the American way of life. As tempting as it was to go back to the old palliatives and kick the can down the road for somebody else to deal with, Reagan made it clear he intended to do what had to be done to bring this vicious cycle to an end, he would stay the course to “stop these trend lines to disaster”.

Twenty days later Democrats won 1 seat in the Senate and 26 seats in the House, ending the conservative majority in the House. And while significant changes contained in the Presidents program were not subsequently implemented, there was no surge in spending. For the next six years spending was restrained as the economy grew, reducing the size of government spending as a percentage of the overall size of the economy.

Thus in losing the battle in 1982, Reagan won the war on Election Day in 1984. It was “Morning in America”. The inflation rate had fallen to 4% in 1984 and the unemployment rate had fallen from 10.7% to 7.1% in November 1984 on its way to 5.9% when Reagan left office. The level of real economic growth had soared to 7.9%. Reagan carried 49 of the 50 states.

And to quote the Gipper, America “aint seen nothing yet”. Reagan’s 1986 tax reform cut the highest marginal tax rate to 28%, and his defense buildup won the Cold War, tore down the Berlin Wall and destroyed the Soviet Union.

The America after Reagan looked very different than the America before Reagan because Reagan identified the greatest domestic threat to prosperity and freedom

and brought runaway federal spending under control. By the time Ronald Reagan left the White House the overall level of federal spending had fallen by one-percentage point of GDP, non-defense spending had fallen by a percent and a half of GDP and defense had increased by a half of percent of GDP. The Reagan tax cuts and reforms reversed 68.5% of the bracket-creep tax increases that had occurred over the previous nine years and indexed the tax brackets so that inflation would no longer push American families into higher and higher tax brackets. Every major point that the President had made in his October 13, 1982 address to the nation had been born out. He stayed the course and his program worked.

Reagan's presidency began like a movie script and ended the same way. When he arrived in 1981 the inflation-racked economy was sinking into the deepest recession since WWII. Americans were held hostage in Iran and Russian troops were celebrating their first Christmas in Kabul.

When he left on January 20, 1989, the American economy was enjoying its then strongest postwar recovery. His handpicked successor was being sworn in. The Berlin Wall would fall later that year, the first domino to topple leading to the collapse of the Soviet Union. Freedom's revival and expansion made an epic movie ending to the Reagan presidency. As Reagan waved goodbye, his helicopter engine started then revved up to liftoff and then slowly spiraled away across the nation's capital, greeted by waving, applauding crowds, as "he slipped the surly bonds of earth".