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### The Economy in the 1980s

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What Happened to the Economy in the '80s?

From U.S. Department of State,

The nation endured a deep [recession](#) throughout 1982. Business bankruptcies rose 50 percent over the previous year. Farmers were especially hard hit, as agricultural [exports](#) declined, crop prices fell, and [interest rates](#) rose. But while the medicine of a sharp slowdown was hard to swallow, it did break the destructive cycle in which the [economy](#) had been caught. By 1983, [inflation](#) had eased, the [economy](#) had rebounded, and the [United States](#) began a sustained period of economic growth. The annual [inflation](#) rate remained under 5 percent throughout most of the 1980s and into the 1990s.

#### The Political Impact of the Poor Economy in the 1970s

The economic upheaval of the 1970s had important political consequences. The American people expressed their discontent with federal policies by turning out [Carter](#) in 1980 and electing former Hollywood actor and California governor [Ronald Reagan](#) as president.

#### Reagan's Economic Policy

Reagan (1981-1989) based his economic program on the theory of supply-side economics, which advocated reducing tax rates so people could keep more of what they earned. The theory was that lower tax rates would induce people to work harder and longer, and that this in turn would lead to more [saving](#) and investment, resulting in more [production](#) and stimulating overall economic growth. While the Reagan-inspired [tax cuts](#) served mainly to benefit wealthier Americans, the economic theory behind the cuts argued that benefits would extend to lower-income people as well because higher investment would lead new job opportunities and higher wages.

#### The Size of the Government

The central theme of Reagan's national agenda, however, was his belief that the federal government had become too big and intrusive. In the early 1980s, while he was cutting taxes, Reagan was also slashing social programs. Reagan also undertook a campaign throughout his tenure to reduce or eliminate government regulations affecting the consumer, the workplace, and the environment. At the same time, however, he feared that the [United States](#) had neglected its military in the wake of the Vietnam War, so he successfully pushed for big increases in defense spending.

The combination of [tax cuts](#) and higher military spending overwhelmed more modest reductions in spending on domestic programs. As a result, the federal budget deficit swelled even beyond the levels it had reached during the [recession](#) of the early 1980s. From \$74,000 million in 1980, the federal budget deficit rose to \$221,000 million in 1986. It fell back to \$150,000 million in 1987, but then started growing again. Some [economists](#) worried that heavy spending and borrowing by the federal government would re-ignite inflation, but the Federal Reserve remained vigilant about controlling price increases, moving quickly to raise [interest rates](#) any time it seemed a threat. Under chairman Paul Volcker and his successor, Alan Greenspan, the Federal Reserve retained the central role of economic traffic cop, eclipsing Congress and the president in guiding the nation's economy.

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*This article is adapted from the book "Outline of the U.S. Economy" by Conte and Carr and has been adapted with permission from the [U.S. Department of State](#).*

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