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ALAPSZAKOS SZAKDOLGOZAT

A Szélsőjobb és Libertariánus Politika Hatása Amerika Gazdaságára

The Influence of Far Right and Libertarian Politics on US Economy

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Abstract

This paper will demonstrate how far right politics ruin the United States' economy focusing on the view of today's libertarians and Tea Partiers, and also giving their roots with special emphasis on Ronald Reagan's presidency. It will analyze historical data on unemployment rate, government spending and tax cuts to prove that far right politics failed to accomplish its economic goals throughout the examined period. The essay will involve the starve-the-beast theory, supply-side economics and Reaganomics—a.k.a. voodoo economics—sometimes interrelatedly, and will provide both theoretical and practical in-depth analysis of these. In addition, it will argue that the recent problems in budget-making are caused by rightwing conservatives—such as the Tea Partiers—holding economic views reminiscent of Reaganomics, and having a behavior that was rooted in the Reagan era.

As being a very recent issue, the author of this paper chose to include both the 2013 government shutdown, and the on-going debates on the possibility of a new one. In the last few years, far right politics gained popularity, and emerged to the level that it has great impact on budget-making. For this, it is essential to investigate its economic view's background: traits of it were present in the Reagan era, which will constitute the major part of the paper. Besides looking at the works of experts such as economists Thomas Piketty and Nobel-prize winning economists Paul Krugman and Paul A. Samuelson, the essay will make the argument clearer with the support of statistics.

As a result, this paper found that the far right has a harmful impact on American economy. Their views and plans are counterproductive, since, for example, tax cuts do not result in less government spending as voodoo economics would suggest. Similarly, lowering tax rates on the wealthy and on business does not result in equality and a balanced budget as opposed to what libertarians and Tea Partiers claim. They—as the paper showed—are also responsible for current issues in budget making with rigidly sticking to their views.

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1. Introduction and Background History

1.1. The Current Situation

Ben S. Bernanke, former chairman of the Federal Reserve, stated in his memoir he was fed up with “Republicans' susceptibility to the know-nothing-ism of the far right” (Stone, “Ben Bernanke”). His statement was a reaction to the far right’s economic views and policymaking. In fact, the 2013 government shutdown was prepared by their unwillingness to compromise on defunding the Affordable Care Act (Pengelly). Besides this widely known and recent situation, rightwing economic theories have been influential in politics, especially since the most relevant president, Ronald Reagan. In his inaugural address he claimed the government to be the problem itself and not the solution to the economic problem of the era (Reagan, “Inaugural Address”). Another evidence that the theory remains significant in the 21st century, as well, is for example Kevin Brady, chairman of the Joint Economic Committee of the 113th Congress who advocated conservative, anti-tax economic views (Zuesse, “House Republicans”). Furthermore, 2016 Republican presidential candidates—especially those affiliated with rightwing extremism—tend to support supply-side economics in a way reminiscent of Reagan’s presidency (Harwood). This paper will demonstrate how both the practical application of the far right’s economic views and the direct boycott of budget- and policymaking done by them are harmful for the American economy.

1.2. Reaganomics: Roots of Far Right Economic Views

In the beginning, it is important to state that the far right is considered from an economic point of view throughout this essay; i.e. mainly the Tea Partiers and the libertarians are examined.

Although they might differ on other issues, they share economic views (Kirby and Ekins). This view is supply-side economics, which was made popular by Ronald Reagan, hence giving rise to the term Reaganomics (Harper). It is closely related to the anti-government theory because it advocates less taxes and less governmental regulations on business in order to create capital; thus the capital could trickle down to everyone (Harper). A huge initial influence on Reaganomics—or rather what triggered it—was made by the era's most significant supply-siders, such as Arthur Laffer, Jack Kemp and David Stockman who together stated that Reagan took office in the middle of a crisis situation (Samuelson). According to them, the crisis was generated by "governmental overregulation and disastrous over-taxation" (Samuelson). In addition, Laffer introduced the so-called Laffer-Curve, which showed the relation between tax rates and revenues, suggesting that lower tax rates lead to higher revenues (Wanniski). These theories together gave basis to the series of tax-, and regulation-reducing economic policies implemented under the Reagan administration (Samuelson).

1.3. Emergence of the Tea Party

Although the Tea Party opposes most politicians, when it comes to Ronald Reagan, they make an exception (Gonyea). The Tea Party movement which emerged in the 21st century has the root of its theory in the Reagan era: it advocates "a limited government, anti-tax ideology" (Arceneaux and Nicholson). In fact, its emergence is closely connected to libertarianism; the 'Tea Party' started to stand for a political movement when "the Libertarian Party of Illinois formed the Boston Tea Party Chicago in December of 2008," immediately following Barack Obama's election (Barreto et al.). Furthermore, the Cato Institute—a think tank widely known to be libertarian—published a paper on the libertarian roots of the movement stating that the Tea Party is “functionally libertarian” based on their shared opinion on fiscal issues (Kirby and Ekins).

The movement continued praising principles of Reaganomics—i.e. rebranding American conservativism—and started to form an opposition to the newly elected president’s—Barack Obama’s—economic “policy initiatives” (Williamson, Skocpol, and Coggin). From this opposition, it grew out to be a significant factor in politics, especially with its influence on the midterm elections of 2010 when Tea Partiers won against many “officially endorsed GOP candidates,” thus taking a role in governance (Williamson, Skocpol, and Coggin). Tea Partiers supported many U.S. senators in their elections in 2010, such as Marco Rubio from Florida (Parker and Barreto). He is one of the several candidates backed by the Tea Party—besides others such as Ted Cruz and Rand Paul—who launched a campaign in the 2016 presidential elections (Meckler). Though Rubio and Paul have left the race, Ted Cruz remains a possible nominee for the Republican Party, as of March, 2016 (Graham). This clearly shows that the movement from its roots grew out to be a very influential factor in the American political scene.

2. Economics and Financial Crises

2.1. Tea Party as a Reaction

One thing common in rightwing movements, is that they emerge right after social and economic turning points (Barreto et al.). For example, as a reaction to the social change during the Civil Rights era, the National States Rights Party—a white nationalist party—emerged (Steinkuehler). Also, changes that evoke rightwing extremist reaction could be economic recessions, or financial crises; the economic recession during the 1990’s triggered the emergence and growth of far right in politics (“Rightwing Extremism”). Similar factors supported the creation of rightwing extremist groups in the beginning of the twenty-first century—i.e. the financial crisis ("Rightwing Extremism"). In fact, the Tea Party's establishment involved CNBC reporter Rick Santelli accusing the Obama administration in 2009 of having the wrong reaction to the Great Recession with subsidizing "the losers' mortgages" (Williamson, Skocpol, and Coggin). He called on American "capitalists" to organize the movement against the new president's agenda; against "progressive" methods to solve economic issues (Williamson, Skocpol, and Coggin).

2.1.1. Basic Economic Views

As a reactionary movement, the Tea Party's economic views can be most thoroughly described by the views it opposes, such as Obama's agenda after the crisis, as the author of this paper thinks. The agenda's main part, the American Recovery and Reinvestment Act of 2009—also known as the Stimulus Package—included increased government spending with the intention to reach an economic recovery after the crisis (Williamson). This made the grounds solid for the far right's opposition, since many of them "had signed the 'Taxpayer Protection Pledge' created by Grover Norquist's Americans for Tax Reform" (Eisner 211). The signers pledged to object "all efforts to increase" tax rates, meaning that they would prefer the recovery to be "achieved through austerity" with spending cuts and not tax increases as opposed to the stimulus plan of Obama (Eisner 211). Through gaining power in the Congress, Tea Partiers inside the Republican Party also gained influence on policymaking and thus they "steered the policy agenda away from stimulus and toward fiscal restraint" (Eisner 212).

Although it was created during the Bush administration, in 2008, the Troubled Assets Relief Program (TARP) also used government spending to fight the financial crisis ("Troubled

Asset Relief Program”). Similarly, it also received an angry reaction from Tea Partiers resulting in protests (Weigel). The Nobel-Prize winning economist Paul Krugman described the TARP as a “recapitalization scheme”; something that was essential in 2008, though according to him, was too small (Krugman, “The Return of” 185-186).

2.2. Policies for Crises and Recessions: Friedman or Keynes?

Milton Friedman and John Maynard Keynes were two significant economists in the 20th century with basically contrasting views (Ross). While Keynes is well-known for his demand-side theory, Friedman reacted to this view with giving more emphasis to the supply of the money, or in other words advocated monetarism (Radcliffe). Monetarists “believe in the control of the supply of money in the economy and allow the rest of the market to fix itself,” while Keynesians think that this fix could be reached through government expenditures with the help of which consumption is evoked (“What is the difference”). Friedman’s supporters also advocate free market capitalism, believing in the corrective effects of the free market (Beattie). The latter—as shown throughout this essay—is connected to the far right and fiscal conservativism. This section will analyze economic policies in reaction for crises, contrasting these two basic views and showing how fiscal conservativism fails to counteract recessions and support economic growth.

2.2.1. Government Spending

Government spending is a key issue where supply-siders and demand-siders differ. According to Keynesian economists, the multiplier—i.e. “the size of the stimulus to the economy” created by government spending—is large enough to “more-than-counteract the negative economic effect of adding to the government’s debt” in a recession (Zuesse, “The IMF

Admits”). In contrast, conservatives believe that stimulus spending is inadequate as a solution for a financial crisis (Zuesse, “The IMF Admits”). However, as an International Monetary Fund (IMF) study stated, multipliers’ power was underestimated in relation to the recession in the 2000’s, and fiscal policy—such as government spending—can, in fact, have a significant positive effect on financial crises (Blanchard and Leigh).

Moving from theory to practice, the above mentioned findings are preferably used by Keynesian economists for creating fiscal policies, such as stimulus packages (“Stimulus Package”). Two perfectly related examples should be mentioned here. First is the American Recovery and Reinvestment Act (ARRA) enacted by the Obama administration, that used Keynesian theory (Davidson). It was successful in restoring the economy and stopping the increasing job losses; four months after it was implemented, the “Great Recession officially ended” (Blinder and Zandi, “The Financial Crisis”). On the other hand, when experiencing economic decline, Ronald Reagan introduced the Program for Economic Recovery in 1981—which will be analyzed in-depth throughout section 3.4. of this paper—with a goal to reduce government spending (Reagan, “White House Report”). Though government expenditures rose during his presidency, Reagan did propose spending cuts (Campagna 65). However, with these plans he contributed to the government shutdowns of the era (Matthews, “Here is every”).

2.2.2. Tax Cuts

At first look, one might say that demand-side and supply-side economists do not have different views on tax cuts, since both tend to use it as a method (Greenberg). However, the goal and the aimed group of tax reduction makes their theories entirely different (Greenberg). Keynesians cut taxes to achieve expansion in “aggregate demand,” that is to stimulate the economy by increasing consumption (Garfinkle 180). From this, usually taxpayers with lower or medium income benefit directly (Garfinkle 181). In contrast, supply-siders' tax reductions favor the richer taxpayers and aim at increasing business investment (Garfinkle 181, 183). Thus, it arrives to the core of supply-side economics: more money in the hands of the rich and big business would trickle down to the lower and medium income people, too, and through this it would generate higher consumption that stimulates the economy.

As for the practical side, in 1964 John F. Kennedy's tax cut program—that focused on lower and middle income taxpayers—"did help spur economic growth" (Greenberg). In contrast, Reagan and George W. Bush reduced top marginal tax rates with the intention of generating bigger supply of money through business investment (Garfinkle 183). These tax cuts were rooted in Jack Kemp's 1977 plan that treated tax reduction "as a way of expanding revenues through business activity" (Wanniski). Later, he was a co-author of Reagan's three-year program of "massive tax cuts" (Samuelson). When compared, in the case of reducing top marginal tax rates, the economy reacted with a much more modest increase, than in the case of demand-side cuts (Garfinkle 183). Their tax cuts were followed by lower rates of personal consumption and thus aggregate demand did not grow as much as their executors and legislators had expected (Garfinkle 183).

2.2.3. The Results

As shown throughout this section, Milton Friedman's theory of macroeconomics—or in other words, supply-side economics—clearly achieved less to recover a sluggish economy than its counterpart, Keynesian economics. The IMF found in its research that it made a mistake when suggesting conservative economical methods during the Great Recession (Zuesse, "The IMF

Admits"). Also, Alan Greenspan, former chairman of the Federal Reserve admitted that the free market theory is "flawed" (Knowlton and Grynbaum). Interestingly, Greenspan with his conservative views and belief in free market capitalism and monetarism was once considered "the Maestro, the Oracle, the senior member of the Committee to Save the World" (Krugman, "The Return of" 139).

According to the Congressional Budgetary Office's (CBO) estimations on the budgetary effects of the Stimulus Package, the Obama administration with its policy response to the Great Recession after a $167 billion deficit in fiscal year 2010 made a revenue of $2 billion in the next fiscal year, and kept a budget surplus in the consecutive years (Reichling). The American Recovery and Reinvestment Act alone contributed to an approximately 0.4% increase in GDP in calendar year 2009, and 0.7% in 2010, according to the CBO's low estimate, while the high estimate was 1.8% and 4.1% (Reichling). In the same years, it reduced unemployment by an average of 0.1% and 0.4%; again according to the low estimate; the high estimate for the change in unemployment rate was -0.5% and -1.8% (Reichling). The overall decrease of unemployment rate—i.e. without focusing on the impact generated solely by the ARRA—through 2009 to the beginning of 2016 suggest a significant recovery from the recession. Throughout this period, unemployment rate fell from 10% to the near-prerecession rate of 4.9% ("Labor Force Statistics").

On the other hand, it is true that the ARRA substantially increased, and still increases the budget deficit. It is estimated to add $836 billion through 2009 to 2019 (Reichling). However, almost 90% of this amount—i.e. $725 billion—was added through fiscal years 2009-2011 (Reichling). Throughout this period—when the economy was in, or still recovering from the recession—reducing the national debt, or just not having the Stimulus Package in order to not create deficit would have caused the economy to stay in recession and the unemployment rate to rise (Blinder and Zandi, “How the Great Recession”). These would have also resulted in the “nation’s budget deficit [to] be even larger and still rising” (Blinder and Zandi, “How the Great Recession”). Thus, increasing the budget deficit was necessary in, and right after the economic downturn. The budget deficit brings this paper to its next section.

2.3. Policies after Crises

2.3.1. Austerity and the Debt Ceiling

As already stated, the far right prefers reducing government spending during economic downturns; however, this section will elaborate on its use after recessions in relation to its impact on the budget deficit—that is the theory of austerity. Austerity is needed to “reduce government debts” and austerity measures include cuts in government spending (“Austerity”). In 2010, after the financial crisis, western countries—including the United States—realized that budget deficits had increased due to the stimulus packages used against the recession, and started to look towards austerity as a solution (Krugman, “The austerity delusion”). In the United States, after the Tea Party gained power in budget politics through the 2010 congressional elections, it influenced policymaking to lean towards huge reduction of government expenditures (Goldfarb). The conservative rightwing supported the so-called “expansionary austerity”; they claimed that reducing debt would evoke economic growth (Lind).

In contrast, Keynes stated that “the boom, not the slump, is the right time for austerity at the Treasury” (qtd. in Krugman, “The austerity delusion”). Plus, the theory of expansionary austerity was rebutted by Chad Stone, Chief Economist at the Center on Budget and Policy Priorities in 2011, saying there is no evidence it would have a positive outcome, and “large immediate cuts in government spending" would even do harm to a still recovering economy (Stone, "Testimony"). The IMF also found that while austerity measures do have a productive long-term effect, on the short term they are counterproductive (Leigh et al.). The Congressional Research Service also supported this theory in one of its reports published in 2013 (Gravelle and Hungerford). It is obvious that an economy under recovery, or still in a downturn would be negatively affected by cuts in government spending: they reduce economic growth when it would be still needed. Historical evidence also proves that removing the fiscal stimulus when the economy has not yet recovered could have a negative effect, just as it had after the Great Depression, in 1937, when it "caused a slump" (Elwell).

Despite all this, when the economy of the United States still had not been recovered fully (Stone, "Ben Bernanke"), the harsh austerity program proposed by Congressman Paul Ryan was partially included in the bipartisan budget for budget year 2014 (O'Brian). Ryan—though not a clear-cut Tea Partier—has very conservative views and is related to the far right: he even claimed his biggest influence was Ayn Rand (Sarlin). Rand also had an intellectual impact on the aforementioned Greenspan, according to him (Greenspan 52).

3. Reaganomics during the Presidency of Ronald Reagan

3.1. Ayn Rand: Free Market Capitalism

Ayn Rand—one of the most read authors in the field of capitalism in the past century—and her ideology of free market capitalism still continues to be praised by today's Tea Party movement (Geoghegan). However, before the movement emerged, her works and views were used in part as a basis for Reagan's economic agenda; she already was a supporter of trickle-down economics before Reagan made it popular (Byrd 94). Although Randian philosophy claimed that only the rich should benefit from capitalism, Reagan, and consequent conservatives adapted this to politics: they used the trickle-down theory in the name of creating wealth among all people—including the poor—through money supply (Byrd 94). Clearly, Rand referred to capitalism without the goal to achieve equal economic opportunities—which, in fact, could not be reached through the theory, as this paper will show in the upcoming section. Rand criticized conservatives in general for this difference because thus they use the "morality of altruism," which prevents them from achieving capitalism ("Capitalism").

In addition, Rand—just as President Reagan— advocated a minimal, very limited government for two reasons. The first is related to the previous paragraph and altruism. Taxing wealthier people and big businesses is against Randian philosophy since thus "wealth transfers from prosperous to poor" (Hudgins). When government increases its budget with taxation, it spends—at least part of—the revenue for social programs which directly help the poor. Furthermore, through the enlarged budget, the government gains economic power and can substantially affect the economy—it is against the Randian view of the complete separation of the economy and state, and also against *laissez-faire* capitalism (Badhwar and Long). The government can achieve a significant role in the economy through regulations, as well; this is the other reason why the government should be limited in Rand's opinion. According to her, "state regulation of the market" corrupts "state and market institutions," as well. Moreover, she argued that the ideal government's only power should lie in "protecting [citizens] from criminals […], and enforcing individual rights" (Badhwar and Long).

3.2. Idea of Equal Opportunity

Separating his views from Ayn Rand's, Ronald Reagan in his inaugural address—besides praising the reduction of the federal government's power—stated that his aim is to create an "economy that provides equal opportunities for all Americans" (Reagan, "Inaugural Address"). His economic policies concentrated on deregulation in order to build path towards a true free market ("Reaganomics"). Similarly, Milton Friedman argued reflecting on free market theory that freedom should be the primary goal, not equality, to achieve both in a society (Parramore). However, the ways both Friedman and Reagan believed to bring economic freedom are counterproductive from an egalitarian point of view.

Capitalism, in the form of business deregulation and tax cuts protecting the wealthy, triggers and supports inequality because of two factors that evoke the concentration of wealth. Firstly, according to Thomas Piketty, defending the private ownership of capital will lead to inequalities through increasing the "rate of return on capital": when it exceeds economic growth, significant inequalities will follow (Piketty 8). The other factor is inherited wealth which is rooted in this previous theory. It grows faster given that the "rate of return on capital significantly exceeds the growth rate of the economy," and thus the capital will concentrate to those few with the highest incomes (Piketty 25). Piketty described this result as the "emergence of a new patrimonial capitalism" which has been happening since the 1970's (Piketty 125).

3.3. Voodoo Economics

There is an idea in supply-side theory that lower tax rates would result in an increase in private savings and labor supply, and thus the tax revenue would actually grow (Roubini). In short, "drastic tax cuts" can support balancing the budget (McEnroe). This is based on the Laffer-Curve, which served as a significant basis for Reagan's economic agenda (Roubini). The term "voodoo" is used by some economists for this theory, because stating that lower taxes will make people react in a certain way is rather a "magical" prediction instead of a scientific forecast, one based on numbers (McCloskey). Such forecasts rather belong to the field of psychology or biology, according to economist Donald McCloskey (McCloskey). George H. W. Bush coined the term referring to, and criticizing Reagan's ideas, but he later became his vice president and immediately stopped using it ("Voodoo Economics"). Hence, voodoo economics lacks an exact, widely approved definition. Trickle-down theory holds if high income people pay less in taxes, they will automatically forward their savings to middle- and low-income workers instead of increasing their own capital and only forwarding it through inheritance. This can also be voodoo, and is related to psychology not economics as the author believes.

3.4. In Practice: Economic Policies of the Era

This paper has already revealed some of Ronald Reagan's plans through referring to his inaugural address, however, this section will consider policies that went into practice during his presidency. The Reagan administration's first budget was put together from the Omnibus Budget Reconciliation Act of 1981 and the Economic Recovery Tax Act (ERTA)—also known as the Kemp-Roth tax cuts ("1981 Omnibus Budget"). The tax cuts of 1981 were implemented in order to create a lower revenue which will force the government to decrease its expenditures (Samuelson). This is also called the "starve-the-beast" theory (Kumhof, Laxton and Leigh). However, the concept is flawed, because a "sovereign nation can finance expenditures out of deficits" (Samuelson). Moreover, there is no evidence that the starve-the-beast theory, even if it achieved its aim and reduced government spending, would have a positive effect on the economy, according to an IMF study (Kumhof, Laxton and Leigh). For instance, if the spending decreases only after a longer period of time, it results in a "permanent increase in government debt and real interest rates" (Kumhof, Laxton and Leigh). Furthermore, spending cuts can themselves "entail welfare losses" (Kumhof, Laxton and Leigh).

In fact, the 1981 tax cuts did not work in practice, and had a counterproductive effect on the economy. Although the real expanded adjusted gross income per return did increase through 1980 to 1983, it only did by around 1%; also, it increased for the top quarter of the population by income, while the other three quarters were affected negatively (Toder, Nielsen and Sammartino). Respectively, the "distribution of after-tax income was more unequal in 1983 than in 1980" (Toder, Nielsen and Sammartino). In addition, the unemployment rate rose significantly from 7.5%—when Reagan took office—to 10.4% by the beginning of 1983 ("Labor Force Statistics"). When comparing it to other years through 1948-2016, the unemployment rate was the highest at this time; it was even higher than at the peak of the Great Recession in the 2000's ("Labor Force Statistics"). Plus, after the ERTA, an approximately 7% was added in gross federal debt as percentages of the GDP through the ends of fiscal years 1981 to 1983 ("Historical Tables"). These numbers clearly demonstrate that the first years of the Reagan administration had a negative impact on the United States economy. The result of the first two years of Reaganomics was described by Nobel-Prize winning economist Paul A. Samuelson as the "Reagan Recession of 1981-82," because the President's initial policies pulled the still recovering economy back into a recession (Samuelson).

The Kemp-Roth tax cuts were indeed unprecedentedly huge, but what made them more distinct from previous tax cuts was that they were permanent and hence had an impact on future tax policies, as well (Fullerton). Two revenue raising acts were implemented during Reagan's first term when it became apparent that the budget deficit will substantially grow as a result of

ERTA. The first, namely the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), came in the subsequent year enacting corrections to the 1981 tax cuts and thus compensating the revenue loss rooted in it, by eliminating around 25% of the loss (Fullerton). For example, the TEFRA raised revenues by $50 billion per year after 1987, while the ERTA reduced them by more, than $200 billion per year (Fullerton). The second was the Deficit Reduction Act of 1984 (DEFRA) which had similar goals and effects as the TEFRA, it raised revenue by $25 billion per year by 1988 (Fullerton). In 1984 the deficit was so high that it forced legislators to raise revenue by raising taxes (Fullerton). Primarily, these efforts to fix previous legislation can be seen as the realization of the administration that theory behind the Kemp-Roth tax cuts did not work. Moreover, it can also be related to far right's trend of implementing austerity measures during recessions, or when an economy has not recovered fully yet—as mentioned previously in this paper.

After the recession of 1981-82, the recovery of 1983-84 followed. Although some accredit Reagan with normalizing the economy, the "rapid expansion of nominal GNP" was a result of monetary, rather than fiscal or tax, policy (Feldstein and Elmendorf). Martin Feldstein and Douglas W. Elmendorf argues in a National Bureau of Economic Research paper that while the nominal GNP growth was generated by monetary policy solely, the rise in real GNP was induced by fiscal policy, as well, because the administration's economic policies helped to reduce inflation (Feldstein and Elmendorf). They claim that the increased budget deficit resulted in higher interest rates (Feldstein and Elmendorf). However, the exact impact of this theory "is still being debated" (Nelson and Buol). In addition, the Federal Reserve did raise interest rates in 1984 intentionally (Bryan). In fact, Paul Volcker, chairman of the Federal Reserve at that time, beat inflation through this ("Who beat inflation?"). Though the government's debt rose significantly, this recovery helped Reagan to regain the people's confidence and be reelected in 1984.

The first act of the Reagan administration's second term to be analyzed is the Balanced Budget and Emergency Deficit Control Act of 1985. Often referred to as Gramm-Rudman-Hollings Act (GRH), it was implemented with the intention to reduce government spending and hence the budget deficit, as well, with the tool of automatic spending cuts, i.e. "sequestration," a method that was authorized by the GRH first (Spar). As an initial effort to reduce the deficit, Reagan proposed his plan of $35.1 billion reduction in government expenditures which included a "one-year freeze in spending for many domestic programs," but no reduction in defense spending, and even would have permitted higher military spending (West). The plan was immediately denounced in congress, and later on, the GRH was enacted as a result (West). Although it is true that the Gramm-Rudman Act brought attention to the problem of budget deficits, which was useful through later deficit reductions, it basically failed to reach its goal (Rauch). After it was declared unconstitutional by the Supreme Court, the act was passed again in 1987, but most of the time, legislators "evaded the cuts, and the deficit continued to grow" (Cline). In fact, the federal debt increased through fiscal year 1986 to the end of fiscal year 1988 by 3.8% as percentages of the GDP ("Historical Tables").

Despite its failure to reduce the budget deficit, the Gramm-Rudman-Hollings Act did make a turning point in budget politics with using "the threat of sequestration" for the first time (Rauch). It established the root of today's Tea Party's behavior in budget making: they use the economy as hostage in budget negotiations, as they can rely on the sequester (Stone, "Our Final Debt"). The author of this paper also thinks that the far right's no-compromise politics has a strong basis lying in the automatic spending cuts that follow if there is no deal accepted.

Although Ronald Reagan's second term started out with a huge budget deficit due to his previous tax reforms, the Tax Reform Act of 1986 was based on similar principles as the 1981 tax cuts: it significantly cut top tax rates ("Tax Reform Act"). The President in his remarks on signing the act claimed that it would benefit the working poor and families, and also called it the "sweeping victory for fairness" and the "best antipoverty bill" (Reagan, "Remarks on Signing"). However, the effects of the Tax Reform Act did not verify these claims: it reduced marginal tax rates for those with the highest incomes, and increased inequality in the distribution of income, while the United States' national debt to GDP ratio continued to rise. In fact, it was the first time in the United States that the "top tax rate was lowered and the bottom rate was increased" simultaneously ("Tax Reform Act").

As in the case of the 1981 cuts, the 1986 tax cuts' effects can be most accurately evaluated through statistics from the following years. Although on the act's credit there is the elimination of tax loopholes, it almost halved the marginal tax rate for the top earners from 50% to 28% (Feldstein). This resulted in a 44% increase in the riches' net-of-tax share—to put it simply, their share of after-tax income (Feldstein). To provide some evidence, the author of this paper chose to analyze statistics of marginal tax rates for the category "single," however, the other categories in the Tax Foundation's tax rates history follow the same trend ("Federal Individual Income"). For this category, two tax brackets were created: firstly, a marginal tax rate of 15% for those with $17,850 income, or lower in 1988, which is an increase in tax rates for those with an income of $7,010 or less as compared to the 1986 rates ("Federal Individual Income"). Interestingly, the poverty threshold of these years were below this level, meaning that those under the poverty line experienced a tax increase ("Annual Statistical Supplement"). In the second bracket, for those with incomes above $17,850, the marginal tax rate was set at 28% in

1988 (“Federal Individual Income”). As compared to 1986, it was a decrease in tax rates for those earning more than $25,360 and even the top earners who had a rate of 50%, fell into this category after the act (“Federal Individual Income”).

In addition, there were other negative effects of the act on, for example, the distribution of income, and gross federal debt. Firstly, according to the statistics of the OECD, the Gini coefficient—the measurement of inequality of income—rose after 1986, meaning that wealth inequality, though not at such a great pace as after the Kemp-Roth cuts, increased as a result of the Tax Reform Act of 1986 (“Income Distribution and Poverty”). In the subsequent two years, the adjusted gross income share of the top 1 percent rose from 11.30% to 15.16% (“SOI Tax Stats”). Furthermore, from the end of fiscal year 1986 to the end of fiscal year 1988, the gross federal debt as percentages of GDP increased from 46.7% of the GDP to 50.5% (“Historical Tables”).

3.5. Results, Consequences

This section will examine the results of the economic policies of the Reagan era through comparing certain factors of the economy in the beginning, and at the end of his presidency, such as government spending, marginal tax rates, income distribution, and federal debt. To set the time period for evaluating the results, it is essential to note that around one year is needed for fiscal policies to take nearly full effect (McEachern 366), and that presidents take office in the beginning of a fiscal year for which the budget were set under the previous administration. For these reasons, the exact period analyzed will be through the end of fiscal year 1981 to the end of fiscal year 1989. Even though nondefense government expenditures as percentages of GDP decreased by the end of Reagan’s presidency (“Historical Tables”), the President’s fiscal conservativeness can be more significantly shown through the changes in marginal tax rates. When Reagan took office, the top marginal tax rate was 70%, from which it was reduced it to 28% throughout his terms: this adds up to a massive 60% reduction (“Federal Individual Income”).

The consequences of Reagan’s supply-side policies on the economy as a whole clearly demonstrate Reaganomics’ unsuccessfulness. Firstly, Reagan intended to bring fairness and equality, however, his presidency ended with increased wealth inequalities. According to the OECD’s statistics, the Gini coefficient rose from 0.315 to 0.348 in the examined period that clearly demonstrates the rising inequality (“Income Distribution and Poverty”). Moreover, gross federal debt as percentages of GDP increased from 31.7% to 51.5% (“Historical Tables”). This almost 20% rise is by far the largest increase as compared to presidential terms after WWII, except for the increase that occurred after the Great Recession—through fiscal years 2009-2015—when the difference was 2% more (“Historical Tables”).

In addition, during Ronald Reagan’s presidency the government shut down for the first time in 1981, which marked a huge change in budget politics (Cass). The President used the threat of shutdown many times, thus, according to Connie Cass, “the pattern was set” (Cass). Moreover, it was in this era when sequestration was authorized for the first time, as well. These combined with Reaganomics created a strong basis for the later far right, especially the Tea Party, as it will be shown in the upcoming sections.

4. Reaganomics’ Influence until Today

4.1. Presidency of George W. Bush

The first decade of the 21st century cannot be evaluated economically as a whole because of the Great Recession, so this paper will analyze the George W. Bush era's economic effects until December 2007—the official beginning of the recession in the United States ("The Great Recession"). Although significant events—such as Hurricane Katrina, 9/11, and the Iraq War—make this era one of the most complicated periods to analyze, the elements of trickle-down theory and the influence of Reaganomics can be demonstrated without taking these into consideration. As Karl Rove, Bush's Deputy Chief of Staff and Senior Advisor put it, the President claimed that "growth is created largely on the economy's supply side" and "when the economy falters, tax cuts will lead to economic prosperity" (Rove).

In practice, the policies implemented throughout his presidency did conform to these views. This section will examine the effects of Bush tax cuts, that is, the "tax relief measures" of 2001 and 2003 ("Bush Tax Cuts"). These cuts still continue to be a significant factor in today's deficit, and were the largest contributor to the rise in federal debt during Bush's presidency (Ruffing, and Friedman). Although the Bush administration lowered the top marginal rates from 39.1% to 35%, this reduction was much less robust than the Reagan cuts ("Federal Individual Income"). Still, similar trends—though, again, involving smaller numbers—followed the cuts in the 21st century.

During the era, inequality rose, and, if the tax cuts were made permanent, the richest taxpayers would have benefited from it the most (Matthews, "George W. Bush's"). Though it decreased by 1% through the President's first three years, the adjusted gross income share of the top 1 percent had a total increase of 5.3% from 2001 to 2007, and it also reached its highest point between 1986 and 2009 with 22.83% ("SOI Tax Stats"). In addition, the gross federal debt as percentages of the GDP was on a constant rise through fiscal years 2001 to 2007 from 54.6% to

62.5% (“Historical Tables”). As a comparison, in the period between Reagan and George W. Bush, this increase was half as much, though twice as much time had elapsed (“Historical Tables”). Also, Bush took office with a budget surplus, but from 2002 on, he led the country with budget deficits (“Federal Surplus or Deficit”).

Besides the administration’s direct impact on the economy, with Karl Rove as a leading figure, it supported the emergence of a “virtual religion of the belief that if you act boldly, others will follow in your wake” (Green). This is rooted in the behavioral change in budget politics in the Reagan era, and is also related to the behavior of today’s far right and Tea Party in politics which leads the paper to its next section.

4.2. Today’s Politics: The Far Right and the Tea Party

4.2.1. Platforms

This section will show how the proposed economic platforms of the two most preeminent far right Republican presidential candidates are reminiscent of Reaganomics, and how they represent fiscal conservativism. These two figures of the 2016 presidential race will be the poll-leading Donald Trump and the Tea Party affiliate Ted Cruz.

The former’s economic plan includes—just as Reagan’s agenda did—a simplification of tax brackets and marginal tax rate cuts that benefit the top earners more and this even made the Economist newspaper use the term “Trumponomics” (“Trumponomics”). Trump would cut the tax rates to 10, 20, and 25% (“Trumponomics”). Thus, the top marginal tax rate would be around the level where it was after the Tax Reform Act of 1986, and taxing would be near that simple with only one more tax bracket. He would also ease taxes on businesses: the platform includes a reduction of corporate income tax rate to 15% (“How do the 2016 Presidential”). As shown previously, such tax cuts are followed by a rising deficit and national debt, as it was the case in the Reagan era. However, Trump's economic agenda contains a balanced budget along with keeping Social Security and Medicare outlays, and building up defense spending—the three largest elements of government spending ("Trumponomics"). This way, according to the Committee for a Responsible Federal Budget, decreasing the deficit and the debt with his plan "becomes practically impossible" ("How Do Donald").

Ted Cruz's economic plan is similar, but even more radical. He would introduce a flat tax rate, so that there would be only one tax bracket with 10% of marginal tax rate (Sharma). Cruz would not only lower, but get rid of the corporate income tax ("How do the 2016 Presidential"). Certainly, it would also raise the federal deficit, and would result in an even bigger rise in inequality, since the "billionaires are expected to benefit the most" from Cruz's tax policy (Sharma).

4.2.2. Government Shutdowns: No-Compromise Politics

Besides their economic views and proposed platforms, conservative rightwing politicians demonstrated a behavior in budget politics that clearly harms the United States economy. Their no-compromise politics leading to forcing the government to shut down was also influenced by Reagan's presidency. Since 2011, those congressmen and congresswomen influenced by the Tea Partiers "refused to raise the debt ceiling," unless government expenditures were cut and a balanced budget amendment was passed, making an "austerity by gridlock" situation emerge (Williamson). Their first achievement was the Budget Control Act of 2011 which—just as the Gramm-Rudman-Hollings Act—contained the authorization of sequestration (Williamson).

This act was a reaction and solution to the debt ceiling crisis of 2011 that was in great part the result of Tea Partiers uncompromisingly using the “threat of economic catastrophe” (Balkin). Though not with spending cuts in general, but with defunding the Affordable Care Act, the situation was similar during the 2013 debt ceiling crisis and 16 days-long government shutdown (Cohen, Botelho and Yan). To demonstrate the impact of the shutdown, “federal government employees were furloughed for a combined total of 6.6 million days,” the GDP growth decreased by around 0.5%, and an estimated $2-$6 billion was lost in output (“Impacts and Costs”). The government have not shut down since, however, the battle over it remains a recent issue. In 2014, the government was heading towards a shutdown, as well, when conservative senators led by Ted Cruz “sabotaged” the bipartisan funding bill, hence delaying its passage (Bradner, Barrett, and Levy). In the next year, the government was close to a shutdown because of the fight over defunding Planned Parenthood—again, including Ted Cruz as the leading figure (LoGiurato).

5. Conclusion

To summarize, this paper has elaborated on the negative economic impacts of the far right, focusing on their economic agendas and their behavior in politics that led to issues in today’s budget-making. Firstly, a general background to the topic was given, including the brief description of far right economic roots and the rise of the Tea Party. Then, the paper argued why supply-side theory fails to achieve its goals during, and after recessions through contrasting the Keynesian views with those of Friedman’s supporters. This part analyzed the effects of their fiscal policies related to government spending and taxation. It also touched on the problem with austerity measures. Moreover, the essay gave a theoretical background to Reaganomics with the description of Ayn Rand’s philosophy and Reagan’s idea of equal economic opportunities.

Afterwards, the fiscal policies implemented throughout the two terms of Ronald Reagan and their direct impacts on the economy were examined, and an overall evaluation of Reaganomics were provided through demonstrating the consequences of the whole era. The consequences proved that Reaganomics was unsuccessful.

Besides its economic influence on today's far right, the Reagan era also set the grounds for their behavior in budget politics with the first government shutdown, and with introducing the sequester through the Gramm-Rudman-Hollings Act. Furthermore, the paper involved Reaganomics' influence on the presidency of George W. Bush and showed how the tax cuts of the 2000's are reminiscent of those of the 1980's. It argued that with the administration's significant character, Karl Rove, the uncompromising behavior was further strengthened inside the far right, and it contributed to today's problems. To include recent issues, the platforms of two presidential candidates, Donald Trump and Ted Cruz, were analyzed and were compared to Reaganomics, finding that the economic views of Reagan remains a huge influence on them. Finally, the paper showed that the Tea Party's and other rightwing conservatives' impact played a crucial role in the budget deficit crises and the government shutdown in the first part of the 2010's, and that their behavior continues to impose the threat of another shutdown.

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