

Extracts for use with Section C.

Extract 1: From Robert Garson and Christopher J. Bailey, *The Uncertain Power*, published 1990.

The consequences of large budget deficits were profound. On the one hand they helped to fuel the economic recovery which the United States enjoyed from 1983 to mid-1988. On the other hand the need to finance such deficits generated certain problems. First, the high interest rates that were necessary to attract sufficient funds to meet the government's borrowing requirement discouraged business investment; the potential long-term consequences of these large deficits may well be a reduction in economic growth. Second, high interest rates in the United States attracted unprecedented levels of foreign investment to the United States. One result of this was an over-valued dollar which made American goods more difficult to export and led to a worsening of the trade deficit. Third, the need to pay interest on all this debt has consumed an increasing proportion of the national income of the United States. By 1989 just under 6 per cent of the nation's GNP went towards paying interest on the national debt.

Extract 2: From Alan Farmer and Vivien Saunders, *American History 1860–1990*, published 2002.

In 1981 Reagan 'hit the deck running', mastering Congress and enjoying a great deal of legislative achievement. The Economic Recovery Tax Act (1981) cut personal taxes by 25 per cent across the board. The Omnibus Budget and Reconstruction Act (1981) reduced the level of federal spending (particularly for health, education and housing programmes) for 1982 by \$35.2 billion. Reagan hoped that tax cuts would stimulate economic growth and reduce unemployment. This would then reduce the amount of social security payments and also bring more people into the tax net. The economy did improve. Thanks largely to a fall in world oil prices, the rate of inflation fell from 12 per cent to 2 per cent in 1983. Although the level of unemployment remained high in 1981–2, thereafter it fell. This was partly due to the great increase in defence spending, which had two main side-effects: it created jobs and it helped to fuel the economic recovery which the USA enjoyed from 1983–88.

Historians have different views about the impact of the Reagan presidency on the USA in the years 1981–96. Analyse and evaluate the extracts and use your own knowledge of the issues to explain your answer to the following question.

How far do you agree with the view that Reagan's economic policies damaged the US economy?

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