Economic Crises and Altering Economic Culture: The Case of the Great Stagflation

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ABSTRACT

This paper explores the economic context of a change in culture from one of intervention to a culture that favored less government activity in the economy. The Great Stagflation (1965-1985) forced a reevaluation of economic policy that found interventionist policy wanting and proposed, in its place, a policy more consistent with free-market approaches. The paper then explores the consequences of the change in culture as demonstrated by the economic policies of the Nixon through Bush(2) administration approaches to economic issues.

INTRODUCTION

There are four factors associated with a change in economic culture (Rohrlich, 1987). The move away from widely held economic ideas first requires a notable contradiction between these ideas and changing economic circumstances. That is, reality forces a reevaluation of economic policy. Second, alternatives are sought and expounded. Next, an alternative policy formulation is adopted which addresses the changed reality. Finally, new ideas filter through to society as a whole, legitimating the new policies. The current paper investigates a series of crises in the 1970s and 1980s that rocked the world and resulted in the questioning of interventionist practices. The questioning of interventionist policies was followed by a move in culture and economic policy away from intervention.

The United States faced a series of economic crises starting in 1965 and running through the 1980s. These crises, like the crises of the 1930s and 1940s, precipitated a reevaluation of economic culture which found, in this case, the interventionist culture inadequate and proposed in its place the culture of laissez faire. The altered culture, in turn, motivated a change in economic policy and content. In the United States, reeling from the effects of the Great Stagflation, policy altered its focus to less intervention through deregulation, privatization, welfare reform and decreasing government expenditures, or at least slowing their rate of increase. In short, because of a series of economic crises the United States experienced economic decline during the 1970s and 1980s. The response by policy makers was to reduce the role of government in economic decision making and leave, to a greater extent, the allocation of resources to the functioning of a relatively "free" market place.

We begin with a brief discussion of the four events singled out as primary in motivating the reevaluation of interventionist culture and policy. These events will be considered under the rubric of the Great Stagflation which included the 1970s energy crises, the Vietnam War coupled with the growing

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responsibilities of the welfare state, the food crisis and the demise of the international financial structure. These events have been singled out for three reasons. In the first place, many of the economic ills of the period had their origins in these crises. In the second place, these crises were not successfully tackled by government intervention. Finally, this failure led not only to the perception that discretionary policy was inadequate but also to a growing belief that central authority was culpable in the persistence of crisis.

Economic events prompted first a move toward greater direction in the form of President Nixon's direct control of prices. These means included two price freezes in the early 1970s. It is commonly held that the Nixon policies failed to control prices. These policies were followed by the apparent chaos and indecisiveness of the Ford and Carter Administrations. Finally, the Reagan and Bush(1) Administrations attempted a reversal in policy through the deregulation of several key industries, welfare reform, as well as other policies designed to reduce the role of government in commerce. The Reagan-Bush(1) policies are investigated in some detail and indicate a reversal in tactics away from the economically active government characteristic of the US domestic economic policy since F.D. Roosevelt.

We then move to a discussion of policies under Clinton. Although less overtly laissez faire, the Clinton economy did support "freer" trade, the expansion of deregulation and welfare reform measures. On other fronts the Clinton Administration did little or nothing to reverse the moves made by Reagan-Bush(1).

Perhaps most notorious are the policies of Bush(2). He pursued additional deregulation of business and finance. In addition, he discouraged the application of existing regulations. Although this tactic had been employed by other US Presidents, it did not reach the levels witnessed under Bush(2).

There were several events that prompted or exacerbated the instability of the global economy beginning in the mid-1960s and continuing through the 1980s. These events generated substantial unemployment and inflation. The Crisis, which we term the Great Stagflation, were caused by the energy crisis 1973-74, the world food shortages of 1972-1973, the Vietnam War coupled with the growing responsibilities of the welfare state and the collapse of the Bretton Woods agreements.

The onset of the Great Stagflation is generally associated with the two oil price increases of the 1970s though rising unit labor costs were contributory. The oil embargo of 1973-74 nearly quadrupled prices while the restriction of supply surrounding the Iranian revolution (1978-79) doubled them. In the United States, for example, the index of the energy component of the CPI-U increased over the decade of the 1970s from 24.8 in 1969 to 86 in 1980, an increase of 246.8 percent. By 1985 the index had risen to 101.6 or an increase in the index of 309.7 percent in a little over 15 years or rise of about 20 percent per year on average. The oil crises precipitated a supply shock and sent the developed world into the gloomy depths of stagflation. In addition to this shock, a second aspect of the Great Stagflation was the apparent secular decline in productivity and resulting rise in per-unit labor costs. During the 1960s workers rejected, and government abandoned, the precedent of determining wage increments according the changes in productivity set in the aftermath of the Great Depression and WWII.

In the US, output per hour of all persons in the business sector increased at an average annual rate of 3.4 percent between 1947 and 1965. With the notable exceptions of 1983, 2002 and 2003, productivity growth has not met the 1947-1965 average. In fact, it had suffered negative productivity growth in four of the years covered. Declining productivity coupled with rising real compensation resulted in steadily increasing unit labor costs. Rising unit labor costs contributed to the macroeconomic instability of the US economy during the period by putting upward pressures on both the unemployment and inflation rates.

The alternation in culture and, consequently, policy was facilitated by the apparent preoccupation of the media, politicians and public with declining productivity. In order to illustrate the extent of concern, Block and Burns (1986) calculated the number of column inches that the *New York Times* devoted to the issue of labor productivity. They reported that between 1966 and 1969 “the average was 1.3 column inches” jumping to “18.5 column inches per year” between 1970 and 1975 (Block and Burns, 1986, 774). The increased media attention was a result of, and a catalyst for, the alteration in economic culture. The increased attention helped feed the perception of crisis which proved useful to later policy makers in their attempts at remaking the face of domestic policy.

A second event that served to exacerbate the inflationary tendencies of the economy was the simultaneous increase in military and social spending under the Johnson administration. It is generally agreed that President Johnson’s attempts at increasing both butter and guns without corresponding tax increases aggravated the inflationary tendencies of the economy.

While addressing the audience at the 1964 University of Michigan Commencement exercises, President Johnson inaugurated his view of “The Great Society.” The Great Society would be one free of the evils of poverty. In an attempt to achieve his goals, he instituted far-reaching expansions of the US welfare state. Among the measures adopted during his tenure as president were Medicare, Medicaid, the Job Corps and federal aid to education. As McLure reported, government expenditures, excluding defense, accounted for nearly a third of the growth of GNP between 1965 and 1968. This spending went from $73.4 billion to approximately $103.2 billion or a 40.6 percent growth. There was a significant increase in social security benefits both in magnitude and in coverage, the minimum wage was raised and the government gave a 3.6 percent pay increase to over 1.5 million federal workers and authorized an across the board military pay increase of some 25 percent (Estey, 1972).

At the same time that Johnson was winning this substantial augmentation of welfare programs, the war in Vietnam was escalating. Many studies tie the onset of the inflationary tendencies that plagued the economy to the July 28, 1965 announcement of a large-scale increase in US involvement in Vietnam and the subsequent escalation in military spending. The combined effects of these two expansions in state expenditures were a worsening of the fiscal deficit which stood at $3.8 billion in 1966 and grew to $8.7 billion in 1967, with 1968 witnessing a budget deficit of $25.2 billion. The result was the largest increase in the CPI since the early 1950s and a questioning of the culpability of government in the crisis.

Congress and the public grew increasingly alarmed at the growth in deficit spending, inflation and unemployment. As Fulton has noted, "[q]uestions began to be raised…about the effectiveness of many of the domestic programs that had been launched...questioning about whether the federal government was effective in much of what it was attempting…began..."(Fulton, 1981, 23). A tax surcharge in 1968 was successful in reducing the deficit but resulted in a worsening of unemployment

The destabilization of the economy was exacerbated by other events. The decade of the 1970s witnessed an unprecedented rise in food prices. The food component of the CPI-U rose over 116 percent (ERP, 2008, Table B60). To put this increase in perspective, the percent change in food prices for the decade of the 1950s was just over 18 percent and for the 1960s, 30.6 percent.

The increase in food prices has been attributed to changes in both supply and demand conditions in world grain markets. Briefly, growing world population, a dramatic rise in the Russian demand for food grain on international markets and the increased world consumption of grain-fed protein sources contributed to a large increase in the demand for grain. The increased demand was satisfied through a combination of rising prices and a reduction in world food reserves.

On the supply-side, US policy shifts and a series of poor harvests resulted in a reduction of available supplies of food grain. During much of the 1960s, the US had experienced food surpluses. In an attempt to reduce these surpluses in the latter 1960s, the US engaged in production restriction policies. The US government paid farmers not to plant crops and thereby removed thousands of acres from cultivation. In 1972 alone, the US government paid farmers "...over $3 billion not to grow crops" (Caldwell, 1977, 23).

In addition to this intentional restriction of supply, the depressed global harvests of 1970-1972 worsened the situation considerably. The price of wheat, for example, moved from $62 per metric ton in 1971 to $139 in 1973, or 124 percent in just 3 years. January, 1974, saw an additional increase in wheat prices of 54 percent. This unprecedented rise in wheat prices was repeated in other grains. The increase in world food prices further fed the US inflation rate.

Another event that aggravated the economic instability of the United States was the demise of the international financial structure. The postwar agreements signed at Bretton Woods came to an end in the late 1960s and early 1970s. Due to pressures on the US exchange rate and gold reserves, the US moved to a two tier gold standard in 1968. Pressures on US gold reserves continued resulting in President Nixon's August 15, 1971 National Economic Program (NEP) of which part was a ten percent devaluation of the dollar to relieve balance of payments pressures and stop the gold outflow which was depleting US reserves. Actual devaluation was around 8 percent, the price of gold was increased from 35 to 38 dollars an ounce and the band of acceptable exchange rate fluctuation was widened from 1 to 2.25 percent.

Despite these measures, pressures on US reserves continued and in 1973 President Nixon closed the gold window and abandoned Bretton Woods. Other countries, faced with the option of defending existing pars or moving to a flexible exchange rate regime, opted for the latter and the market determined exchange rates were the result. Originally seen as an emergency and temporary measure, the floating exchange rate became the characteristic feature of the international financial markets. The move to a "freely" determined exchange rate exacerbated US inflationary tendencies.

In addition to inflation, the US economy was increasingly plagued by unemployment. Worsening conditions resulted in a proliferation of the number of calls for a reduction in the economic powers of central authority. Increasing unemployment rates also spurred demands for the discipline of the unfettered market mechanism. Government was considered responsible for the vicissitudes of the economic mechanism. Central interference with the market system was blamed not only for the onset of crisis, but for the persistence of inflation and unemployment as well.

Early government attempts to correct the growing difficulties were largely ineffective. The Council of Economic Advisers labeled the persistence of inflation a hydra-headed monster partly because it had remained immune to price controls. The magnitude of the crises seemingly overwhelmed governments' abilities to cope. Government policy was not only viewed as a failure but possibly a culprit in the escalation of inflationary and recessionary pressures.

Some economists attributed the persistence and severity of inflationary pressures in 1965 to misguided monetary policy (Cagan, 1979, 105), others blamed poorly constructed and failed fiscal policies (McLure, 1972, 71 and Blinder, 1979, 141). The growing belief in the ineptitude, and perhaps culpability, of government resulted in increasingly frequent calls for the reestablishment of the market mechanism free from intervention and a move on the part of policy toward a noninterventionist posture. In short, it was postulated that a change in economic policy was necessary as traditional policies used to tame the business cycle were proving ineffective.

Nicolas Spulber lent support to our assertion that the destabilization of the world economy challenged the dominant culture and forced a reevaluation of the interventionist policies of much of the globe when he wrote that the crises that engulfed the US between 1972 and 1984 forced a reevaluation of US interventionist policy. In his words, "[s]kepticism about the ability of the government to manage the economy…spread incessantly and helped finally to usher in a new administration which reshaped the national agenda and changed the priorities of the federal budget" (Spulber, 1989, 93-94). Destabilization precipitated a reversal in culture back toward the culture of laissez faire engendering, in turn, a reversal in economic policy as demonstrated by the move away from interventionist state policies.

THE DISMANTLING OF DIRECTION

As already noted, the economic events of the 1960s through 1980s fostered high and rising inflation coupled with severe unemployment. What was particularly alarming about this instability was the growing perception that these economic ills were impervious to government attempts at stabilization. Indeed, "the prospect that the [US]…might not be able to avoid…perpetual high rates of inflation was now seriously considered…and widely feared for the first time by the public" (Cagan, 1979, 4). This fear, at first, prompted calls for direct price controls by central authority. When these controls failed to reverse economic trends, the fear manifested itself in calls for less government intervention. Central authority was increasingly blamed for not only failing to correct the problems but for having a hand in the onset and persistence of the crisis. Like the crisis of the 1930s, populations responded by searching for a new means of combating the economic woes of their nations. What they grabbed onto were the policies offered by Reagan, namely less government rather than more.

Government attempts to overtly curtail inflation and underconsumption date from the establishment of wage and price guideposts in 1962. When the guideposts were published in the *Economic Report of the President* in 1962, the President was reaffirming the practice of tying wage increments to productivity established in the 1948 UAW-GM agreement. The agreement "…became a model for other industries with strong unions, and 'productivity bargaining' became a key component of the new system of labor relations" (Block and Burns, 1986, 773). Although the guideposts held no statutory power, the Kennedy Administration did exert considerable pressure on industry to adhere to them by engaging in jawboning that is exerting its power of influence to force voluntary compliance with the guideposts. During his tenure as president, Kennedy successfully used jawboning against the steel industry and forced them to keep price increases within those mandated by the published guideposts. Inflationary pressures coupled with the Johnson Administration's own neglect of the guideposts resulted in their demise by August 1966.

There were early attempts to control the inflation resulting from the increasing defense and social program expenditures of the Johnson Administration. In February 1966, for example, the Federal Reserve contracted the money supply. Contractionary monetary policy was renewed in May when bank reserves had failed to decline as policy expected. The May contraction in reserves sent interest rates up sharply and resulted in a decrease in real GNP in the first quarter of 1967. The Reserve relaxed conditions toward the end of the year with resulting renewal of inflationary pressures. The Johnson Administration left office in 1968 having had little success in curbing the inflation and unemployment tendencies of the US economy as well as having dismissed wage and price guideposts as a means to such an end.

The Nixon Administration took office in early 1969. The new administration announced its economic objective as reducing inflation in the least painful method possible. It was generally believed by Johnson's and Nixon's economic advisers that a slow contraction of the economy would help to reduce inflation and that this method would entail a significant amount of time to completely eliminate the built up inflationary expectations of workers and employers. The gradual approach, which began with the 1968 tax surcharge, resulted in a recession but failed to curb inflation

The apparent inability of the government's gradualism policy to ameliorate high inflation and high unemployment led to greater support for price controls by the public, government officials and professionals. Even "…Federal Reserve chairman Burns had been pressing Congress and the administration for direct government influence in wage and price setting" (Cagan, 1979, 128). The business also seemed in favor of direct government intervention. The Business Council, in October 1970, "…criticized [the administration for] the lack of direct action on wages and prices (Kosters, 1975, 5). The Business Council wanted government assistance in order to reign in wage increases.

Throughout 1970 and 1971, the administration made piecemeal attempts at controlling inflation; it allowed the importation of oil to increase, it stopped steel prices from increasing by threatening to relax quotas, and it developed a wage review board in the construction industry. In August 1970, after these attempts had failed to keep prices from increasing, the congress enacted legislation authorizing the president to use mandatory controls. In August 1971, with no improvement in sight, the Nixon administration exercised the power. The price controls were designed to have a dampening effect on inflation by reducing the anticipation of inflation by large corporations and unions (Cagan, 1979).

On August 15, 1971, President Nixon initiated the NEP. The policy had three components. The first was the closing of the gold window and the move toward flexible exchange rates and an import surcharge in an effort to reduce the current account deficit. The second aspect was a request that Congress initiate "…an investment tax credit and other tax charges to stimulate output and employment" (Kosters, 1975, 7). The third was a significant increase in intervention in the form of an unprecedented ninety-day freeze on wages and prices.

Phase II of the NEP ran from 11/14/71 to 1/11/73 and was characterized by a relatively heavy reliance on the self-regulation of business rather than direct monitoring and control by central authority. Wages were allowed to increase 5.5 percent and price increases were allowed under the condition of proved cost increases.

Continued deterioration of the economic health of the nation prompted a return to stricter control in Phase III (1/11/73-6/13//73), culminating in the reestablishment of a price freeze, this time for 60 days beginning on 6/13/73. By August of that same year, price and wage controls were considered largely ineffective and Phase IV (8/12/73-4/30/74) was instituted to reduce direct controls and allow market forces to determine prices and wages. At the height of controls, 44 percent of the consumer price index was covered by controls, by April 1974 this number had fallen to 12 percent.

It is generally agreed that the price control measures of the Nixon administration failed to restrain the growth of prices. As Jones had put it, "[f]rom almost three years of experience it appears that we have learned a lot about wage and price controls but not how to control wages and prices" (Jones, 1975, 1).

The decisive, whether successful or no, measures of the Nixon administration were replaced by the indecisiveness, contradictions and apparent chaos of the policies under Presidents Ford and Carter. As Spulber succinctly puts it, "[c]ontinuous policy hesitations and alterations of promises, regrets, and then retractions seemed to become the rule of the Presidency … A promise to fight resolutely against inflation was followed at short notice by tax increases and a rapid return of fire against recession; announcement of tax cuts were followed by cancellation of these same announcements; the stressing of the need for massive 'deregulation' was accompanied by expanding 'new style' restrictions" (Spulbur, 1989, 108-109).

Ford came to the presidency labeling inflation as "public enemy number one." Perhaps most illustrative of his impotence as far as the economic crisis was concerned was the recommendation he made at the close of a presidential conference on inflation held at his bidding in September 1974. He concluded the conference with the suggestion that all Americans should "'make a list of some 10 ways you can save energy and you can fight inflation. Little things that become habits…habits that you can abandon if we are all faced with this emergency. I suggest that each person exchange your family's list with your neighbors, and I urge you to send me a copy'" (quoted in Blinder, 1979, 148-149). By January of 1975, Ford's emphasis shifted from inflation to unemployment and policy shifted to tax decreases rather than the tax increases proposed a year earlier.

President Carter also waffled on his diagnosis of the ills of the economy as well as the right policy to choose. Sometimes he emphasized inflation as the number one problem facing the nation and at other times he emphasized unemployment. Carter even tried to reintroduce price controls in the fourth quarter of 1978. The so-called "Pay-Price Standards" were voluntary guidelines for wage and price increases. The Pay-Price Standards, like their NEP predecessor, failed to deter the upward trend in prices.

Despite the contradictions and indecisiveness of the economic policies of these presidents, Ford and Carter did serve as stepping stones from the interventionist policies to the relatively free market approaches to policy which characterized the Reagan-Bush and subsequent administrations. Ford began the process with the first steps toward decontrolling oil prices and Carter carried it on with the deregulation of several industries including the airlines, railroads, trucking and depository institutions in 1980. In public perceptions the government was getting bigger but things were not getting any better. The economic crises shattered the public's confidence in the public sectors capacity to deal with unemployment and inflation. By the end of the Carter administration "...that a substantial portion of the public perceived the government as being too large, its involvement in the economy as too extensive, its budget as growing too fast, and its deficits as a major cause of persistent inflation" (Spulber, 1989, 108).

Other, more piecemeal, attempts at controlling inflation had occurred throughout the 1970s. The supply-restricting policies of the US farm program were relaxed and fertilizer was decontrolled in the early 1970s, oil prices made a move toward decontrol under Ford and were further decontrolled under Carter. Although all of these attempts helped to feed the change in economic culture and were reflective of the altering culture, the largest impact was no doubt made by Ronald Reagan. There were two general headings for Reagan's attack on the interventionist culture, namely, deregulation and welfare reform.

The Ford and Carter Administrations attempted several, and at times contradictory, policies all of which had little effect on economic trends. Carter's ambivalence, coupled with the Iran hostage crisis, the latter of which also fed the growing feeling that "...our government's leadership can't cope", led to his vilification in popular median and public opinion (Christian Science Monitor, April 30, 1980, 1). His public opinion polls were the lowest ever recorded for a president, up to that time, since polling began. They were lower than Nixon's or even than Truman's in 1951. Like the vilification of Hoover nearly 50 years earlier, the meritorious figure of Roosevelt was contrasted. In a similar vein, the vilification of Carter was contrasted with the meritorious figure of Reagan, probably the most popular president in American history.

The Reagan Program for Economic Recovery, presented to the American public in Reagan's February 1981 address to Congress, was comprised of four essential tasks. The first task, according to the Program, was a restrictive monetary policy in order to curb inflation and dampen inflationary expectations. A second prong of attack was a decrease in non-defense related government spending, or at least a reduction in the rate of increase. Third, Reagan called for a substantial reduction in personal and business taxes in order to stimulate productivity and, fourth, regulatory relief in order to accomplish the same goal. The goals and the policy innovations they inspired made 1981 "...a watershed year in national domestic policy. The Reagan administration...turned federal domestic policy away from an activist, 'take-on-all-problems' approach to a new posture under which fewer problems were treated as national ones and many were left to private action or to state and local governments (Fulton, 1981, 21).

As indicated above, the US was suffering from low productivity, rising per unit labor costs and stagnant growth rates during the 1970s and 1980s. Reagan, along with his counterparts in much of the rest of the world, attributed the lack of productivity to the government's overregulation of business. It was asserted that government regulation of industry resulted in less than efficient production by diverting resources away from growth and efficiency augmenting. Within 24 hours of taking office, President Reagan had established the Task Force on Regulatory Relief with Bush(1) as its head. The purpose of the task force was to relieve business of overregulation in order to promote productivity growth.

There are not many world leaders that have the dubious honor of having an "ism" attached to their policy choices. Reagan, because of the impacts of his program, had this honor. No administration since Roosevelt had challenged the idea that government had both a role and a responsibility to ensure economic prosperity. Not even the republican administration of Eisenhower and Nixon had questioned this responsibility. The Reagan counter-revolution, despite its failure to carry out all of its proposals, did challenge this accepted premise. It is perhaps important to point out that it is the opinion of the current writer that Reagan did not change the culture single handedly, but that he was at least in part a symptom of the already altering culture. I do believe, however, that he went much further than what public opinion would have supported and in that way damaged the interventionist culture through his anti-government rhetoric.

On February 18, 1981, President Reagan outlined a four prong approach to the economic difficulties of the nation. The second prong also included deregulation of business in order to augment productivity, reduce per unit labor costs and restore growth. Deregulation involved more than simply legislating away regulation. Reagan accomplished much of the deregulation without legislative sanction through presidential decree, including the February 17, 1981 executive order requiring cost-benefit analysis for proposed regulation, appointing as heads of regulatory agene ices persons known for their antiregulation posture, the slashing of budgets for regulatory agencies and the firing of overzealous regulators. During his tenure in office, Reagan deregulated radio, decontrolled crude oil prices, terminated the council on wage and price stability, deregulated bus transportation and deregulated shipping (Weidenbaum, 1987, 14-15).

In short, deregulation was used by the Reagan Administration as a means of reinstituting growth in the economy. Reagan's deregulation campaign was a symptom of "...a broad campaign during the 1970s by business and political leaders who seized on declining rates of productivity growth as proof of the need for national policies to restrain wages and limit...growth of state spending (Block and Burns, 1986, 774).

Declining productivity was used by political elements to limit the wage gains of workers and to reduce the state legislation of business. Deregulation had, furthermore, received wide public acceptance. It was "...supported by a bipartisan coalition in both the legislative and executive branches of the federal government...Ralph Nader offered support...as did leaders of both political parties...(Weidenbaum, 1987, 12). Bush(1), Clinton and Bush(2) carried on the deregulation fervor utilizing moratoria on regulations, wider use of cost-benefit analysis and through the funding or de-funding of regulatory agencies. Reagan had made significantly progress in deregulating natural gas and oil, Bush(1), electricity, Clinton, Telecommunications, and perhaps most notoriously Banking and Finance Reform with the passage of the Financial Services Modernization Act. Bush(2) is perhaps less responsible for down-right deregulation than for the anti-regulation posture of his cabinet.

A second aspect of the Reagan program was welfare "reform" which attempted to reverse many of the programs instituted under President Johnson. Actual welfare reform can be dated from Nixon's "Family Assistance Plan" which was designed to move welfare recipients off the welfare rolls by using market incentives to stimulate work. Johnson's introduction or augmentation of several welfare programs consumed nearly a third of the growth of national income between 1965 and 1968. Although Nixon attempted welfare reform measures in an effort to reverse some of the programs achieved under the Johnson administration, he failed to have any real affect on trends in welfare spending. The first administration to succeed in reducing welfare spending was the Carter Administration under which "[t]he annual real growth rate of federal social program spending was more than halved...from its levels under Presidents Kennedy through Ford (Bawden and Palmer, 1984, 214). Even the Clinton Administration had undertaken significant welfare reform with the 1996 passage of the Personal Responsibility and Work Opportunity Reconciliation Act. Bush(2) built upon the 1996, the so-called welfare to work program, with the passage of his reform act in 2003.

Bawden and Palmer have provided data showing the average annual real growth rates in federal social program outlays over time. According to them, total spending under the Kennedy-Johnson Administrations for FY1961-FY1969 increased 7.9 percent. Under the Nixon-Ford Administrations, FY1969-FY1977 the rate of growth increased to 9.7 percent. Carter successfully reduced the growth rate of spending to 3.9 percent FY1977-FY1981. During his first term as president, Reagan reduced the growth rate even further to 1.5 percent, FY1981-FY1985. Although Reagan did not achieve his goals fully, which would have "...eradicated most of the hallmarks of the Great Society and would have shrunk the social insurance programs to a scope more nearly approximating their New Deal origins," he did significantly reduce the rate of increase of social spending (Bawden and Palmer, 1984, 350, 214).

Reagan had the ambivalent support of public opinion. A public opinion poll conducted by National Opinion Research reported a decrease in the number of respondents that believed that the federal government was spending too little on welfare, from 20 percent in 1973 to 13 percent in 1980. It also reported an increase in the number of respondents that believed government was spending too much on welfare from 51 percent in 1973 to 56 percent in 1980.

Bush(1) had attempted to carry on the legacy of the Reagan administration. Although its success is somewhat dubious, Mr. Bush did succeed in the "...presidential campaign of 1988...to make 'liberal' a dirty word." During the televised debates, Bush "...triumphantly accused his opponent Michael Dukakis of being 'a card-carrying member of the American Civil Liberties Union'" (Plowden, 1991, 411). Similar types of attacks have been made by other presidential candidates including the present one. Republican presidential nominee John McCain has labeled Democrat Barak Obama as having the most liberal voting record of anyone in the Senate.

The extent of the alteration in culture is also illustrated by the changes in the Democratic Party following the long and popular Reagan presidency. The party was in disarray until it redefined its focus generating 'new-style' democrats like William Clinton, distinguished from New Deal democrats by their relatively strong faith in market solutions. In fact "The Clinton years were defined by across-the-board reductions in government spending as a share of the economy's total spending, virtually unqualified enthusiasm for free trade, tepid and inconsistent efforts to assist working people in labor markets, and the deregulation of financial markets" (Pollin, 2008).

The Great Stagflation had effects far beyond the economic misery of unemployment and inflation. It generated a change in economic culture away from intervention and toward laissez faire. The change in culture found reflection in, and support from, altered economic policy during the Reagan-Bush(2) years. Economic cultures do not spontaneously generate, they shift in response to shifting real-life conditions. It is perfectly conceivable, therefore, that there will be a rebirth of the interventionist state, but only in response to a social crisis of the magnitude of a Great Depression or Great Stagflation. The current economic crisis may, indeed, prove to be of such a magnitude.

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