During the 1960s and 1970s, a combination of domestic economic troubles (i.e. high inflation and a stagnant economy – called “stagflation”) and international crises (i.e. Vietnam War, Iranian hostage crisis, etc.) created widespread anxiety. As a result, the American people became disillusioned with the liberal policies of the New Deal and the Great Society. For two decades, the government budget had steadily risen and by the 1980s, the American taxpayer was ready for something new. Ronald Reagan emerged as a creditable conservative leader. His personality and style resembled that of his early political hero, Franklin D. Roosevelt. Reagan however, adopted a stance that depicted “big government” as bad, federal intervention in local affairs as condemnable, and favoritism for minorities as negative. In his first inaugural address in 1981, Reagan declared that, "Government is not the solution to our problem, government is the problem.” He drew on the ideas of a group called the “neoconservatives,” a group that included Norman Podhortz, editor of Commentary magazine, and Irving Kristol, editor of Public Interest, two men who championed free-market capitalism.

His federal budget had cuts of some $35 billion, the vast majority of the budget cuts fell upon social programs, not on defense. He also proposed sweeping tax cuts of 25% over three years. To gain support for his budget, Reagan appeared on national TV. He was able to woo some Democrats to the Republican side and the Congress passed the budget. The bill used “supply side” economics (known as Reaganomics) to lower individual taxes, almost eliminate federal estate taxes, and create new tax-free savings plans for small investors.

This supply side theory appeared to backfire as the nation slid into its worst recession since the Great Depression, with unemployment reaching nearly 11% in 1982 and several banks failing. Democrats blamed Reagan’s programs and tax cuts, but in reality, it had been Carter’s “tight money” policies that had led to the recession. Reagan and his advisors sat out the storm, waiting for a recovery that came in 1983. In this year unemployment fell to 8.2 percent and it declined steadily for several years after. The gross national product had grown 3.6 percent in a year and inflation fell to under 5 percent. The economy continued to grow a both inflation and unemployment remained low through Reagan’s two terms.

Reagan argued that supply-side economics and tax cuts would actually increase government revenue. On the flip side however, during his eight years in office, Reagan accumulated a $2 trillion debt—more than all his presidential predecessors combined.