

Enlightenment of the Reaganomics

Ying Xue

School of Economics, Shanghai University, Shanghai, China

att187@sina.com

Keywords: Supply side reform, Reagan administration, Fiscal policy.

Abstract. In November 2015, general secretary xi jinping put forward the domestic supply-side structural reform for the first time at the eleventh meeting of the finance group. In the process of supply-side structural reform, the country's fiscal and taxation policies play an important role, which can not only influence the prices of commodities in the market, but also promote the technological progress of the market. The U.S. economy was stagflating in the early 1980s, at the time, the Reagan administration of the United States combined the supply and monetary theory with a view to actively using the fiscal and taxation policies of supply-side to promote the development of the American economy, which led to the gradual recovery of the U.S. economy from 1983, and also lowered the inflation rate. In the context of the existing problems in China's economic development structure, the analysis and study of the fiscal and taxation policies on the supply-side reform of the Reagan administration in the United States have an important reference for China's fiscal and taxation policies to improve the supply-side reform in the future.

1. Introduction

Since the 1960s, the economy of the United States has been affected by its own financial situation. The economic theory that has long relied on "Keynesian" has been unable to adapt to the development demand of the American economy. The increase in money supply and the continued expansion of credit expenditure have caused serious inflation and high unemployment in the United States. Even though many of America's governments had adopted the demand-side reform approach to economic intervention, the United States could not be turned around in a bad economy. It became the basic backdrop for the supply-side reform of the Reagan administration.

2. Fiscal and Taxation Policies of Reagan Administration Supply-side Reform

2.1 Implement Massive Tax Cuts

One of the most important means of supply-side reform in the Reagan administration was the imposition of massive tax cuts, one purpose is to reduce the tax burden of American corporate taxpayers and boost the enthusiasm of enterprise production, the other is to control the country's fiscal deficit.

In August 1981, the Reagan administration made a provision for lowering future tax rates of United States. Such as the tax rate was reduced by 5% in October 1981, then reduced by 10% in 1982 and 1983. In addition, the U.S. government has asked to reduce the rate of non-labor income from 70 percent to 50 percent, while increasing tax incentives for corporate investment.

In 1986, the Reagan administration implemented tax cuts again, aimed at achieving American tax fairness. The core of this tax reduction policy consists of three aspects: one is to further reduce the tax rate of individual income tax, simplify the tax rate of taxpayers, and the maximum tax rate of individual income tax is 30%. Secondly, the enterprise income tax has been reduced, from the original 46% to 34%. The third is to strengthen preferential tax policies. The Reagan administration made preferential adjustments to more than 60 tax programs in the country, especially abolishing some taxes, such as real estate tax and sales tax.

2.2. Advance the Interest Rate Marketization Reform

Interest rate liberalization is another important means of supply policy in the Reagan administration. Since the 1980s, the Reagan administration has pushed for a market-oriented interest rate reform. In early 1980, the United States formally issued and implemented The Depository Institutions Deregulation And Monetary Control Act, the core content of the law included four aspects, one was the high limit the cancellation of the phased implementation of deposit rates, the second was to allow the United States commercial bank transfers accounts could be set up; Third, the reserve ratio of commercial Banks had been unified. Fourthly, it had promoted the deposit insurance of commercial Banks.

In 1982, the United States government enacted The Garn.StGermain Depository Institutions Act, which marked the reform of interest rate liberalization in the United States goes further. At the end of 1983, the U.S. government adjusted the interest rate cap on fixed deposit maturities and balances, eliminating the limit of 31 days and the minimum balance of \$2,500. By the end of 1986, the United States for a long time to implement the "Q regulations " is completely canceled, which marked the implementation of interest rate marketization and the implementation of financial liberalization, to a large extent promoted the emergence of the financial innovation in the United States.

2.3.The Effect of the Fiscal and Taxation Policies on Supply-side Reform

The Reagan administration adopted a way to reduce growth rate and increase the discount rate in terms of money supply, so that the United States maintained a high interest rate and low inflation rate for a period of time. In order to effectively control inflation, the Reagan administration controlled the measure of money supply for several years.

After 1980, the American interest rates generally maintained in the range of 6% to 8%, at the same time, from 1980 to 1982, the CPI index dropped rapidly from 13.5% to 6.2%, then gradually reduced to 5%. The PPI index had fallen sharply from 14.1 % to 2 %, and had since stayed low. It can be seen that the Reagan administration achieved the control of inflation through the fiscal and tax policies of the supply-side reform, and the effect was very obvious.

In addition, since 1983, the U.S. economy had been gradually recovering. This year's GDP growth rate rose to 4.6%, and in the following years it grew at at least 3.5%. The unemployment rate had also fallen since 1983, and had remained below 6% for years to come. America's industrial production index, which rose from 29.8% in 1983, climbed to 68.3% in 1989, a significant increase.

The supply-side reform has also brought about an upgrade of the industrial structure in the United States. The results have been remarkable. Some of the traditional industries of the United States during the Reagan administration have been upgraded and transformed, and the division of labor has been strengthened. At the same time, U.S. employment population shift from traditional industry to the service sector.

3.The Supply-side Reform of the Reagan Administration Was a Revelation to Our Country

At present, there are three main reasons for the supply-side structural reform in China, namely, overcapacity, a low quality supply system and the suppression of effective demand. China is in the critical stage of economic transformation and development. For a long period of time, the government will implement effective supply-side reform on the basis of stable tax burden and economic stability, and continuously improve the quality and efficiency of our country 's supply system. With the optimization and adjustment of industrial structure, our country 's supply-side reform needs to rely on fiscal and taxation policies as the starting point. Learn from many aspects of the fiscal and taxation policies of the Reagan administration.

3.1. The importance of taxation means to the development of industry

First, China's current tax policy optimization, need on the basis of tax cuts, lower tariffs on imported goods, reduce the taxes of emerging industry and cultural creative industry, which will greatly promote all kinds of industries, especially the rapid development of the third industry, this can be seen in the booming of the service sector through tax cuts during the Reagan administration

in the United States. At the same time, the full use of tax policies can further strengthen innovation input in various industries and promote steady economic growth.

Second, under the background of our country 's current active fiscal and taxation policy, the tax cuts will be continuity of these strategies, it is the important foundation of our country to expand domestic demand and accelerate the industrial transformation,Through structural tax cuts, make full use of tax leverage, improve the effectiveness of the supply side, but at the same time, it is important to note that in the process of the tax cuts also need to avoid the expansion of fiscal deficit.This is a warning from the reform of the Reagan administration, in the course of the tax cuts,we should take fully account of the actual situation of our economic growth.

3.2.Constructing Fiscal and Taxation Policies Conducive to Industrial Development

First, the government should focus on supporting weak links in the industrial restructuring process, focusing on the development of some emerging industries and services in China. The Reagan administration in the United States under the condition of economic slump, by deregulation and increasing defense spending, makes some related to national defense military high technology and new technology industry, service industry has been rapid development. Therefore, our government needs to focus on cultivating and importing the cutting-edge talents of the industry, focusing on creating the scientific and technological achievements of enterprise innovation so as to promote the development of weak industries.

Second, enhance public finance's investment in scientific and technological innovation. During the reform of the Reagan administration in the United States, the level of public financial supporting for the innovation of science and technology is very high, because of this, the United States, represented by the information industry of high-tech industry could be rapid development. China's current level of innovation in science and technology is far from comparable with developed countries. Our country should further enhance the financial support for scientific and technological innovation, and focus on ensuring adequate funding for research and development, but it should be commensurate with the level of economic development.

Finally, our government should implement preferential policies from the perspective of scientific and technological innovation to reduce the cost of enterprise technology innovation. Raise the company's expectation of policy, make it reasonably arrange fund operation and investment decision.

References

- [1] Peter B. Dixon, Maureen T. Rimmer. You can't have a CGE recession without excess capacity[J]. *Economic Modelling* . 2010 (1)
- [2] Bruce A. Blonigen, Wesley W. Wilson. Foreign subsidization and excess capacity[J]. *Journal of International Economics* . 2009 (2)
- [3] Diane P. Dupont, R. Quentin Grafton, James Kirkley, Dale Squires. Capacity utilization measures and excess capacity in multi-product privatized fisheries[J]. *Resource and Energy Economics* . 2002 (3)
- [4] James Kirkley, Catherine J. Morrison Paul, Dale Squires. Capacity and Capacity Utilization in Common-pool Resource Industries[J]. *Environmental and Resource Economics* . 2002 (1)