Growth and Tradeoffs

Trace who benefited, who faced costs, and what else shaped the 1980s economy.

SS24.US2.17b "Analyze how Reaganomics and deregulation affected the American economy and society."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline tax and deregulation policies, circle a benefit and a cost for different groups, and number two reasons a single policy cannot explain every economic change.

A Changing Economy in the 1980s

(1) In 1981, a worker at a small machine shop might hear that tax cuts would help the owner buy new equipment. President Ronald Reagan argued that lower taxes on businesses and high earners would encourage investment, hiring, and growth. Congress cut federal income tax rates in 1981; later, a 1986 law lowered the top rate further while removing many tax breaks. Economic growth resumed after a severe 1981 to 1982 recession, but the benefits were uneven. High-income households gained especially large tax savings, while federal deficits grew as tax revenue fell relative to spending, including rising defense costs.

(2) At an airport, travelers saw another policy shift. Airline deregulation began under President Jimmy Carter in 1978, before Reagan took office, and continued in the 1980s. With fewer federal controls over routes and fares, airlines competed for passengers; fares fell on many heavily traveled routes, opening trips to more people. Yet smaller communities sometimes lost service, and airline workers faced pressure as carriers cut costs. This contrast shows why deregulation did not mean the same result for everyone. It could widen consumer choice in a major city while leaving a rural traveler with fewer convenient flights.

(3) The Reagan administration also backed looser rules for savings and loan associations, institutions that held deposits and made home loans. A 1982 law allowed them to make riskier investments, while federal insurance still protected many deposits. Some institutions expanded lending, but weak oversight and risky bets contributed to widespread failures later in the decade and a costly federal rescue. Meanwhile, the Federal Reserve's tight money policy helped bring inflation down, though it also helped cause the early recession. Recovery cannot be credited to tax cuts alone: interest rates, oil prices, and other forces also shaped the economy. Across these policies, growth brought opportunities alongside unequal gains and public costs.

2 ANSWER WITH EVIDENCE

Use the passage

1. How could the 1981 tax cuts encourage growth while also adding to federal deficits?

2. How did airline deregulation affect travelers in major cities differently from travelers in smaller communities?

3. Why could the 1982 changes to savings and loan rules produce both more lending and future public costs?

4. What did the Federal Reserve's policy do, and how does that complicate a claim that tax cuts alone shaped the 1980s economy?

3 YOUR TURN

Your own words

A present-day state proposes cutting taxes for high earners and easing limits on lenders' risky investments. Write a four- to five-sentence advisory note that uses two lessons from the passage to predict a possible economic benefit and a possible social cost, then explains why the 1980s cannot guarantee the same results today.

ANSWER KEY

Growth and Tradeoffs

GRADE 11 · SS24.US2.17b

PART 1 · READ AND MARK

Underline tax and deregulation policies, circle a benefit and a cost for different groups, and number two reasons a single policy cannot explain every economic change. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How could the 1981 tax cuts encourage growth while also adding to federal deficits?	**Lower taxes could encourage investment and hiring, but reduced tax revenue relative to spending could increase federal deficits.**
2	How did airline deregulation affect travelers in major cities differently from travelers in smaller communities?	**Major-city travelers gained more choices and lower fares on many busy routes, while travelers in smaller communities sometimes lost service.**
3	Why could the 1982 changes to savings and loan rules produce both more lending and future public costs?	**The rules allowed riskier investments that could expand lending. Weak oversight and risky bets contributed to failures and a costly federal rescue.**
4	What did the Federal Reserve's policy do, and how does that complicate a claim that tax cuts alone shaped the 1980s economy?	**Tight money helped lower inflation but also helped cause the early recession, showing that forces besides tax cuts shaped economic outcomes.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Lawmakers should weigh both parts of the proposal before voting. The 1981 federal tax cuts were intended to spur investment, so a state tax cut might give some business owners more money to invest, although that result is not certain. The 1982 loosening of savings and loan rules shows that allowing riskier investments can expand lending but may leave the public facing costs if lenders fail. Higher-income residents could receive larger tax savings than other residents. Today's lenders, oversight, and economy differ from those of the 1980s, so the outcomes might differ too.

Accept other passage-supported benefits and costs when students explain a causal link. Responses to Your Turn should treat the proposed outcomes as possibilities, not certainties.