Hopefulness and Overconfidence

During the 1960's and 1970's America entered a domestic policy of inflation. Government is a collection of choices, but some of the most educated elites ever assembled convinced Johnson that a magic mix of knowable inflation and unemployment could be engineered; the economy could be controlled.

Johnson sought an expensive war and an expensive social program; The Great Society. He was as misled on the economic issues as he was on his disastrous war. When the economic inflation took hold, few had the fortitude to reverse it. Nixon dropped the gold standard and instituted price controls, but that only made inflation soar when the controls were removed. Ford made some effort to restrain inflation with some success but eventually failed.

Carter found the medicine unpalatable and suggested that we should restrain our growth expectations.

Only Reagan had the conviction and the courage to restrain inflation. Providing the political cover to Paul Volker he understood and believed that the recession Volker created was necessary to end the inflationary spiral. Unemployment nearly reached 11% and we faced the worst recession since the depression in 1981-1982.

Republicans and Democrats protested the dire economy and pressured him to relent, but Reagan and Volker did not bend to the pressure. The high unemployment finally broke the wage price spiral and inflation subsided and we entered a 20 year period of growth and prosperity.

In "The Great Inflation and Its Aftermath", Newsweek columnist Robert Samuelson credits Reagan with the greatest act of political courage in the last 50 years for his commitment to

kill inflation in the face of strong opposition from both parties. It was his resolve against inflation, not his tax cuts or Clinton’s tax increases, that created the ensuing prosperity.

It is a reminder that “collective hopefulness and intellectual overconfidence” is a danger to government policy. Reagan, like Bush, was often maligned as ignorant and dogmatic. Yet it was this Hollywood B movie actor that resolved a financial crisis created by the brightest minds in Washington.