

DEMAND SIDE ECONOMICS

Demand-side economics is a theory which suggests that economic stimulation comes best from increasing the demand for goods and services. Also called **Keynesian** economics, after John Maynard Keynes, Demand-side economics is first and foremost a means of ridding an economy of a recession and stimulating economic growth while preventing inflation. It is meant as a control on both expansion and retraction, to keep an economy in a stable zone. The idea is that to stimulate growth, a government should lower taxes on the middle and working class, and increase government spending. To combat rising inflation in an expanding economy, a government should raise taxes and reduce spending.

The concern of demand-side economics is the velocity or movement of money. According to the theory, middle class and working class people are more likely to spend a high percentage of income on consumables and services, rather than stockpiling money in saving accounts or investments. If a person buys milk at a local grocery store, the grocer can then take his profit and get his car fixed, and the mechanic can take his money and go to a movie; in other words, the money keeps moving around, stimulating demand for goods and services. By lowering taxes and increasing government spending, these high-spending classes are given more capital to spend, thus stimulating the economy.

Demand Side Economics, says that if taxes are to be cut, they should go to those who earn the least amount of money. The reason is that low-income workers spend virtually all of their incomes. Money given to them goes right back into circulation, fueling a boom in consumer spending. This is essentially the policy that rescued the U.S. economy from the Great Depression. This, say the Demand Side economists, is the real foundation for an expanding economy. How has this theory held up in practice?

Bill Clinton reversed Reagan's Supply Side policies, raising taxes on the wealthy and lowering them on the working and middle class. This Demand Side formula was fiercely resisted by Republican leaders in Congress who predicted a stock market crash and another Great Depression. Indeed, every single Republican member of Congress voted against it. It took a tie-breaking vote by Al Gore in the Senate to get the bill passed. What happened?

The economy produced the longest sustained expansion in U.S. history. It created more than 22 million new jobs, the highest level of job creation ever recorded. Unemployment fell to its lowest level in over 30 years. Inflation fell to 2.5% per year compared to the 4.7% average over the prior 12 years. And overall economic growth averaged 4.0% per year compared to 2.8% average growth over the 12 years of the Reagan/Bush administrations. The economy performed dramatically better in almost every way once Supply Side policies were replaced with Demand Side policies.