SUPPLY SIDE ECONOMICS

The father of supply-side theory was Karl Marx, who is ironically associated with the theory of Communism. Supply Side Economics includes a reduction in taxes for the producer and consumer. The idea is that consumers have more disposable income, since the amount of income tax that is deducted from gross pay is reduced. With more money in their pockets, consumers are more likely to feel good about the general state of the economy. This increase confidence leads to additional purchases, which in turn justifies the increased production by manufacturers. Supply-side economics in essence suggests that cutting taxes on the wealthiest people allows business owners to create more jobs and thus the wealth will pass down from top to bottom.

Another goal of supply-side economics is to minimize the influence of government in the function of economics within the nation.

HERE'S SOME HISTORICAL INFO: In the late seventies, the U.S. economy was falling to pieces. President Johnson's Great Society programs and the Vietnam War had produced enormous inflationary pressures. But these were only the beginning. In 1973, The Arab oil cartel tripled the price of oil and in 1978, they tripled it again. Inflation soared, interest rates skyrocketed, and the economy tanked. Higher prices cut into corporate profits, forcing employers to cut back production. The higher prices also reduced the purchasing power of workers, causing a slowdown in the economy. It was the worst of both worlds: high unemployment with high inflation. Economists called it "stagflation." They were at a loss for a cure.

Traditionally, to fight inflation, governments raise interest rates and cut spending, with the goal of reducing demand. To fight unemployment, they do the opposite: cut interest rates and raise spending, increasing demand. But now they had both problems at the same time. The cure for stagnant growth (lower interest rates and higher spending) would only aggravate the inflation. And the cure for inflation (higher interest rates and lower spending) would only aggravate the unemployment. The problem seemed insoluble. Enter Supply Side Economics.

Supply Side Economics claimed that if the government cut taxes on the wealthy, it would jump-start the economy as the wealthy plowed their tax savings back into investments. New factories fitted with new technologies would produce goods at lower cost, taming inflation. And the newly hired workers would tame unemployment. It would, in effect, square the economic circle, fixing both inflation and unemployment at the same time.

Even better, more output meant government tax receipts would grow. The government could continue to spend money without having to raise taxes. It would simply materialize as a byproduct of higher levels of production. The economy would bootstrap itself in an ever-expanding, virtuous circle of tax cuts, investment, productivity, employment, and rising tax revenues. It was the proverbial "something for nothing" story. It seemed too good to be true, and well was it?

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So what happened? In 1980, Ronald Reagan promised that, if elected, he would cut taxes, raise military spending AND balance the budget all at the same time. His opponent, George H.W. Bush called it “voodoo economics.”. But Reagan won the election and kept his promise. He cut