

# SUPPLY SIDE ECONOMICS

## "REGANOMICS"

(1970's)

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# HISTORICAL CONTENT

Supply Side Economics first came about in the 1970's (70-72) as the ideas of Arthur B. Laffer. Laffer believed that lower tax rates would result in economic growth, providing the government with more, not less, income, in the long run. Supplying more goods will stimulate economic growth, and lowering taxes will help produce the desired affects.

The reason supply side economics is nicknamed "Reganomics" is because in the 70's the theory caught Ronald Reagan's attention. When he campaigned for president in 1980, he used Laffer's ideas for his economic platform.

# KEY POINTS/VOCAB

## Points...

- Supply More Goods
- Lower Taxes
- Raise Government income overall

## Vocab...

- **Trickle Down Theory**- greater tax cuts for investors/entrepreneurs provide incentives to save, invest and produce economic benefits that "trickle down" to the overall economy.
- **Three Pillars:**
  1. *Regulatory Policy*- government's ability to pass laws and enact regulations (like taxes)
  2. *Monetary Policy*- the process by which the financial authority of a country controls the supply of money
  3. *Tax Policy*- program for setting taxes

# HOW IT WORKS

- *Supply Side Economics, in theory, works like this:*

The government will supply more goods to its country, while lowering taxes. This, in time, will increase its income.

- *Reganomics, proposed by President Reagan, has similar structure but is like this:*

Tax breaks will be given to the wealthier, and businesses. Through investments and profits of those investments, the wealth will “trickle down” to the economy as a whole.

# FLAWS

- Cutting taxes will not help the government income rise.
- Greater tax cuts for the wealthier/businesses only allows them to have **more** income, personally. The less wealthy still won't have as much.
- The results of government/economy increased revenue is not sudden.

# SUPPLY SIDE TODAY

The most modern use of Supply Side Economics that is well known, was in 2008 around the time of the Presidential election. Bush's tax cuts, due to Reagan's policy, had been doing well and raising money. However, over the years, the idea of cutting taxes to raise revenue, while being a great idea, is not completely probable for our economy. This being said, Supply Side Economics isn't used that much today.

Some of its elements, however, like tax cuts and supply level, are used today. The government makes tax cuts sometimes, or increases/decreases goods supplied. Overall though, the theory as a whole is not used, and does not have a current leader today.

# CONNECTIONS

The closest connection Supply Side Economics has with any other theory, is the Deficit Spending theory (Keynesian Economics). Keynesian economists, like supply side economists, believe in tax breaks helping to stimulate our economy's income.

# CITATIONS/URLS

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