- FOUR -

Effective Supply

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Organic wealth flourishes in free market capitalism because it's an environment where society has the liberty to engage in economic activity. The Gross Domestic Product (GDP) will have robust growth and reach its *potential* when there are many equal transactions occurring where people are pursuing income by meeting market demand. The more freedom a society possesses to enter a marketplace to earn income, the more wealth that will be created.

This truth that *freedom creates wealth* is also fundamental to the theory of supply side economics. The proposition of supply side theory is the government's policies toward businesses and wage earners (supply) should allow them to be as free as possible to meet demand. This is the true purpose of supply side proponents.

Some good examples of supply side policies would be low corporate tax rates, as few regulations as possible, edu-

cation and job training that fill market needs, eliminating illegal immigrant hiring, fair trade agreements with other nations, and merit and market needs based legal immigration reforms.

Any policy making it easier for people and businesses to meet market demand will allow an economy to grow stronger. A growing economy, of course, has many benefits such as job openings for every demographic, career and entrepreneurial opportunities, upward mobility, higher wages and an abundance of available investments to build wealth.

These benefits should be the goal of our economic system. Otherwise, what's the point? If we allow our jobs for most industries to be replaced by automation, artificial intelligence and outsourcing, then we'll end up in a downward spiral of declining economic output. If jobs are gone, then people won't have the money to buy the products and services businesses produce. Taking it to its logical end, such a demand shortfall would eventually spell the end of business.

The direction of our policies, therefore, needs to be all encompassing with jobs in mind. What I mean by that is we need policies that give freedom to both businesses and wage earners. What the entirety of supply needs is the liberty to enter a market to earn as much income as possible by meeting demand.

It may be surprising wage earners are included within supply side economics. The reason is that they meet de-

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mand in the employment market. Employers demand workers with the necessary skills to meet the employer's needs. Therefore, wage earners are included in supply. Not to be confused, they are also a part of demand.

When employees exchange their labor for income, they are part of supply. When they consume that income, then they're counted on the demand side. The same is true of businesses. When businesses bring products and services to market, they are on the supply side. When they're paying employees and vendors, then they are on the demand side.

Supply side policies should ultimately be a win for both wage earners and business because they each make up supply. This is the only way to reach society's objectives of economic opportunity for everyone and economic growth. There is a conflict, however, between these objectives and the interests of multinational corporations.

Over the last several decades of globalization, being *pro-business* has come to include the interests of global corporations. But we need to rethink that notion because many times those interests conflict with the goals for our economy. Being pro-business should only be a supply side stance benefiting the entire supply, which includes the supply of wage earners residing in the United States.

For instance, having a business environment resulting in U.S. based companies moving operations to another country to reduce labor costs is counterproductive to society's aim for a strong labor market. Some may say it's

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an example of supply side economics because paying less on labor allows these businesses to compete. Thus, they would argue, offshoring helps companies meet demand. The easily identifiable problem is it harms the labor supply within the U.S.

This belief, any policy benefiting big business is good is not necessarily true. If our business environment harms the supply of wage earners, then we don't have effective supply side policies. A simple test should be a cause-and-effect question. When considering a supply side policy that benefits businesses, what would be the effect on the supply of labor?

If it doesn't benefit the supply of labor but rather, harms that supply, then the policy doesn't align itself with society's desire for a dynamic and healthy job market. A better solution to counteract offshoring is asking how we could enact policies allowing American businesses to stay here and still compete.

The corporate tax reform of 2018 reduced the corporate tax rate from 35% to 21% and was changed from a worldwide tax system to territorial,[1] which means revenue earned in a foreign market won't be taxed again by the U.S. This reduction in taxes doesn't lessen a company's labor costs, but it does lower their overall expenses and potentially allows them to stay operating in the U.S.

Is a lower corporate tax rate enough? Possibly not for labor intensive companies so other supply side changes may have to be required. Whatever the new policy

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changes are, more freedom to meet demand should be the goal for the entirety of supply.

Let's consider the practice of hiring illegal immigrants. Certain industries benefit by hiring illegals because they can pay them low wages. These companies save substantially on wage expense so it does help them compete. It's not a good supply side policy to turn a blind eye to this practice, however, because it harms the supply of legal workers. First, it takes positions away the legal workforce could otherwise fill; second, it puts downward pressure on their wages.

By requiring only the hiring of citizens and legal visa holders, it would immediately increase the labor expense of these companies. They would have to follow minimum wage laws and more importantly, become subject to the legal employment market, which ultimately determines the proper wage levels.

If product prices increase as a result, then the consumer will have to pay more. If raising prices on products won't work because of foreign competition, then other supply side policies should be considered so American firms can compete. Some ideas would be to lower the corporate tax rate further or insisting on fair trade agreements with countries that have inherent trade advantages such as low wages, little regulations and where shipping into the U.S. isn't prohibitive.

Free trade would be ideal, but the reality is a wealthy country like the United States should only enter fair

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trade agreements especially with developing nations. Fair trade is an attempt to level the playing field. This could require one nation to step up their environmental laws, workforce compensation and removal of trade barriers. It may also include tariffs, not as a barrier, but to offset the competitive advantage a manufacturer or farmer has in a developing nation over U.S. based companies.

What, You Don't Say?

Supply side economics isn't a phenomenon beginning with Art Laffer, Dick Cheney and a napkin. Art's famous curve illustrates how lowering taxes in the prohibitive range will increase revenue to the government.[2] The Laffer Curve was adopted by President Ronald Reagan (R) and was the basis for the Reagan tax cuts of the 1980s. To the left's chagrin, revenues to the U.S. Treasury almost doubled over Reagan's eight years in office.

Many historical revisionists from the left deceive their audience by saying his tax cuts caused massive budget deficits. The truth is, as revenues went up, government spending went up further. Tax cuts didn't cause budget deficits; spending money like there was no tomorrow did.

The Washington Post too denies Reagan's tax policy's success by not using actual revenue to the Treasury as the number to determine if revenues went up.[3] Instead, they claim revenue as a percent of GDP is the best way to compare between years. They then tell their readers the percentage declined over Reagan's two terms. Thus, his tax policy didn't increase revenue to the government.

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But, consumer of WaPo, this is wrong. If tax rates are cut, then any growth in GDP will outpace the growth rate of tax revenue. That's just plain logic. The fact is GDP increased because of Reagan's tax policies resulting in more revenues even if the revenue as a percentage of GDP declined.

The Laffer Curve is an example of a supply side policy Republicans have become known for, but it's not the definition of supply side economics. Even before there was a Republican Party, which began in 1854 to oppose slavery,[4] there was a supply side advocate as far back as our country's founding.

Jean-Baptiste Say was a French classical economist and was one of the world's first supply side economists. Say wrote a letter to Thomas Jefferson in November 1803[5] and provided him a copy of his newly published book, *Treatise on Political Economy*.[6] Jefferson wrote back to J. B. Say acknowledging he received it, but it wasn't until years later we learn of Jefferson's view of his work.

Say wrote to Jefferson again about possibly immigrating to the United States because of the turmoil in France caused by Napoleon Bonaparte writing, "the need to breathe the air of a free country, while harboring no hope that France will become well administered."[7]

In March 1815, Jefferson replied to Say and wrote, "I had considered it (Treatise on Political Economy) in it's (sic) first form as superceding (sic) all other works on that subject."[8] That was quite the compliment at the time

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considering *The Wealth of Nations* (1776) by Adam Smith greatly influenced Jefferson and the Founding Fathers.

Say's theories informed his readers how wealth was created, which contradicted the mercantilist's view that saw wealth as zero sum. Mercantilists believed wealth could only be accumulated and distributed from a finite source. Therefore, that view hindered international trade.

Many credit Say with the notion *utility* determines product pricing.[9] Classical economic thought until then believed production costs determined what the consumer price would be. Say argued perceived value is what ultimately determines price.[10]

From this concept, he believed all markets would eventually clear. Meaning, if product remained unsold, a supplier would lower prices to move the inventory. By lowering the price, demand would increase. As far as gluts, which are overproduction of goods where there's not enough demand, clearing markets would eventually alleviate any glut.

We can see the effects of clearing markets from the 1920 depression. After WWI ended in November 1918, millions of troops were returning home looking for work. This was a shock to the economy. On top of high unemployment, consumer inflation was rising sharply: 17% and 15% from 1917 to 1920.[11] The federal budget too had increased substantially due to costs from fighting in the European conflict. The government's response was to let the market correct itself.

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Instead of goosing the economy with government spending and cheap money, which is what we do now, the federal budget was cut over the next four years from $18.5 billion in 1919 to $3.3 billion in 1922,[12] an 82% reduction. Instead of cutting rates, the Federal Reserve raised them from 4.56% in October 1919 to a record high of 7% in June 1920.[13] The Fed didn't raise rates to stem the tide of inflation, but to guard their 40% gold reserve ratio to liabilities. Gold had been fleeing the country in 1919 as a result of the end of the gold export embargo.[14]

The result was 10.9% deflation[15] and an unemployment rate of 11.9% (estimate) in 1921.[16] The market was clearing itself of excess goods and bad capital allocations. Businesses that weren't solvent went bankrupt instead of being propped up with easy money. Wage levels, which were stagnant, began to decline as prices fell. What looked harsh and merciless turned out to be short lived. The economy rebounded as investment went to companies well-run and meeting demand. The depression that ushered in the 1920s, caused by market distortions resulting from WWI, lasted only a year and a half. By 1923, the unemployment rate was 3.2% (estimate) and the Roaring Twenties was well underway.

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Entrepreneurs

Say also coined the term, *entrepreneur*,[17] which if you read an English translation of his treatise uses the word *adventurer* since a word for entrepreneur didn't exist. The concept an entrepreneur is a special talent wasn't distinguishable in Adam Smith's Wealth of Nations.

Say considered the entrepreneur the fourth factor of production. An entrepreneur has to utilize the other three factors (land, labor and capital) against market risk and profit potential to produce products having demand.

Consider a socialist system, which eliminates entrepreneur talents. Let's suppose the government tells a footwear firm to produce shoes for the public. The results are shoes without much variety, and possibly disliked by everyone. In contrast, an entrepreneur would first learn what different kinds of shoes consumers' desire, and then he figures out a way to produce them at a price where they will sell for a profit.

Only the talents of entrepreneurs can develop products at the right price satisfying consumer wants. Not only are entrepreneurial talents found in small startups, but big tech companies have harnessed entrepreneur abilities to adapt and diversify their product offerings.

We see this just by looking at some of the largest companies in the U.S.: Amazon, Apple, Microsoft and Google. Are these companies run with a traditional hierarchy reacting slowly to market changes or are they still on the cutting edge of future trends? They're on the cutting edge because they're utilizing entrepreneur talents within their organizations.

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Say's Law of Markets

Jean-Baptiste Say's most well-known contribution to the study of economics has become known as Say's Law of

Markets or simply, Say's Law. This law was summarized by John Maynard Keynes as *supply creates its own demand*. While this could be an accurate summary, you may get the wrong meaning at first glance. It doesn't mean creating a supply of something will magically be met with demand from enough willing buyers. This summary of Say's Law is how Keynes discredited what Say believed, but his surmising was misleading.

Say actually didn't call his teaching a *law*. He did, however, write that supplying something opens the door for the supplier to demand other products. Those other products then have a larger market. He wrote in chapter XV of his book, *A Treatise on Political Economy*, "Thus, the mere circumstance of the creation of one product immediately opens a vent for other products."

We'll take Keynes at his own words from his book, *The General Theory of Employment, Interest and Money (1936)*, where he reveals his misinterpretation of *supply creates its own demand* several times:

1. John Keynes claimed that Say's Law meant the entire costs from the supply side must be met by the demand side: "The whole of the costs of production must necessarily be spent (by demand) in the aggregate, directly or indirectly, on purchasing the product."[18]
2. He asserted at any level of production, the supply price will be met by demand: "The aggregate demand price is equal to the aggregate supply price for all levels of output and employment."[19]

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3. "(Supply creates its own demand) must mean that $f(N)$ (demand function) and $\phi(N)$ (supply function) are equal for all values of N (persons employed)."[20] Interpretation: The workers required to produce for actual demand are equal to the workers in total production at all employment levels. In other words, you can't out produce demand.

If Keynes's definition of Say's Law was correct, then J. B. Say wouldn't have believed utility was the ultimate determination of price, and that markets would eventually clear by lowering the price. The buyers, according to Keynes' understanding, would just buy at whatever price. Or would Say have believed entrepreneurs were a special talent; all that would be necessary is to produce something and it would sell.

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Also, if Keynes was right about classical economists, then adherents wouldn't believe gluts or overproduction could exist. But according to J. B. Say, producing more than demand warrants and declining income on the demand side were the reasons for gluts:

> The glut of a particular commodity arises from its having outrun the total demand for it in one or two ways; either because it has been produced in excessive abundance, or because the production of other commodities has fallen short. It is because the production of some commodities has declined, that other commodities are superabundant. To use a more hackneyed phrase, people have bought less, because they have made less profit.[21]

The fact is Keynes wrongfully defined Say's Law to make people believe the law meant the very acts of production were all that were necessary to have a healthy economy with full employment. He must have thought the world was really stupid before he came along. Say's Law was not an antiquated belief from the unenlightened past that needed replacement by the light of Keynes.

When we break down Say's Law, the true meaning becomes apparent. *Supply creates its own demand* simply means one has to produce something in order to demand something. Woops, I did it too. Let me clearly explain this so I'm not accused of believing in hocus pocus. Someone has to produce value for a market where it will sell to willing buyers. With their sale proceeds, they can demand other products. If a product doesn't sell, then there'll be no sale proceeds and no ability to demand.

The truth of Say's Law turns idle people into productive people. The money earned by supplying something, in turn, creates an equal value of demand for something else. That something else can be products, services or investments. Additionally, it can remain as money, which represents future demand for products or investments. As Say said:

> Even when money is obtained with a view to hoard or bury it, the ultimate object is always to employ it in a purchase of some kind. The heir of the lucky finder uses it in that way, if the miser do not; for money, as money, has no other use than to buy with.[22]

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For an example of Say's Law, take a worker who supplies labor for a company. In return for their production, the employer pays the worker income. When the employee receives their paycheck, they can then demand other products of the same value, which increases the market size for those products. This is Say's Law in action.

What Say said is what I've been saying so far. In order to create income, you have to meet market demand first. When demand is met, income is earned. This income gives the person the power to demand other products (consumption) or investments (organic wealth) of equal value to what was earned.

If you study Say's Law, you come to the conclusion the emphasis should be on supplying something of value that satisfies market demand. Because once this is accomplished, the earned income will allow the demand of other products or investments in a marketplace. By having this emphasis in free market capitalism is what results in organic wealth creation.

Say was a supply sider. He believed governments should mostly not interfere with commerce. Even so, he believed they should stimulate production, which is having an economy where people are encouraged to produce products valued by others. Governments encouraging consumption to stimulate the economy have it backwards according to Jean-Baptiste:

> The encouragement of mere consumption is no benefit to commerce; for the difficulty lies in sup-

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> plying the means, not in stimulating the desire of consumption; and we have seen that production alone furnishes those means. Thus, it is the aim of good government to stimulate production, of bad government to encourage consumption.[23]

Production that meets demand is the work of entrepreneurs who must determine if a product can be produced having utility at an agreeable price. Good government policy should be enacted making it as easy as possible for producers to enter the marketplace. Facilitating commerce, not obstructing it, is good government policy.

Essentially, consumption doesn't need stimulating by the government apart from improving consumer confidence. Policies encouraging consumption won't produce much growth or wealth because the emphasis isn't for supply to satisfy demand, but just to expand the demand side. Expanding the demand side usually involves harming supply with higher taxes, smothering regulations, and diverting otherwise productive capital to Treasury bonds so the government can consume more. This is ineffective and the opposite of what leads to growth.

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Ineffective Demand

As mentioned already, Say's Law was assailed by John Maynard Keynes in his book, which was published in the midst of the Great Depression where the unemployment rate peaked at nearly 25%. But Keynes wasn't the first Keynesian. Many of the policies Keynes would come to advocate had already been implemented. Following the

1929 stock market crash, President Herbert Hoover (R) cut income taxes by $160 million to increase aggregate demand.[24] The Federal Reserve too began slashing the discount rate for the next two years from 6% until it reached 1.5% in 1931.[25]

To further the increase of aggregate demand, Hoover signed government spending bills, which included public works projects swelling the national deficit.[26] He even built a dam. In his attempt to close the gap in the budget, Hoover increased taxes substantially in 1932.[27] The top rate went from 25% to 63%, but even so, tax receipts stayed the same in 1933. Increasing taxation just removes what would be productive capital over to consumption, thereby, preventing future expansion.

President Hoover also intervened in the economy by not allowing markets to clear. His meddling involved farm loans to maintain agriculture prices.[28] He also had protectionist trade barriers so consumers would buy American-made products to bolster prices. But foreign governments retaliated and prevented U.S. exports. Global trade fell by 2/3 and further contributed to the worldwide downturn.[29]

Soon after the 1929 stock market crash, Hoover encouraged business leaders across the country to not lower wages in response to the slumping economy.[30] He wanted wages to remain high and for profits to decline instead. Hoover believed high wages is what leads to prosperity. But this is the opposite of what needs to occur in a downturn within a free market. Prices should

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naturally fall as supply entices the new lower level of demand until it becomes balanced again. In order to lower prices, businesses need to lower their costs, which include their largest expense of labor.

A free market that can adjust prices and wages will prevent large scale unemployment. Hoover's policies didn't prevent unemployment, but accelerated it. As prices fell, the only alternative for businesses was to lay people off since they committed to not lower wages at the behest of President Hoover.

Not long after taking office in 1933, President Franklin Delano Roosevelt (D) continued down the same path of increasing aggregate demand at the expense of the supply side. The New Deal policies suffocated businesses with heavy regulations and high taxation, which only lessened investment and production.

Roosevelt also believed the *high prices and wages leads to prosperity* theory started by Hoover. FDR intervened in the economy with his New Deal policies aimed to curtail production, artificially raising prices. This made food and other products much more difficult to afford, which added to the suffering of the millions struggling in the depression. These policies were the reverse of what the market needed to rebalance.

A 2004 article published in the Journal of Political Economy,[31] *New Deal Policies and the Persistence of the Great Depression: A General Equilibrium Analysis* concluded FDR's policies prolonged the Great Depression by seven

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years. The study's co-author, economist Lee Ohanian said, "High wages and high prices in an economic slump run contrary to everything we know about market forces in economic downturns. As we've seen in the past several years, salaries and prices fall when unemployment is high. By artificially inflating both, the New Deal policies short-circuited the market's self-correcting forces."

The end of the Great Depression is often attributed to World War II. But while sending millions away to fight in the war may have helped unemployment, the inflated GDP many cite was because of government war spending. Domestic prosperity hadn't yet returned to the country, however. The components of GDP tell the real story:[32]

	GDP	C	Inv	Exp	Gov
1941	126.7	64.0%	14.3%	0.8%	20.9%
1942	161.8	55.0%	6.4%	-0.2%	38.8%
1943	198.6	50.3%	3.1%	-1.1%	47.7%
1944	219.8	49.5%	3.5%	-0.9%	47.9%
1945	223.0	53.8%	4.8%	-0.4%	41.7%
1946	222.2	64.9%	14.0%	3.2%	17.8%

Pearl Harbor was attacked on December 7, 1941. The next day the U.S. declared war on Japan and entered WWII.

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The previous table shows GDP for the year was $126.7 billion, which was made up of 64.0% personal consumption (C), 14.3% private investment (Inv), .8% net exports (Exp) and 20.9% total government spending (Gov).

For the years of WWII (1942 - 1945), government spending increased substantially. This is the component of GDP causing GDP's rise. During the same period, however, private investment declined dramatically and likewise personal consumption. Net exports also took a dive. This tells us it was only government spending that increased GDP and not a growing private sector economy.

It wasn't until after the war that the economy truly begins to grow. Federal government spending was $84 billion in 1945, but in 1946, federal spending had dropped by 65.7% to $28.8 billion! The cuts in government spending allowed the private sector to use its capital to expand in search of revenues. These cuts in spending and the unwinding of many of the New Deal policies is what brought prosperity back and decidedly ended the Great Depression.[33]

There's a stark contrast between the depressions of 1920 and 1929. The depression of 1929 turned into the Great Depression of which its effects lingered until the close of WWII, compared to its predecessor of 18 months. It's not difficult to see the reason it lasted so long was because of government meddling. Had the first Keynesians allowed the market to correct itself, the depression may have been as short lived as the one at the beginning of the decade and there'd be no reason to call it Great.

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Keynes Blame Game

Keynes discredited Say's Law in the minds of the public and government officials by using his misinterpretation of its meaning. If supply creates its own demand, then there wouldn't be such a demand shortfall as seen in the Great Depression. So Keynes blamed the depression and its high unemployment on classical economic thought. This then allowed him to introduce his theory about demand side economics. What Keynes got wrong, as stated, was Say's Law applies to production that meets demand, not just willy-nilly production.

The cause of the Great Depression is debated, but it certainly wasn't the result of classical economic practices or beliefs. Say's Law didn't instruct the Federal Reserve to inflate the economy with easy money during the boom of the 1920s.[34] The Fed's actions artificially propelled the stock market attracting personal savings and business profits, which poured in until the Fed decided to put the brakes on. Then the jig was up. The resulting economic shocks from the stock market crash of 1929, bank failures and interventionist government policies devastated consumer and business confidence and would have still occurred had Keynes been king.

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Principle of Effective Demand

It's said Keynes believed the opposite of Say that demand creates supply or that demand ultimately equals supply (D = S). Keynes observed the problem was there weren't enough buyers to incentivize firms to increase produc-

tion and employment. So, to have full employment, the supply side would need adequate demand.

In his book, Keynes propositioned the principle he called *effective demand.* This is the point where aggregate demand and aggregate supply become equal. Consequently, businesses won't produce more goods because buyers at this point are at its maximum. Those who are unemployed wouldn't be able to find jobs because the supply side doesn't have a need to hire.

At this hypothetical place of effective demand, he believed governments should cut personal taxes (not a bad thing) or spend more money to increase aggregate demand. This would theoretically move unsold inventory and entice firms to invest more capital to increase the supply, which would increase employment.

This principle of increasing aggregate demand depends on the belief that demand would be satisfied at this equilibrium point, and supply wouldn't be seeking to meet demand any further. I don't believe, however, those assumptions can be made.

In reality, supply is continually attempting to satisfy demand especially in unregulated environments. Demand will never be completely satisfied because of competition, innovation and invention. A start-up with a better product will compete for existing market share by deploying new capital. Thus, employment rises. Or an existing business with a new product will compete for the buying power of demand. Again, employment increases.

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In a free market economy, entrepreneurs with the profit motive will always work to entice demand. When there's no barrier to enter a market, human nature will take over in the pursuit of earning income. Human nature and freedom are why effective demand is wrong.

Those on the sidelines are not dependent upon a satiated equilibrium between the supply of goods and national income or the buying power from the demand side. They just need to meet market demand. Today, job openings are easier than ever to identify because of the internet. These listings are by companies competing for income.

Let's illustrate a sidelined unemployed person named Eric within this theory of effective demand. Instead of hoping for a government shovel-ready job or a guaranteed government income, he sees the chance to do something entrepreneurial. So he goes out and cuts people's lawns in his neighborhood diverting people's disposable income to himself.

After doing so, he has income to consume in the economy, which provides for his needs and effectively replaces the consumption of those who paid him to cut their grass. Just from this one act of meeting demand, the national income increases.

To further expand on this, a household with long grass earned money from their job and would have spent $40 of it at Target. Instead, they find more utility in paying Eric $40 to cut their grass, which he uses to shop at Target. The store Target didn't lose anything, but Eric's

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income went from zero to $40 and the national income likewise increased by $40. Overtime, he gets a loan to buy equipment and hires people to cut even more lawns, which increases the national income further. The bottom line is employment improved because of meeting market demand not because of some government investment.

Let's say the market tells Eric he should accept credit cards, which he does with his smartphone and a Square Reader. So now people are getting lawns and other projects done on credit. The customers who are using credit are using more than their disposable income. Because Eric is meeting demand, the GDP, the national income, and employment are all increasing. So much for a satisfied equilibrium between supply and demand.

Eric's business is an example against effective demand and the need for government investment spending to create jobs. What creates jobs is less government, private property protections, low taxes and free markets where all the participants are incentivized to earn as much income as possible.

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Demand Shortfall

The way Keynes saw the world, aggregate demand would steadily decline in capitalism because people hold money. In addition to hoarding money, government spending outside the country and trade deficits would cause the buying power to decline. By not using all this capital to demand products within the U.S., it would cause a demand shortfall. This basically means the demand for

products, services, investments, and labor would be less than 100% of what was earned as income. A demand shortfall would cause declining economic growth and also high unemployment.

This isn't the story of our economy, though, because thus far, the free market capitalist system of the U.S. encourages economic growth. We don't rely upon a managed economy where bureaucrats determine national output. A free market-based economy leads to new businesses, capital investment, an educated workforce, new technologies, discoveries of raw materials, and so much more. All of this for the pursuit of meeting demand to earn income. As a result, our national output grows, productivity improves, employment increases, and the standard of living improves for everyone.

In addition, hoarding is offset by borrowing. Consumers use more than their income to make purchases. New money is added continually from credit card purchases, auto leases, student loans, home mortgages, business loans and other loans. This borrowing is from met demand. There's also new private capital used by startups and other businesses to pay vendors and to hire people.

All of these loans and the monetization of assets pump new income into our economy. This new income enlarges the amount of money in the *Circular Flow of Income.*[35] This is the business income received from the consumption of loans and liquidation of assets are used to pay workers who then buy products and services—then repeating over and over again.

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Some may discount borrowing because loans have to be paid back. The idea being, the principal portion of the loan-repayments negates future demand for products, which neutralizes the benefit of the initial loan amount. If you make that case, then you have to allow for hoarding of cash to be eventually spent. People don't demand money as a commodity, but for bank deposits, debt reduction, investments and for future consumption.

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The economic activity of producing to earn income makes up for any would be demand shortfall resulting from hoarding, sending money away to foreign countries or for any organic wealth creation. This is why a growing GDP is important. The GDP for a single term measures both output and national income within the country. If it grows compared to the previous term, it means aggregate demand (and supply) has increased. If GDP shrinks, it means aggregate demand has decreased and there's been a demand shortfall. A growing GDP is the final verdict for organic wealth creation. Those who save income do not harm economic growth and certainly do not cause a demand shortfall.

Demandocratic Party

The freer an economy, the more economic prosperity there will be. That's what conservatives believe. This isn't just a theory, but is evidentiary provable by looking at the free market capitalist system of the United States—the most prosperous nation in the world. This wealth didn't just appear even though we have an abundance of natural resources. The wealth which was created was by

a free people who were incentivized to prosper because there weren't barriers to income creation. Anything is possible within a free economy when people are able to reap the rewards of risk taking or for hard work.

When conservatives characterize today's liberal economic proposals as being socialist, it's because these policies destroy existing wealth and the mechanisms for future wealth creation just like full-blown socialism. Additionally, these policies appear to be steps toward the goal of transforming the U.S. economy into actual socialism. Each step they take towards that goal is considered progress by progressives.

Progressive politicians have taken Keynes's theories and run with them. They're all about stimulating the demand side of the economy. They promise voters free things like a guaranteed job, healthcare and college, but this requires forcing other people to pay for it. Many Democrats have staked out positions constraining the supply side in order to stimulate the demand side; even though, supply side expansion is what leads to more employment. Most of their proposals when broken down can be characterized by the following equation:

$I \Rightarrow D = S \propto E$

Demand (D) equals supply (S) which results in a proportional level of employment (E). Government investments (I) on the demand side are supposed to increase the supply side, which theoretically would also proportionally increase employment.

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This basic mathematical statement is why Democrats have no problem with policies harming supply. They are purely demand centric looking at just one side of the equation. If their agenda damages supply, then it means more demand stimulus would be needed. Regarding this equation, they truly are the party of the left.

Illegal Immigration

Consider Democratic policies that essentially encourage illegal immigration. Taking positions allowing for an undocumented workforce harms the supply side of legal labor. Jobs are taken away and it lowers wages.

Even so, undermining the labor supply doesn't faze them because their true motivation is turning illegal immigrants into Democratic voters. As a bonus, it doesn't negatively affect the demand side. The demand side is just fine because illegal immigrants "do the jobs Americans won't" and as a result, they become consumers in the economy. So the Democratic Party prospers at the expense of American citizens and the legal workforce.

$15 Minimum Wage

A new minimum wage that's higher than current local market rates stimulate demand and harms supply. This is because it artificially raises the costs to employers resulting in unequal transactions. Forced wages are not equal to the value received, so employers will reduce jobs in response and raise prices to cover the costs of the remaining employees. Even though the demand side is collecting higher wages, job losses and a more costly living may cancel out any demand stimulus.

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Tax Increases

The left is promising to raise the corporate tax rates back to 35% from 21%, even though Biden proposed 28%. Tax increases doesn't help job creation, but it will allow them to raise revenue to stimulate demand for their programs. If the supply side is hurt by raising taxes, then more demand stimulus would be needed. They just have to apply the equation by investing in demand to increase the supply output in their attempt to raise employment.

Government Programs

Providing free things such as Medicare expansion, universal healthcare and college are demand side stimuli. Government funded healthcare and college may be a windfall for the medical and education industries, but it's definitely not free and will require taxing the supply side of the economy.

Most people recognize today's guaranteed student loans and health insurance have the effect of escalating costs because of unchecked demand. If the government began providing free college and healthcare for everyone, it would be a demand side stimulus on steroids resulting in a further escalation of prices. The problem is the producers would have to pay for the ever increasing costs with higher tax rates.

Climate Change

Progressives believe we only have ten to twelve years before fixing the climate is beyond repair. Besides raising taxes on business, imposing regulations for the climate's sake obviously harms the supply side. Over regulating

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the economy will result in fewer jobs, but that doesn't matter when considering the Demandocratic equation. It just means more demand stimulus would be required.

The left believes government can constrain supply side activity as much as is necessary with taxation and regulations to support their policy objectives. Doing so will require as much stimulus as would be necessary on demand to increase supply. They believe this will then lead to near full employment for those who want to work.

They also expect that business will always adapt to whatever the rules are and; therefore, high taxation or heavy regulations aren't a detriment to economic growth. The supply side will just adjust no matter what.

The origin of this demand stimulus philosophy can be traced back to the work of John Maynard Keynes. Ever since Keynes, governments around the world have been trying to stimulate demand at the cost of constraining the supply side.

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The Obama Test

There was a great debate in 2018 on who deserved credit for the booming U.S. economy. The intellectually honest concluded Donald Trump does. Some were saying President Trump inherited a strong economy that began under Barack Obama. Even former President Obama himself pointed to his Administration's job numbers while he was on the campaign trail before the 2018 midterms. He said the good monthly job numbers under

Trump were just a continuation from his time in office adding we all should say, "Thanks, Obama."[36]

The markets didn't collapse and the economy didn't go into recession with Donald Trump's policies, as predicted by mainstream economists. Paul Krugman infamously stated the markets would "never recover" because of a President Trump and "we are very probably looking at a global recession, with no end in sight."[37] All these predictions were, of course, proven false. How could so many experts be so wrong? The answer lies within their cherished economic theory.

Keynesian economic policies are advocated and used by liberals to try to manage the U.S. economy. This is especially true whenever there's a looming recession. Under this theory, there will always be times of economic recessions and high unemployment with capitalism because product demand will eventually decline due to a demand shortfall. Keynesians contend suppliers cannot react fast enough to lower product prices and wages in response to declining demand so they lay people off. They essentially deny the ability for markets to clear on their own.

The solution, the theory advances, is government intervention with monetary and fiscal policy. The monetary policy is carried out by the Federal Reserve. The idea is for the Fed to lower interest rates to incentivize borrowing to stimulate demand. The fiscal policy is government investments (spending) on the demand side. This is paid with increased taxes on the supply side and borrowing, which both remove investment capital from the economy.

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Under President Obama, we implemented Keynesian policies entirely. The interest rates were lowered to near zero, the Federal Reserve *printed* over four trillion dollars and the nation's debt nearly doubled to almost twenty trillion dollars because of the massive budget deficits.

The result of applying their equation, $I \Rightarrow D = S \propto E$, wasn't a success. Despite the entire demand stimulus, the economic recovery was still anemic resulting in unimproved employment during Obama's first term. In order to see their demand stimulus succeed, some liberal economists believed government spending should have been some multiple higher than the $trillions spent.

That failure to improve employment is why the left's control over Biden's policies had such massive stimulus. Not only did they rob America for political gain, but also the theory that massive multiple trillion dollar spending programs will reduce unemployment. The socialists, however, have ulterior motives than jobs. We'll delve into their plans beginning in chapter seven, *Democratic Socialism*.

We're supposed to take these people seriously that spending should have been much greater under Obama? That's a lot of stimulus in an *attempt* to move the needle on employment. I would like to point out inefficiency isn't very effective. It should also make the rest of us conclude increasing aggregate demand with massive government spending doesn't proportionally improve employment.

This should have been the lesson from Obama's presidency, but under the Biden-Harris regime, we'll have to

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suffer the same result again. Colossal spending, higher taxes and heavy regulations are the opposite of what's needed to have a robust economy.

The country didn't experience a job recovery during Obama's first term, which was from 2009 to 2012. The unemployment rate for January 2009 was 7.8% and it rose from there staying mostly above 9% for the first 33 months. The unemployment rate during that time peaked at 10%.[38] For the remainder of his first term, the unemployment rate improved modestly by about a percentage point to around 8%. The recession officially ended in June 2009, but the economy didn't snap back as would be expected based on historical recoveries.

It took until January 2016 for the unemployment rate to fall under 5%, which was where the rate was before the housing and financial crisis began. The drop in the unemployment rate was partly due to people leaving the labor force. The *participation rate* depicts the percentage of people who are currently employed and also those who are unemployed, but who're looking for work. This latter group is what the unemployment rate measures.

The participation rate dropped steadily from January 2009, where it stood at 65.7%, until bottoming in September 2015 at 62.4%.[39] The three point drop in the participation rate made the unemployment rate appear better than it otherwise would have. The labor force participation rate was moderately improving under President Trump until the pandemic blew everything up. The November 2021 rate was 61.8%.

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The reason the economy didn't snap back was because of the policies coming out of the Obama Administration. The problem with their prescribed Keynesian medicine was it didn't do anything to improve business and consumer confidence but instead, exacerbated the concerns of the public.

The near zero interest rates, bank bailouts and the flood of easy money from the Central Bank didn't allow markets to clear. Prices and wages couldn't adjust so unemployment remained high. Additionally, there was a misallocation of private capital to prop up businesses that weren't solvent. The market, if free, will reward companies that are meeting demand with investment capital and not the misrun ones which are not.

On top of Keynesian policies, there were new healthcare, financial and energy regulations making the future outlook for business uncertain and expensive. Adding to these regulations were a host of new tax increases that squeezed budgets making expense cutting, i.e., downsizing, the only path to improve the bottom line. The actions from the Obama Administration were like someone threw a wet blanket over the economy.

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With the Keynesian model in full force and the economy still just barely chugging along, people weren't too optimistic about the future. When workers in mass cling to their jobs as if it's the difference between survival or getting booted off the island, then it's evidence there isn't a jobs' oasis elsewhere. The people who are working will then limit their consumption out of fear of losing their

job and paycheck, which means less income generation and low economic growth.

Supply Side Confidence

You could characterize the expression for supply side economics as simply S ▷ D. All this says is supply works to satisfy demand. The sideways pyramid points to demand because of the work required in building a pyramid to reach the pinnacle. If you want a job or to sell a product, it takes preparation and hard work in order to be able to meet demand. Once demand is met, though, income is created and with that, the power to demand products or investments yourself. As a result, other supply works to satisfy the newly created demand. The expression just repeats.

There is no equation where government invests in one side or the other to raise employment. Supply side theory relies on the premise freedom to pursue profit is all that's necessary for economic growth. Give the supply side, which includes business and labor, the freedom to enter the marketplace to earn as much income as possible in equal exchanges, then the economy will grow and so will everyone's standard of living.

The government does play an important role, however, by doing the things markets cannot. The first thing it does is protect private property rights to set the stage for everyone to be empowered to pursue income. The government does many other things like facilitating commerce by building physical infrastructure, investing in scientific

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research and development, providing primary and secondary education, enacting consumer protection laws, funding space research and exploration, regulating monopolistic powers, protecting the environment, determining proper taxation and so much more.

On a side note, some free market economists believe interest rates should be self-regulating so a Federal Reserve setting the interest rate wouldn't be necessary. There are other things the government currently does or has done that may be better off within a free market framework too such as space exploration, rail transportation, utilities and postal services.

Recessions occur as a result of declining business and consumer confidence. Confidence could be affected by events or bad economic climates such as pandemics, war, terror attacks, oil price hikes, natural disasters, downturns in other economies, or some financial crisis.

The question to ask, how do you improve confidence? Obviously, the first thing is to address whatever caused the panic or economic shock. Some threats can be mitigated with good government policy. For example, the Trump Administration deregulated the energy sector so the country could be on track to become a net exporter of oil in 2020.[40] Being a net exporter has the major economic benefit of our economy not being susceptible to trouble elsewhere affecting the foreign oil supply.

Besides addressing the root cause of a recession, the remedy for a demand shortfall in a recession is allowing

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markets to reach a new equilibrium, which precludes government spending and easy money. Prices and wages have to be allowed to decline to prevent massive unemployment. Once the new equilibrium between supply and demand is reached, the economy can once again grow.

Sticky wages, which is when employers are reluctant to lower wages, is a real issue. A good idea is for employee agreements and labor contracts to be structured to have a floating salary staying within a specific range.

A floating salary would start with a base salary or wage amount that could decrease in bad economic times and increase in good times. If the economy slumps for whatever reason, the salary would automatically adjust lower. If the economy is booming, then the salary would increase by some percentage.

There should be an automatic trigger instead of leaving it up for people to decide. It could be triggered by a company's own stock price, the S&P 500 Index or some other method yet to be invented. For example, if the S&P increases by 10% in a month, year-over-year, then the salary would increase by an agreed percentage. Conversely, if it declines by 10% YOY, then so would the floating wage decline.

Employee raises, then could be based on the success of either the company or the economy. This would align employee's goals with that of the company, which is to meet customer demand to earn revenue. As the economy grows or inflation increases and employee wages have

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reached the high end of the range, the base amount can be adjusted to once again align both parties' interests.

By having compensation plans reflect the possibility of lower wages, it should incentivize employees to plan accordingly by budgeting with a lower amount and saving the rest. If their salary declines due to a recession, they could optionally stop their saving plan until their salary once again adjusts higher.

In addition to letting markets work, government policy should be to improve the confidence of both the supply side and the demand side. If one of society's objectives is a strong labor market, then the business climate has to become confident about the future. When businesses believe their investments will result in revenue growth, they'll hire people. A strong labor market is what improves consumer confidence.

Improve the Climate of Supply

According to most media, our economy is consumer driven; nearly 70% of GDP is consumer spending. While this appears true by looking at the GDP, which is the value of all *finished* goods, it's completely untrue when analyzing Gross Output (GO).[41]

The Gross Output measurement is for *all* the economic activity in the production of goods and services. So manufacturers and suppliers not included in GDP are included in GO. When you look at the entire output of our economy, consumers account for only about 33% while

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business spending is over 60%. This truth places the consumer as the minority on the demand side. Businesses buying from other businesses are nearly two times greater.

The reality is, the supply side meeting both business and consumer demand is what drives our economy. The question to consider, why does the demand side spend? Consumers don't take their income and unload it on whatever is within reach. Instead, they spend because the supply side creates products and services they desire. Business spending too is only for products, services and labor that satisfies their needs.

If we can agree spending occurs because the supply side satisfies market demand, then meeting demand by supply should be something that's encouraged. After all, if supply is successful, demand will spend more. The reason the supply side is good at meeting demand is because they want to earn revenue or income. The motivation to earn income is why they work so hard in producing products people desire.

It's equally true for wage earners. They are motivated to learn new skills and work hard to earn an income. Therefore, we should encourage those in the workforce to meet the needs of the ever changing employment market.

When Keynesians declare increasing consumer demand will increase the supply side, they may believe the 70% number. This could be one reason why the left is so focused on government investing on the demand side. But

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before there are consumers at retail or B2B customers, all are first suppliers of labor, products or services. This is how everyone earns money so they can then demand. What, you don't say?

If you think about consumer confidence, it's really labor confidence, which is on the supply side. Consumers are only confident when their current and future earnings potential is positive. If it becomes negative due to high unemployment and a recession, it will affect their propensity for consumption. Therefore, labor confidence begets consumer confidence.

In order for labor confidence to improve, there needs to be an improved outlook for business. Tax increases, over regulation and government spending are precisely the opposite of what the economy needs to grow.

I'm not advocating against unemployment compensation or for no safety net, but this should only be done temporarily to benefit those adversely hurt by a recession. We shouldn't spend on the demand side thinking it will lead to job growth. Government spending does very little to improve anyone's confidence that would move the needle on employment. Just ask former President Obama.

Preferably, there needs to be a better business climate developed. This is one where businesses are emboldened to invest their saved capital or will borrow money for the purpose of expanding their operations. The reason businesses invest capital to expand, of course, is to earn more revenue. This is a top line pursuit.

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An over regulated and taxed business climate will lead to downsizing and layoffs. Instead of searching for revenues, companies look to squeeze out any profit; a bottom line undertaking.

Business expansion is obviously much better because it involves hiring people. A growing job market, in turn, improves labor confidence. The labor confidence improves with a growing job market because workers become confident about their earning potential.

When wage earners have confidence about their future, they'll consume more. With consumers spending money, it then justifies a business's investment and hiring, which keeps business outlook positive and looking to expand further.

This is the loop of confidence. It starts with business, then labor and finally consumer. Improving the economic climate for business will jumpstart income generation all the way around. Not only do businesses and workers consume more, but all the newly employed become consumers as well. All this new consumption circulates within the economy becoming income, then consumption and then income again.

Removing Interference

To improve business confidence, the government needs to get out of the way with less regulation. It should also lower taxes and consequently spend less, which would free up private capital to invest in productive companies.

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This prescription is what leads to growth and more employment. Businesses accordingly would not worry about future government compliance issues. Not being burdened will allow them to focus on growing their businesses instead of worrying about just surviving.

A free market economy will grow without government interference. If the supply side is unconstrained, both businesses and labor will then have the incentive to create the most income as possible. As the climate in the economy becomes freer, economic activity will heat up and expand. Instead of a wet blanket thrown over the economy, having more freedom is like throwing kindling and oak logs on it.

This doesn't mean we should have 100% laissez-faire capitalism, but as much as is possible. Laissez-faire is a French term meaning *let do*. In other words, the government should let the economy do what it does without interference. The government's role in our free market economy should be limited as much as is feasible to only do what free markets can't.

An economic system where there's freedom to earn as much income as possible builds supply side confidence for both business and labor. Supply side confidence then results in consumer confidence. As a result of positive confidence covering all facets, our economy will grow and there'll be enough demand for labor for anyone who'll work to satisfy it.

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