

Demand and Supply

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This [article](#) first appeared in the April 2009 edition of *The American Spectator*

There are two types of economists—make that two types of people—in the world: demand-siders and supply-siders. What’s interesting about the two is that they think in vastly different ways about life and human interaction.

This is not a bumper-sticker difference in ideology. Supply-siders do not walk around saying, “Cut taxes and watch prosperity trickle down.” And demand-siders do not defend government spending no matter what. They could say these things, but their differences are much bigger and deeper than this.

Demand-siders tend to be pessimistic, fret about greed, worry about leaving people behind, see everything as win-lose, and worry about running out of resources. They believe government can fix all of these issues. Supply-siders tend to be optimistic, get excited about others’ achievements, have faith that people can succeed, and believe things can always get better. They believe government often impedes success.

Some of these thought patterns have been subtly shaped by the ideas of dead economists and philosophers. But much of the difference in these two types of people derives from human nature. For example, it doesn’t take an intellectual to stir up fear about running out of resources. It’s a normal human worry. It’s another matter, however, when economists and politicians take these ideas and extrapolate them into all kinds of economic theories and government policies.

In fact, the economic policy-maker-in-chief, President Barack Obama, and his economic team are clearly demand-siders. They talk of catastrophe, and running out of energy or clean air. And they claim that the only way to save the U.S. economy is for the government to spend money, because the people who earn it either can’t or won’t. This is a demand-side response, and is famously tied to John Maynard Keynes.

Demand-siders look at the world as if it were one giant treadmill of materialism. No wonder they are often so glum. If people stop spending, if people hold back, then the economy is in trouble. It’s all about buying things, getting things, having things. This is where our nation’s church pastors enter the fray. They often complain about capitalism because it supposedly encourages people to take their eyes off God and keep them on material things. And if you believe in the demand-side view of the world, it’s easy to believe that materialism makes the world go round.

What’s interesting here is that no matter how much people complain about materialism and greed, when the economy gets in trouble, the first thing demand-siders want to do is stimulate demand. And in order to do this, they take resources from one group and increase government spending or turn right around and give that money to someone they think will spend it.

If people are buying fewer houses, the government thinks lowering the prices by forcing banks to lower the amount owed or to lower mortgage rates will boost economic activity. But as Milton Friedman said, “There is no such thing

as a free lunch.” If we need government to move in with all guns blazing to artificially lower mortgage rates, then someone will pay. Mortgage holders may pay less today, but the lenders will pay a price in the future.

While demand-siders think that stimulating demand by taking from one group and giving to another group is a wise policy, they paradoxically also have a zero-sum view of the world. They think that when the rich get richer, the poor get poorer, but also think that taxing the rich more makes everyone better off. They don’t believe that when the poor get richer, the rich get poorer.

President Obama’s economic team assumes raising taxes will do nothing to the overall wealth of the land because it’s all one big pot that needs to be stirred. Some of President Obama’s advisers even believe that redistributing wealth will accelerate economic activity because lower-income people spend more of their income. And since spending (demand) makes the world go round, we will all be better off if we spend more in total.

President Obama argues that, “with the private sector so weakened by this recession, the federal government is the only entity left with the resources to jolt our economy back to life.” Unfortunately, the federal government gets those resources from the private sector in the first place. So where is the “jolt” to come from?

Zero-sum thinking does not end with money. It is at the root of the arguments about resource scarcity and renewable energy. What most people don't realize is that this argument has been around for hundreds of years (if not longer). As far back as 1789, Thomas Malthus fretted that there were too many people in the world and not enough food. In 1979, President Carter told the world that we were running out of oil. This makes sense if you only think about buying things instead of producing things.

Supply-siders do not think this way. In fact, deep down, even though many of them won't admit it, supply-siders think about things the way our pastors should. After all, pastors tell us that God created human beings in His image. They also tell us that God is a creator. God is not a consumer. So, in reality, our human interaction on an economic level is not about the treadmill of materialism; it's about the fire of invention, innovation, and creativity.

In the supply-side world, shortages are a call for innovation. Malthus was wrong because he did not account for technological advances in agriculture. Carter was wrong too: the world did not run out of oil when he thought it would. Nor did the lights go out when society ran low on whale blubber. And the most powerful economic force of the past 35 years has been the computer chip,

which in essence is made from sand. In other words, human beings have created "something out of nothing."

Supply-siders get excited about the future and remain mostly optimistic because they believe in human ingenuity. They look for ways to encourage risk-taking, wonder where the next invention will come from, and believe that opportunity is endless. What the Austrian economist Joseph Schumpeter described as "creative destruction" is the process of economic advancement.

No supply-sider I know enjoys watching people lose their jobs or witnessing industries wither. However, supply-siders know that it is inevitable. Moreover, they know that the more government intervenes in the process, the longer the pain will last. There may be an argument for spreading the cost of some economic losses across society as a whole, but the important thing to remember is that this does not erase the loss; it just shifts cost onto unsuspecting people who had nothing to do with causing the loss in the first place.

And this gets to the root of the matter. As demand-siders run around trying to find ways to support the housing sector, the auto sector, newspapers, and banks, it is supply-siders who remind them that all this spending must come from somewhere. Every dollar that is shifted by government from one sector of the economy to

another has a cost. The true price of that redistribution—a loss of entrepreneurial zeal—may not be seen for decades, but it will harm the economy in the long run. One more thing. Demand-siders believe in central control because they have an "add-'em-up" view of economic output. What this means is that demand-siders look at the economy as a combination of spending on all the different things people buy. Supply-siders don't look at things this way. Supply-siders think about all the things people produce and attempt to measure how new inventions will raise productivity.

In the end, supply-siders have faith in individuals, especially in times of crisis, while demand-siders have faith in government. Think about this for a minute. If you wanted to find gold in the hills of California, would you send out the 101st Airborne to march around in formation and dig in unison, or would you send out 20,000 scruffy, hard-living, independent, and free-wheeling miners? If you are a supply-sider you believe in the scruffy guys, if you are a demand-sider you want the Army. Which side do you want to be on? Which side is more likely to succeed?

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