more than trickle down to the poor—they gush down upon them.

In Africa there is the case of two neighbors—Ghana and the Ivory Coast. Ghana is a socialist, high-tax-rate country, with a top marginal rate of 75 percent at $12,552; the Ivory Coast is capitalist, low-tax-rate, with a top marginal rate of 37.5 percent at $20,922. In Ghana, the average annual growth rate of gross domestic product during the 1960s was 2.1 percent, a figure that fell to 0.4 percent between 1970-1977. During the same periods the Ivory Coast had an annual growth rate of 8 and 6.5 percent. Public consumption in Ghana during these periods grew at an average annual rate of 6.1 and 1.5 percent, by 11.8 and 8.6 percent in the Ivory Coast.

Of course, public consumption is not the only way supply-side growth can help the poor. There is also the effect on private incomes. During the 1960s, Brazil achieved a high rate of economic growth compared to other Third World countries. By the late sixties and early seventies its growth rates approached 10 percent a year. This was the basis of Brazil's widely acclaimed "economic miracle." Who benefited? According to Gary Fields writing in the *American Economic Review*, every income group did, but especially those below the poverty line—their personal income increased at a rate perhaps twice as great as the rate of those above the poverty line. Consequently, the "poverty gap" in Brazil—the amount by which incomes of the poor would have to be raised to bring them to the poverty line—was reduced by 41 percent between 1960 and 1970.

To conclude, the moral justification for a free-market approach to global economic development is that economic growth is the best way to help poor people. The Reagan Administration lost the moral initiative when it let the Democrats outmaneuver it on trickle-down economics. David Stockman's remarks in the *Atlantic* and the Administration's inability to overcome them have reflected a basic lack of sympathy for what supply-side economics is supposed to be about. This is the main reason why Reaganomics has degenerated from a coherent set of policies geared to promote economic growth to a virtual tautology. Anything the Reagan Administration does—and shouldn't do—has become Reaganomics.

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ARTHUR B. LAFFER

Action and consequence and the ability to relate the two is the central factor of behavior modification. When attached to a series of rewards and penalties, the ability to relate emerges as incentives and disincentives. With children, the broad process is called "education" whereas, in later life, "political economy" is the appropriate name. A system's ability to gauge the dynamics of an action-reaction sequence in conjunction with incentives and, then, provide proaction determines the degree to which that system achieves success or, in some instances, literally survives.

This constellation of effort-and-reward association provides the underlying rationale for classical economics—now called supply-side economics. Attractive activities, because they furnish the provider with rewards, increase, while unpleasant actions are shunned. In its simplest form, taxes cum subsidies alter individual perceptions of natural attractiveness. When socially useful actions are taxed and socially undesirable activities are subsidized beyond what is natural, behavior will be altered so as to diminish the socially useful and expand the socially undesirable. The more adept the system is at comprehending, the more rapidly and more penetratingly it will accentuate the socially undesirable at the expense of the useful. A government that governs too much thus assures its own extinction, but only with an enormous toll of forfeited weal.

Incentives extend into every aspect of life, in addition to economics. While supply-side activists rightfully point to this, that, or the other distortion, their efforts must, of necessity, be squandered unless they fall on fertile political soil. Excellence must start at the top of the political hierarchy. If excellence is not the norm at the very top, political corruption will guarantee that natural incentives will not survive. These incentives will be altered virtually beyond recognition. A political system that fails to reward politicians in direct accordance with the beneficial aspects of their policies will ultimately become so misshapen as to deny the body politic the bulk of the prosperity that could have been.

Our political system has grown more and more complex. Elected representatives don't understand, let alone read, the legislation upon which they vote. This increasing complexity has caused representative democracy as we know it to collapse under the weight of its outmoded system of misplaced incentives. To reconstruct a viable system of properly placed incentives within the political arena will be the ultimate achievement of supply-siders. Only when political incentives are correctly constituted can one reasonably anticipate consistently good economic policies and a thriving society. Back-and-forth bickering over balanced budgets and the like obfuscates the profound agenda of reestablishing a society where people are held responsible for their own actions and are provided the full authority to alter their circumstances—where government in its most minute aspects is of the people, by the people, and for the people. People do deserve the governments they have, if only they secure the power to control.

People are the sole comprehensive perceivers of the total impact of governmental policies. Who cares more about taxes, the nation's defense, and busing than the people? Surely it's not Tip O'Neill, Ronald Reagan, or the Supreme Court. In a recent 6 to 1 decision, the California Supreme Court denied the California voters the right to vote on a legitimately qualified constitutional amendment. Such outright disregard for the legitimate authority of the people further perverts incentives. Such actions are fortunately a rarity in California and, even in this instance, will probably be dealt with deftly by the electorate at some later date. No person should be disenfranchised from the electorate; nor should the electorate be disenfranchised from governance.

The key to good government is to be found in the rights of the people to referend and amend without obstruction at all levels and in all branches of government. This, then, is the highest item on the supply-side agenda.

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ROBERT D. NOVAK

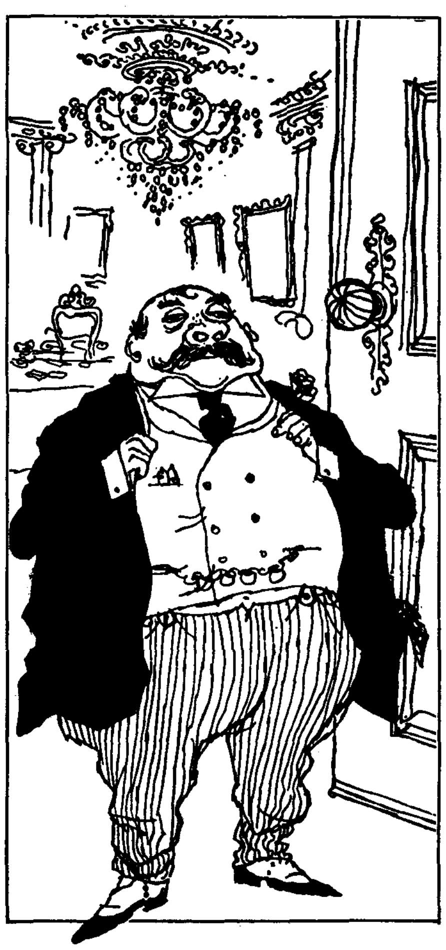
The decline of supply-side, both as a catchword and as a political movement, in little more than two years is illustrated by the metamorphosis of Dr. Martin Feldstein. In 1981, as a Harvard economics professor, he was a self-styled supply-sider and an ardent advocate of tax reduction. In 1983, as chairman of President Reagan's Council of Economic Advisers, he rails at supply-side "extremists" and lusts for tax increases.

He is not alone. Those who long ago stopped calling themselves supply-siders and started pressing for tax increases include Rep. James Jones, Dr. Charles Walker, and Lawrence Kudlow, to name only a few. The very words, "supply side," have all but disappeared from the public prints. Purists believe the only bona fide supply-sider inside the Reagan Administration is a middle-level White House aide named Wendell Willkie Gunn, though Dr. Manuel Johnson, an assistant secretary of the Treasury, would seem to pass all but the most stringent purity test. Other names in the Administration do not come easily to hand. The roll call of practicing politicians who not only carry the supply-side banner but flourish might well be exhausted by listing Rep. Jack Kemp and Lewis Lehrman.

So drastic a thinning of supply-side ranks is accompanied by the indictment and conviction of the 1981 tax cuts for causing the worst recession since the Great Depression. Even Ronald Reagan in his most recent public utterances seems to have lost faith, the prospects for his second-term economic policy moving in an opposite direction. Supply-side, then, would seem to be all but dead, its faddish popularity of two years ago replaced by a tiny elite keeping the flame despite the failure in practice of its policies.

But even if supply-side as a movement has become stagnant, I believe it remains alive and well as the best available means for economic salvation by political leaders courageous and astute enough to seize it. Contrary to the conventional image, the tumultuous economic history of the Reagan Administration affirms the validity of supply-side doctrine. Most important, the nucleus for its revival is not the small circle of priestly true-believers but the intuitive support of the masses. Supply-side strength is inherently populist, not elitist.

Actually, the defection of the political and intellectual elites from supply-side ranks is more apparent than real. The number of bona fide supply-siders among politicians and economists never was substantial. What is a bona fide supply-sider? In fiscal policy, he advocates reduction of marginal tax rates as an incentive to reinvigorate the entrepreneurial spirit and thereby ensure a vigorous economy. In monetary policy, he advocates national and international monetary reform linking the dollar and gold in an anti-inflationary but not deflationary system.



By those standards, apostate supply-siders such as Feldstein, Jones, Walker, and Kudlow were never true supply-siders in the first place, on fiscal much less monetary grounds. In 1981, their advocacy of more generous tax amortization for industry and implicit hostility to marginal tax cuts actually put them in the stance of favoring just another business subsidy. As for monetary policy, these "supply-siders" always supported the elitist notion held by the governors of the Federal Reserve system trying to fine-tune the economy and stabilize the dollar by calibrating the money supply.

At one time, I thought supply-side pioneers Jude Wanniski and Arthur Laffer pedantic for insisting that "hard money" is inseparable from tax reduction. The economic experience of the past three years has convinced me that I was wrong and they were right. The Reagan tax cuts of 1981, though too little and too late, are still responsible for the pace of the current economic recovery. The President's failure to embrace supply-side monetary policy, on the other hand, permitted the Federal Reserve Board–produced recession to persist and now threatens to abort or at least slow the economic recovery.

The conventional wisdom in Washington and on Wall Street is quite the opposite, indicting the tax cuts for the economic turmoil and saluting the Fed's tight money policy for the recovery. Illogical and implausible though that formulation is, Reagan himself seems to have embraced it, and that is the most depressing news for the supply-siders.

Over the past year, I have had the opportunity to question the President at two White House breakfasts with journalists. On February 23 when I asked him about a return to the gold standard that he once advocated, Reagan was unencouraging and said: "There does seem to be more sentiment against it in this modern day than there is for it." On July 29 when I asked him about further tax rate reductions, he indicated he would not be so inclined because of "those deficits out there."

This is by all odds the worst setback suffered by the supply-side movement. Its greatest asset in 1981 was Reagan's enthusiastic support; its greatest liability today is his disaffection. The President's senior aides congratulate themselves on having weaned their chief from a tiny band of wild-eyed fanatics. In truth, it is part of his Administration's turn away from populism and toward elitism. Nobody can convince me as a political reporter that ordinary Americans do not favor lower tax rates. All polls indicate that they also intuitively favor a gold-based dollar, an amazing judgment considering the lack of serious public debate on the subject. Yet, in the face of this public mood, the Reagan Administration seems determined to go into its second term requesting tax increases and defending fiat money more tightly managed by the Fed than ever before.

In that sense, supply-side is not dead but waiting to be revived by such a leader as Ronald Reagan seemed to be. The experience of the past three years clearly points to the program needed for long-term economic recovery. What is needed is the political will to initiate it.

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ROBERT W. POOLE, JR.

Is supply-side economics dead? To judge by the rhetoric coming out of Washington, one would think so. But rhetoric isn't everything. As Lyndon Johnson used to say, "Watch what we do, not what we say." In fact, much of the debate on taxing and spending is still a response to the supply-siders' agenda.

The basic premise of supply-side economics is that incentives matter. Government has gotten so large and intrusive that it has killed off incentives. Thus, the supply-siders called for a program of cutting the size of government and reducing the incentive-killing aspects of the tax system and federal regulations.

Though hardly a radical agenda by libertarian standards, much of this tax-rate reduction and regulatory reform has actually been put into place. The three-year personal income tax rate reduction has been maintained and next year will see indexing of the tax brackets to preserve those gains. Tens, if not hundreds, of billions of dollars are being saved by individuals and businesses, thanks to reform or elimination of needless federal regulations.

That's all well and good, you may say, but tax cuts and regulatory reform are no longer where the action is. With the housecleaning at EPA, the rescinding of much of the corporate tax cut, and continuing concern over $150-200 billion deficits, hasn't the supply-siders' hour passed?

To judge by the rhetoric, yes. But if you look at the substance of public policy, the answer is a qualified no. The core of supply-side doctrine is that government is the problem, not the solution. What the supply-siders succeeded in doing was to change the focus of debate—away from thinking up new things for government to do and toward controlling the growth of government. And the latter is *still* the focus of much of the debate on Capitol Hill.

To be sure, the share of gross national product consumed by government has climbed several percentage points since Ronald Reagan took office. But this increase is due more to the recession—with the automatic expansion in "entitlement" program recipients—than it is to the growing Pentagon budget. There has been no proliferation of agencies and programs in search of problems these past three years, nor is any in prospect. Instead, the focus of debate is on getting the deficit under control, through some combination of spending cuts and tax increases. And while any tax increase would be regrettable, it's noteworthy that those proposing increases are being forced to consider their adverse effects on economic growth.

In short, the supply-siders have succeeded, to a remarkable degree, in changing the way legislators and commentators think about taxing and spending. It will be a long time before another Jimmy Carter can propose, with a straight face, that jacking up the rates on capital gains is a "tax reform" measure!

A few die-hards are still trying to