

SUPPLY-SIDE ECONOMICS

SOMSAK TAMBUNLERTCHAI, PH.D.

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Demand-side economics

- Demand-side economics emphasizes on aggregate demand: consumption, investment, government spending, and net exports. Promoting demand to spur economic expansion; and at the same time, managing demand to maintain economic stability.

Supply-side economics

- Supply-side economics emphasizes on promoting economic growth and development created by producing more goods and services.

Supply-Side Economics

- Factors of production:
natural resources, labor, capital, and technology.
- Policy measures:
reducing taxes, decreasing regulations, improving productivity, and providing infrastructure.
- Economies will benefit from greater supply of goods and services with higher employment and lower inflation.

In implementing economic policies, reasons for demand rather than supply management are:

- Concerns on current problems
- Time horizon (for demand vs supply-side economic policies) to achieve results
- Political consideration
- Lack of coherent economic theories on supply-side economics

Supply-side economics in the United States in the 1980s (Reaganomics)

- Reduction in taxes (lower tax rates)
- Reduction / Simplification / Streamlining of regulations
- Arguments:
 - Higher taxation leads to lower levels of production as companies and individuals lack the incentive to work hard or produce more.
 - Lower tax rates will not reduce tax revenues; instead, tax cuts could bring about an increase in overall tax revenues as more goods and services are being produced. More production would lead to higher tax revenues.

Results of Reaganomics

- Higher budget deficits
- Increased borrowing by the government--higher interest rates--high costs in production and induced massive capital inflows to the US -- appreciation of American dollars--reduced competitiveness for American exports.
- The US suffered twin deficits (budget and current account deficits), but massive capital inflows helped stimulate domestic demand and helped the US economy avoid recession.

China's Supply Side Structural Reform (供给侧结构性改革)

Background:

- Lower exports and slower economic growth
- Some Chinese exports became less competitive due to higher costs
- Excess capacity in some industries

Policies:

- Continued economic reform
- Moves towards a more consumption- and service-driven economy
- Urbanization
- Regional development
- Poverty alleviation
- Belt and Road Initiative (BRI)
- “Made in China 2025”
- Supply-side structural reform

Differences between supply-side economics in the US in 1980s and in China at present:

- Different economic conditions
- Different objectives
- Different policy measures

Policy Measures on Supply-Side Structural Reform

- Elimination of excess capacity (去产能)
- Elimination of accumulated stock (去库存)
- Deleveraging (去杠杆)
- Reduction of costs (降成本)
- Bolstering areas of weaknesses / filling gaps (补短板)

Reducing cost is probably the most important policy in supply-side structural reform.

- Besides production costs, other costs such as taxation, regulatory costs, transportation costs, and distribution costs should also be reduced. R&D and innovation should be promoted so that goods and services can be produced with higher efficiency; while at the same time new products can be introduced to the market.

Interactions between Demand-Side and Supply-Side Economic Policies

- Say's law: Supply creates its own demand.

↑ Production--Use more factors of production--more employment and higher income--increased purchasing power--↑ Demand for goods and services.

- If there is a lack of demand for newly produced goods or services, there will be no supply.

Different Supply-Side Policies Could be Complementary to Each Other

- Infrastructure construction can help absorb excess capacity and reduce accumulated stock.
- Deleveraging to zombie companies releases more financial resources for start-ups and more efficient producers.
- R&D and innovation leads to creation of new products, helps utilize idle resources, and reduce excess capacity .

China's Belt and Road Initiative and "Made in China 2025" are complementary to the supply-side structural reform:

- Help absorb the excess capacity in the country
- Channel surplus savings to secure resources overseas
- Promote Chinese companies' overseas operations
- Promote R&D and innovation with technological improvement

Components of Supply-Side Economic Policies

- Institutions
- Infrastructure
- Manpower
- Technology
- Management
- Sectoral reform

In this era of rapid technological changes, supply-side economics is becoming ever more important. Coherent supply-side economic theory need to be developed.

To achieve “Thailand 4.0”’s objectives, Thailand should learn from China’s experiences – e.g., on:

- Poverty alleviation
- Regional development
- Education reform
- Industrial development
- Science and technology development

In particular, the implementation of supply-side economic reform and “Made in China 2025” policies should be carefully studied.

Thank You For Your Attention!

Somsak Tambunlertchai, Ph.D.

Contact Info:

Faculty of Economics, Thammasat University, Bangkok, Thailand

somsak.tambunlertchai@gmail.com