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"SUPPLY-SIDE" MEANS INCENTIVES

Although the Reagan budget cuts are essential to his economic program, the Reagan tax cuts are the heart of it. The tax cuts represent the innovative change, the real turning of the corner from the old, tired liberalism of the past, to the new conservative economics of the future.

The logic and benefits of the Reagan program have unfortunately been obscured by being labelled "supply-side" economics. What in the world does that mean? That piece of jargon conveys no imagery with which the average citizen can relate. And alas, economists also compound their problem of communicating with mere mortals by cluttering their message with graphs, charts and statistics.

"Supply-side" economics should be called "incentive" economics, because that's what it really means. Incentive is a word that any child can understand and relate to.

Incentive is a motivator that affects all people without discrimination. It moves rich and poor, black and white, male and female. Just as financial incentives may motivate a poor person to remain on welfare rather than take a low-paying job, financial incentives may motivate a rich person to relax and enjoy life rather than invest in a new enterprise.

Unfortunately, liberal economics and our present tax structure provide powerful incentives to idleness. When the poor person chooses idleness instead of work, society loses only the small amount of taxes he would otherwise pay (plus the cost of supporting him on welfare). However, when the rich man chooses idleness over work, society loses not only the large amount of taxes he would otherwise pay, but loses something far more valuable -- new jobs for other people.

The rich man, by definition, has more income than he needs to pay for the groceries and to meet the mortgage payments. When he makes more money than he can spend on himself and his family, he normally invests this excess income in other enterprises; and that's what creates new businesses, plant expansion, and more jobs.

Our present tax structure provides incentives to the rich to quit working, quit pro-

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ducing, quit investing; in other words, to become the "idle" rich instead of the productive rich. If the rich man is in the 60% tax bracket, for every additional dollar he earns, the tax collector gets 60¢ and he gets only 40¢. Since he doesn't really need the money anyway, he decides that leisure is more appealing than extra work or risky investments.

Incentive economics focuses on the marginal tax rates, that is, the tax rate applying to the next dollar of income you receive. That's the point at which incentives or disincentives encourage you to earn more or to remain idle. Tax cuts provide incentives to the rich to withdraw from tax shelters, reject leisure, work overtime, forgo consumption, sell gold, buy stocks, start a business, and risk their savings in order to earn more.

Now suppose we cut the tax rates so the rich man can keep 60¢ from every additional dollar he earns, while paying the tax collector only 40¢. All of a sudden, his leisure time and tax shelters cost him twice as much. The tax cut has given him an incentive to work harder and to invest more.

It matters a great deal whether the rich remain idle or go to work because, when the rich work overtime or invest in productive enterprises, they pay taxes -- lots of taxes. Rich people make more money for themselves, yet they pay a larger share of the national tax burden. Cutting the marginal tax rates will make the rich pay more taxes.

More important, their investments create more jobs, so more people move into the productive part of the economy. That means a healthier economy, more tax revenues, and less inflation because the nation moves closer to a balanced budget.

A productive economy depends on people working in jobs. If there are not enough jobs for the people who want to work (as now), what we need more than anything else is incentives to induce people with savings or extra income (i.e., rich people) to invest in businesses in a way that creates more jobs (called capital formation).

Incentive economics is the wave of the future which is destined to wash into oblivion the destructive economics of Lord Keynes which preached deficit spending and produced the politics of cynicism: tax and tax, spend and spend, elect and elect. The farsighted "supply-siders" who have developed incentive economics include Paul Craig Roberts, Norman B. Ture, Arthur B. Laffer, George Gilder, Jack Kemp and William Roth.

I just wish they had called their program "incentive" economics instead of "supply-side."

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