A Demand Side/Supply Side Experiment

So what we should do is an experiment.

There are two theories out there about how to create jobs during a downturn. One, Demand Side or Keynesian Economics, says that demand for goods and services creates jobs. So if you increase spending power, by giving unemployment benefits to the unemployed, or reduce Social Security taxes for workers, or put workers to work on government construction projects like highways and buildings, those people with increase their spending, putting other people to work, who will in turn increase their spending, and so on. Obama's efforts to spur the economy have been very much demand side driven.

The other, Supply Side Economics, says that "Job Creators" – big businesses, wealthy business owners, the top 1% – create jobs. But they will only do so if the conditions are right: low taxes, little regulation, a favorable business climate. If you don't coddle these people, they'll just leave the rest of us up the proverbial tributary without a means of propulsion.

So here's the experiment I propose. Let's find some state that will adopt a bunch of pro-Supply Side, anti-Demand side legislation. They'll cut taxes on corporations and on the rich, they'll gut environmental and other regulations, they'll improve the business climate up to the stratosphere.

At the same time, they'll reduce the spending power of the middle class, by say cancelling the homestead tax credit that doesn't really help the rich, by delaying unemployment benefits, and by cutting the pay of a whole lot of public workers – teachers, sanitation workers, prison guards, middle class non-job-creating folks like that. They may need some excuse for cutting their salaries – maybe something about them not paying their fair share of their pensions or health care – but that can be worked out, I'm sure.

Then we'll see what happens. If the Supply Siders are correct, that state's economy should boom, outperforming all of its neighbors. Those job creators should start hiring like crazy, putting all those middle class hangers on back to work. If we then see that economic boom, we'll know that the Supply Side theory is the correct one.

What if, on the other hand, that state's economy doesn't boom? What if we see that state's economy stagnate, grow slower than its neighbors, with perhaps months and months of employment declines in a row, even while all its neighbors are experiencing employment growth? What if that state is forced to announce an unforeseen deficit, because its policies had resulted in less economic growth than forecasted? Well, then we'd have to conclude that all those Supply Side policies were a failure, and that the Demand Side theory, the one Obama has based his policies on, is actually the correct theory.

So that's what we should do. We get some state to perform this experiment, and see what happens. Then we'll know which story to believe.

So all we have to do is to find some state, some Governor and State Legislature, dumb enough to actually try a wild experiment like this. Anyone got any suggestions?