therefore, should be viewed as a long-run strategy to enhance growth rather than a short-run tool to end recession. Changing market incentives to increase the amount of labor supplied or to move resources out of tax-motivated investments and into higher-yield activities takes time.

Modern supply-side economics lays emphasis on providing all types of economic incentives to raise aggregate supply in the economy. According to Bethell, "The essential argument of supply-side theory is that adding to supply unlike adding to demand is not a zero-sum task. In order to make something, a producer does not need to be given any money. Instead, he has to be given an incentive." Incentives to producers are essential to invest, produce and employ. Similar incentives are to be given to individuals to work and save more.

Main Features of Supply-Side Economics:

The government plays a limited role in liberalising markets, reducing taxes and freeing the labour market. The main objectives of supply-side policies are to keep inflation at a low level, achieve and maintain full employment and attain faster economic growth.

1. Tax-induced Change in Aggregate Supply

Supply-siders regard tax cuts as an effective means of raising the growth rate of the economy. To assess the likely effects of tax reductions, they distinguish between income and substitution effects of a cut in the marginal rate of income tax. It is only when the substitution effect of a tax cut is larger than the income effect that there will be an incentive to work more, thereby leading to reduction in unemployment.

A reduction in personal tax rates increases the incentive of people to work and save more. High savings reduce short-term interest rates and lead to

8. Deregulation and Privatisation:

Deregulation and privatisation are important supply-side policies. They are used to encourage more competition within the economy. Removal of public sector monopolies and sale of public sector enterprises and transfer of public utilities in private hands lead to increase in productive efficiency, wider consumer choice and lower prices.

9. Free Trade and Capital Movements:

Free trade and free capital movements among countries are another policy measure of supply-siders. The removal of exchange controls and free inflow and outflow of both short- term and long-term capital lead to the maximisation of output and growth by widening markets and checking monopolies.