

Re: Refuting supply-side economics

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larryinnes@yahoo.com (Larry Innes) wrote in message
news:<ccf8cf06.0409121755.2b70c76b@posting.google.com>...

> *You have a very interesting viewpoint, and the fact seems to support
> your logic. There is only one minor problem, which is the statement
> "As government debt builds, the investor finds it more profitable to
> buy federal bonds rather than invest in the productive sectors of the
> economy." Could you explain why?*

>
> *One could have easily stated the opposite: "As government debt
> builds, the investor stays runs away from federal bonds since the
> increasing debt normally will cause rising interest (discount) rate in
> the future, in turn reduce the value of bonds." In addition, the
> financial agency might lower the rating of US treasury from "AAA" to
> something lower due to the fact that US has the worst debt ratio in
> the world, thus has higher potential to default.*

>
> drr0cket@yahoo.com (Bodhisattvacat) wrote in message
news:<4f2532f6.0409121022.4dbcdef4@posting.google.com>...

>> *The idea that paying for tax cuts with deficit spending helps the
>> entrepreneur, is sheer nonsense. As government debt builds, the
>> investor finds it more profitable to buy federal bonds rather than
>> invest in the productive sectors of the economy. The entrepreneur thus
>> is denied the capital he needs to start and expand his business. So
>> that, although he has lower taxes, he is left in a much worse position
>> than he was before.*

>>
>> *The economy with high public debt becomes sluggish, unwieldy and weak.
>> It is leached of investment capital and makes businesses a lot harder
>> to expand and develop. The high-tax, no-deficit Clinton economy was
>> able to grow fast, because there was capital available for its
>> development. The low-tax, high-deficit Bush economy is stagnant,
>> because the investment funds are denied the businessman and all go into
>> buying government bonds.*

>>
>> *I don't know why Democrats haven't said anything to this effect. I hate
>> to be the only person I know who has thought of this obvious fact. It
>> is not a difficult concept to explain to American people.*

>>

sci.econ: Re: Refuting supply–side economics

> > *Bush is screwing the entrepreneur, and he is screwing my generation.*
> > *With \$2000 per person per year in added federal debt, America will not*
> > *be able for long to maintain its vibrancy without going through some*
> > *very painful times. Reagan had an excuse; he had a Democratic Congress*
> > *and a Cold War. But Bush has a Republican Congress and two minor*
> > *conflicts with very weak enemies that together cost \$100 billion a*
> > *year. For him to be running \$500 billion a year deficits, is*
> > *inexcusable.*

The fundamental assumption of supply–side economics is flawed. There has in fact, seldom been a shortage of capital in the USA [contrary to some other times and places] . There is usually a shortage of good projects.

With almost every technological breakthrough, starting with the canals at the beginning of the 19th Century, too much money has chased too few projects and in the end, most people have lost money. The year 2000 debacle of the dot coms was true to form. It seems that the financial community never learns from its own history.

My family knows this well. My greatgrandfather, an elementary–school dropout, started as a canal–boat employee, then switched to railroads when he saw how fast a parallel train moved from downstream to upstream. He made money and gave his descendents railroad stock. They held it past AC electricity, the automobile, the radio and the early TV, only to see it become worthless.

The fundamental policy instrument of supply–side economics reflects a crass ignorance of how most new ventures are financed. Lower taxes for the rich accomplishes very little for new ventures. Most rich are not willing to take that much risk.

The first round of new–venture financing comes from credit cards, mortgages and personal savings. For example, a relative who ran up 18 credit cards to the hilt to start his second [and second successful] new venture. Or the case reported by "Inc." magazine, of a man who ran up a debt of \$200,000 on credit cards. Ditto for the second round.

The third round may see angels and/or venture capital funds on the scene. Ditto the fourth round. Bank credit only comes in at this latter point or later, with IPO's still "down the road a piece".

To help new ventures, keep interest rates low [as did Clinton], do something about the credit–card rate spread, eliminate the corporate tax deductibility of interest and lower the corporate tax rate correspondingly. For the long run, tax dividends at ordinary rates, except for new–venture dividends paid from seven–year old retained earnings, which should be tax free.

Cordially.