

Re: Refuting supply-side economics

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"William F Hummel" <wfhummel@comcast.net> wrote in message
news:8lk0l01kgku5kbabqf3f6f8o99fv18je2h@4ax.com...

> On Tue, 21 Sep 2004 16:05:48 GMT, trexo@encompass.net wrote:

>

> > In sci.econ Some Guy <bc76@midmaine.com> wrote:

> >

> > > A middle class tax cut funded by borrowing shifts resources from
> > > producers to consumers. The middle class gets the money which it
> > > spends on resources. Government borrowing to make up the difference
> > > crowds out capital investment in production. The same government
> > > spending takes place that would have otherwise.

> >

> > Crowding out only occurs when the government deficits are high enough
> > in relation to the total output that treasury bonds compete with
> > investments in the private sector. There isn't any set number to where
> > this is as it depends on the economic structure at any given point in
> > time.

>

> Crowding out in financial terms is a myth. Treasury bond sales don't
> compete with investment in the private sector. The proceeds from the
> sales are immediately deposited in the Treasury's accounts in
> commercial bank where they count as reserves of the banking system,
> and available to back loans.

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> Furthermore, the only reason the Treasury sells bonds is to recapture
> its deficit spending. This reciprocal flow of funds has no net effect
> on the aggregate bank deposits of the private sector.

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> Crowding out only occurs in real terms, if the government preempts
> labor and materials in demand by the private sector. The last time
> there was any significant crowding out was in World War II when
> rationing was imposed on a number of strategic materials, and the
> civilian labor force was strained to the limit due to the needs of the
> military.

It is a fundamental mistake to think that public debt has the same effect on
distribution of wealth as debt free greenbacks. The interest paid to treasury bond

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holders is a dead loss to taxpayers. They receive nothing in return for the interest they pay to bond holders. The goods consumed purchase with bond interest are goods that are lost to the producers.

You can say that taxpayers receive the use of borrowed funds that the government spends but that begs the question of the necessity in the first place of government debt. The greenbacks experiment proved that government can regulate a base money supply without incurring debt by simply spending money into circulation.

MM