

## Re: Refuting supply-side economics

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**From:** Some Guy ([bc76\\_at\\_midmaine.com](mailto:bc76_at_midmaine.com))

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> *"crowding out" is an inappropriate term. Hummel has uttered no falsehood*  
> *in his presentation. But the real characteristic that prevents this*  
> *"crowding out" is that money can be created at will by the government and*  
> *the Fed (the two can be looked at somewhat synonymously). But Mr.*  
> *Hummel does not do justice to the "if government preempts labor and*  
> *material". As the Fed raises interest rates the attraction of bonds*  
> *will increase and money will move from capital investment/speculation*  
> *into bonds. One might call this a "crowding out", but it seems a*  
> *misnomer.*

I don't think 'crowding out' is a bad term, neither is 'pricing out'.

'Capital' includes real capital ( stuff ) and financial capital ( money ). Financial capital is the most widespread vehicle for the movement of real capital between investments. When an investor invests financial capital in some project, the money buys real things which are put to use in the project. The money stays in the financial system, but the real capital stays put. It is what is really 'invested'.

Money has no use outside of its buying power. Because of this, it practically always ends up back in the financial system no matter how it is spent. But the buying power of money depends on how much real capital is available per dollar in existence.

Given a constant money supply, a decrease in available real capital caused by investing it in projects is inflationary in general. Only when the investment eventually enables production of other real capital is that decrease in real capital paid back – but not necessarily in the form of the same kinds of real capital that was originally invested.

For instance: Investing land in milk production decreases the supply of land in relation to other commodities like money. This is inflationary with respect to land prices. But after some time, milk production increases which pushes the price of milk down with respect

to other commodities like money. If someone invests in a cheese factory, then the investment of milk is inflationary wrt milk prices, but the production of cheese is deflationary wrt cheese.

The inflation is up-front. The deflation comes when and if production ramps up.

If the government buys half the cement that is produced by existing production equipment in a year then it has an effect on the price. Any other investment project requiring cement that would not be profitable at the new higher price of cement will have been 'priced out' of existence. By increasing the price of cement by using so much of it, the government has reduced the profitability of cement requiring investments but increased the profitability of cement producing investments. Those cement producing investments then compete with other projects for the resources needed to produce cement pricing some out.

Of course any investment that is not able to provide a better return than treasury securities is 'crowded out'. But 'pricing out' also happens when inflationary government spending makes projects that might have been more profitable than treasury securities, less profitable. Of course investing in the means to produce the resources the government wants to buy becomes more attractive.

If the military found it could make radar invisible coatings for the navy ships out of dried milk, and started soaking up half the milk production for that purpose, then the prices of milk and cheese, and eventually land would rise, with cheese producers possibly going out of business.

Existing clearcuts might not be replanted with trees, and instead used to grow hay for dairy cows.

The rise in wood prices might eventually be passed on to consumers through a rise in paper, furniture, or heating costs. However leather and meat prices might fall.

McDonalds might have to absorb a half-cent added cost for each cheeseburger it sold for the more expensive cheese, but if the price of the patty fell by 2 cents, then it would be doing well. Although maybe the added price of land would have priced wheat farms out of the land market ( or caused them to convert to dairy farms ),and made the buns more expensive...

It's hard to trace the effect of government spending and it's impossible to know what resources would have been invested in had they not been crowded or priced out.