

Re: Refuting supply-side economics

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Some Guy wrote:

>>
>> *"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).*

For anyone who appreciates honesty and who has respect for the idea that capital is that which creates a better life for all of us, the term "financial capital" is an insult.

> *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'.*

Consider that the money could be created in the banking system as a loan without there being any "financial capital" in the pocket of some saver or rich person. I do not say that this is the right way to do things, but that it is something that happens in the world of investment banking right now and it is an acceptable form of finance.

> *Money has no use outside of it's buying power. Because of this, it
> practically always ends up back in the financial system no matter how*

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- > *it is spent. But the buying power of money depends on how much real*
- > *capital is available per dollar in existence.*

This paragraph is really way out there.... Unless this "financial capital" (vomit) is spent on federal bonds offered by the Fed. The "financial capital" (money) will remain as a part of the "money supply". And oddly enough the power of money is inversely proportional to the amount of real capital.

- > *Given a constant money supply, a decrease in available real capital*
- > *caused by investing it in projects is inflationary in general.*

Yes. Use of real capital increases money velocity.

- > *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.*

Have no idea what you think this is.....

- > *For instance: Investing land in milk production decreases the supply*
- > *of land in relation to other commodities like money.*

Land is not capital, and the money is still in the system, and the amount of land has not changed. The amount of land available for alternative use is less in that this particular location is now devoted to use as a dairy.

- > *This is*
- > *inflationary with respect to land prices.*

The individuals who erect the improvements on the land will now spend money on stuff that without such income would have not been consumed. That increases velocity at square one. And if there is less land available then the trade price of land will increase.

- > *But after some time, milk*
- > *production increases which pushes the price of milk down with respect*
- > *to other commodities like money.*

True enough.

- > *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 this sort of thing is continual then it is a wash.

- > *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.*

We have government bidding resources away from the private sector.

- > *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.*

Yet every Republican assumes in his lust for tax cutting that government merely burns money in a furnace or gives it to people who are undeserving. Military expenses are, of course, just fine.

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"I know no safe depository of the ultimate powers of society but the people themselves; and if we think them not enlightened enough to exercise their control with a wholesome discretion, the remedy

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is not to take it from them, but to inform their discretion by education." - Thomas Jefferson. <http://GreaterVoice.org>