

Re: Refuting supply-side economics

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Just because a mechanism have been working in the last forty years does not mean it will not come to an end when it reaches a threshold. For instance, if a person borrows from loan shark A 1 million at 5% for one year, then borrows from loan shark B 1.05 million at 5%, and so on, he can in theory borrow for a long period of time through rolling over the debt repetitively. But there will be a day when the debt is more than loan sharks are willing to or able to lend (say 3 million dollars). The only way to get out of this death trap is if he somehow figures out a way to invest and earn more than 5% per year with the money he borrows. But this is not what US government is doing. They kept borrowing from the loan sharks and kept spending more without producing (and tax) more (relative to its budget). This is a death spiral.

You said: "the fact is that other countries need the US more than the US needs them." This is basically saying that the loan sharks needs its debtor more than he needs them. This is simply not true. The loan sharks will get their money back one way or another. But one day the debt will be higher than what the loan sharks are willing (or able) to lend. The US economy will be ruined when the loan sharks refuse to lend more and thus kill the roll over mechanism.

You said: "The US is running a trade deficit precisely because it's economy is strong. Otherwise other countries would have no incentive to invest in the US..." This is like saying that the loan sharks are willing to lend to a person precisely because his ability is strong. Loan shark does not really care whether the debtor's ability is strong. As long as the debtor has asset they can take (fresh, children, house, etc) they will lend him the money.

As someone pointed out correctly: "They (the deficit spendings) represent a piece of wealth transfer from the importing nation to the exporting one." One can say "I don't care since I won't live long enough to see the deadly crash of the economy." But it is a very short-sighted way to see the economy of a nation. It is completely immoral. Deficit spending only makes sense when the spending is aiming at either increasing the productivity or reducing the wealth disparity (The New Deal). Both help a nation to increase its productivity in the

long run. Otherwise, it is a suicide.

You said: "one cannot gauge the health of the economy just by looking at trade deficits." In your own words, because "Deficits can be good or bad depending on how the money is spent." If US government does not show that a deficit spending is to increase productivity, then the Senate must seriously consider prohibiting this particular additional deficit spending.

You said: "Foreign investments in the US are a strength of the US economy. The US benefit greatly from the British investments in the US during the 19th century." Investment is truly constructive only when a nation is in a production expansion stage such as 19th century US and 21st century emerging nations (in particular China). But there is no proof that US is in the production expansion stage. As a matter of fact, many indications (outsourcing, expensive labor) show that these emerging nations are taking the productivity from US. Most economists agreed that US is becoming a "finance economy" rather than a "production economy." US is playing the same role England was playing in the 19th century. These emerging nations of cheaper labor are taking over as the "world factory" and will benefit more effectively from the foreign investments. The US (one that lost these production jobs) will not benefit as effectively from additional investments, especially when these investments are mainly used to support the debt, not invested in production.

The difference between the period after World War II and the present time is that US's productivity is going downhill (at least temporarily) due to the rise of China and Japan. Thus deficit spending can be suicidal since there is little indication that US can generate more to compensate the additional money it needs to roll over its debt year after year.

There is still hope that US can turn the tide. US needs to face the unavoidable reality that cheaper (and sometimes better) labor forces present tremendous power to challenge the US economy. Educating its labor force and temporarily lowering its people's living standard is a compromise its people must endure for a period of time (nobody likes to hear this, but medicine is normally bitter). Once the other emerging nations' living standard slowly catch up (just like US caught up to the living standard in the 19th century) and the labor force slowly regains its competitive position, then its time to slowly come back with its better positioned economical force. In the mean time, US needs to continue to focus on high-tech and robot-intensive industries that require highly skilled professionals and labors. I heard that Alabama has successfully attracted many auto and high-tech industries with its tax incentives and initial investments. All of these efforts are the right kind of "deficit spendings" that US as a whole must engage. And in the mean time, many other non-productive deficit spendings must be tightly controlled.

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William F Hummel <wfhummel@comcast.net> wrote in message
news:<kns5l0hioafr37udgtg27qr2lvsgrtalbj@4ax.com>...

>*Deficit spending can continue indefinitely as long as the debt/GDP
ratio*

>*remains bounded. We don't know how large that ratio can become
before*

>*it might have a negative impact on the economy. But we do know that*

>*it is far lower than it was at the end of World War II, and was then*

>*followed by about 20 years of the best economic growth in our
history.*

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