

## Re: Refuting supply-side economics

**Source:** <http://sci.tech-archive.net/Archive/sci.econ/2004-09/1386.html>

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**Date:** 09/26/04

Date: Sun, 26 Sep 2004 18:52:12 GMT

On Sat, 25 Sep 2004 17:30:32 -0400, "Mark Monson" <[m\\_monson@ztech.com](mailto:m_monson@ztech.com)> wrote:

*>In the case of the government borrowing money at interest, this scheme is  
>unproductive for taxpayers because all the things the government spends this money  
>on come from the produce of the nation. Taxpayers receive more benefit from their  
>tax dollars when all tax dollars are exchanged for government goods and services  
>rather than part of the taxes being used to pay interest on public debt.*

Taxing or borrowing represent equal cost to the tax payers. Interest on government bonds is simply the cost of deferring the tax payment to cover government spending. In either case, the public gets the same amount of NET (after interest) government spending, whether the result of that spending is good or bad.

*>The bond holder as bond holder is the privileged recipient of tax dollars without  
>giving anything of value to taxpayers in return.*

No. The taxpayers receive value in whatever the government spends the money on, just the same as the bond holders (most of whom are tax payers). I've explained this in some detail in another post.

*>Expenditures over revenue can be made up by the government spending base money into  
>circulation, later corrected through taxation so as to avoid inflation.*

No! Taxes would be a very blunt tool for controlling the base money supply. The tax code is a political football and can only be changed with great difficulty and much time delay. Furthermore for a given tax code and tax rate schedule, revenues vary significantly from month to month and year to year.

The government now spends about 2,300 billion a year while bank reserves total only about 60 billion. To avoid unacceptable fluctuations in the overnight interest rate, bank reserves must be continuously controlled. This requires close cooperation between the Treasury and the Fed. The Treasury borrows every week as required to recapture its spending, and the Fed adds or drains small amounts for fine control. Your concept would create serious problems for the

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economy in general and business in particular.