

## Re: Refuting supply-side economics

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**From:** Day Brown ([daybrown\\_at\\_hypertech.net](mailto:daybrown_at_hypertech.net))

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Good analysis. thanx. comments below.

Larry Innes wrote:

- > *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*

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- > *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*
- > *21th 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.*

Machiavelli noted that in republics, the candidates inevitably promise more than can be sustainably delivered. Unwilling, or unable to tax the people who have the money (the rich) and unable to collect money from the poor (who are broke) the politicians borrow the money. But the day always comes when a creditor sees that the debt can no longer be serviced, much less paid off. When one creditor balks, or simply lacks the money to lend, a financial panic results.

After which a demagogue, like perhaps Kaiser Schwartzenegger, rises up in the name of the people to repudiate the debt (like Hitler & Caesar) and seizes the assets of the rich to redistribute to the masses.

The problem with hitech manufacture is that it has so few workers, who themselves, because they are so skilled, can easily move to another country where the taxes on their income are lower. It also leaves the problem of what to do with all the clueless rednecks who are too stupid and lazy to acquire skills needed in the global economy.

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