

Re: Refuting supply-side economics

Source: <http://sci.tech-archive.net/Archive/sci.econ/2004-10/0106.html>

From: The Trucker (*mikcob_at_verizon.net*)

Date: 10/02/04

Date: Sat, 02 Oct 2004 07:49:03 -0700

Andy F wrote:

> *William F Hummel wrote:*

>

>> *On 30 Sep 2004 02:22:21 GMT, aft627@aol.com (Andy F) wrote:*

>>

>>> *William F Hummel wrote:*

>>>>

>>>> *The tax burden is determined by government spending and the tax code.*

>>>> *It doesn't matter who owns the government bonds. If Mr. A buys US*

>>>> *Treasury bonds and Mr. B buys euro bonds, your thinking implies that A*

>>>> *benefits at the expense of US taxpayers, whereas B clearly does not.*

>>>> *But A and B are simply investing their savings in different bonds, and*

>>>> *doing so totally independent of who pays taxes. So why is A the fall*

>>>> *guy according to your logic?*

>>>>

>>>> *This has nothing to do with the argument I was making.*

>>>>

>>>> *My point is that when the government borrows instead of taxing, this*

>>>> *benefits*

>>>> *present-day taxpayers at the expense of future taxpayers. The two groups*

>>>> *are not the same, even though you like to pretend that they are.*

>>>>

>>>> *Okay, it's somewhat clearer. You are not arguing that bond sales due*

>>>> *to deficit spending increases the gap between the rich and poor as*

>>>> *Coburn claims, and you are not arguing that bond holders are the*

>>>> *beneficiaries. You are simply claiming that future taxpayers are*

>>>> *benefiting at the expense of present-day taxpayers as a result of*

>>>> *government borrowing.*

>

> *No, it's the other way round.*

But in the Hummel House of Mirrors, Smoke and Bubbles, that is "irrelevant". What matters is the defense of the saintly institution of the Fed and the banking system as it currently exists.

>>

>> *Now to further clarify your point, explain in what sense (real or*

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>>financial) that benefit occurs. And to support your claim, please
>>give us the rationale, preferrably in the form of a numerical example.
>>
>>
> OK. Say Tom is 17 years old , Dick is 30 and Harry is 62. Tom is still at
> school, and Dick and Harry are earning average wages.
>
> The government decides to give the average worker a one-off \$100 tax
> cut.They finance this by issuing 5-year treasury bonds.
>
> Dick and Harry now both have an extra \$100, which they could invest in
> bonds. Tom isn't a taxpayer, so he gets nothing.
>
> 5 years later, The bonds mature.A bond which cost \$100 is now worth \$120.
> The government decide to pay off the debt by raising taxes.This costs the
> average worker \$120.
>
> Tom is now 22, has left school and is earning an average wage.Dick is 35,
> and still in the same job.Harry is 67 and has retired. It's assumed
> retirees aren't
> affected by the tax rise.
>
> In the aggeragate, the borrowing will have had no real effect. An average
> citizen like Dick gets \$120 from the bonds, but has to pay it back in
> taxes.But if you look at individuals, there are winners and losers. Tom is
> \$120 worse off because of the tax rise, while Harry makes a \$120 profit.

It is not necessary to look at "individuals" to see the effects. One needs only to look at income levels (or more appropriately at the combo of asset levels and income levels) and the natural progression in the average citizen's life to see the problem. We see from the example that those who are not in a position to take advantage of the borrowing will be the losers and those who can differ the the taxes until they need not earn large amounts of income will make out like bandits. More importantly, those who can manage to "earn" enough through "interest" income (actually this is rent) need never make any real contribution to the society at all. They can get by quite well from George Bush tax cuts and government debt.

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