

Re: LVT dustup over at AngryBear

Source: <http://sci.tech-archive.net/Archive/sci.econ/2005-08/msg00009.html>

- *From:* William F Hummel <wfhummel@xxxxxxxxxxx>
 - *Date:* Sun, 31 Jul 2005 13:57:18 -0700
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On Sun, 31 Jul 2005 19:27:16 GMT, Folsom Inmate <nomail@xxxxxxx> wrote:

>

>Supply-siders are wrong, there is no statistical correlation between
>economic growth and taxation. Growth happens despite taxation. I believe
>taxation spurs economic growth because the government always spends
>taxes, which in turn disperses money among corporations, supply chains
>and individuals, who in turn purchase goods and services, which
>stimulates more hiring, spendings, taxing, and so on. OTOH, supply-side
>economics concentrates money into few hands, drying up demand among the
>lower-income population and ultimately causing economic contraction.

I thoroughly agree. Supply side theory is based on the false belief that economic growth is dependent on the investments of the wealthy. Accordingly, taxes should not bear too heavily on those in high income group. In truth there is an enormous pool of funds comprising the savings of the broad middle class — pension funds, mutual funds, insurance companies, finance companies, and so forth. They are all seeking good investment opportunities. Furthermore, banks can issue credit money limited only by a multiple of their own capital. No recessions since WW2 can be traced to a shortage of investment funds.

Tax revenues don't disappear into a black hole. They are a part of the reciprocal flow of funds between the government and the private sector. Government spending spurs economic growth if the funds are used to provide essential services and to improve the infrastructure. Even boondoggles have an upside. They support aggregate demand, which is not a bad thing when the economy runs well below its potential.

We've known that demand is the key since at least the days of J.M.Keynes. Economic activity and growth is greatest when purchasing power is broadly spread, as it was in the 20 years following WW2. That means the broad middle class should be taxed at the lowest possible rate. The downside to high tax rates on upper incomes is that it spawns an army of lawyers and accountants working (unproductively) to create tax shelters and to work Congress for special deals in the tax code.

The maximum rate should never again be set as high as it once was, but

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I think the tax burden should be shifted towards the upper income end. For the past couple of decades, there has been little or no growth in real purchasing power in the lower 4 quintiles, while the upper quintile has been running away with the wealth. That's very unhealthy for the long term, politically as well as economically.

• *Follow-Ups:*

- ◆ **Re: LVT dustup over at AngryBear**
◇ *From:* Negloid
- ◆ **Re: LVT dustup over at AngryBear**
◇ *From:* The Trucker
- ◆ **Re: LVT dustup over at AngryBear**
◇ *From:* ruetheday@xxxxxxxxxxx
- ◆ **Re: LVT dustup over at AngryBear**
◇ *From:* tonyp

• *References:*

- ◆ **Re: LVT dustup over at AngryBear**
◇ *From:* ruetheday@xxxxxxxxxxx
- ◆ **Re: LVT dustup over at AngryBear**
◇ *From:* Folsom Inmate

- Prev by Date: **Re: LVT dustup over at AngryBear**
- Next by Date: **Re: LVT dustup over at AngryBear**
- Previous by thread: **Re: LVT dustup over at AngryBear**
- Next by thread: **Re: LVT dustup over at AngryBear**
- Index(es):
 - ◆ **Date**
 - ◆ **Thread**