

## Re: LVT dustup over at AngryBear

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*Source:* <http://sci.tech--archive.net/Archive/sci.econ/2005-08/msg00078.html>

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- *From:* William F Hummel <[wfhummel@xxxxxxxxxxx](mailto:wfhummel@xxxxxxxxxxx)>
  - *Date:* Fri, 05 Aug 2005 12:46:45 -0700
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On 5 Aug 2005 09:41:19 -0700, "Negloid" <[negloid@xxxxxxxxxxx](mailto:negloid@xxxxxxxxxxx)> wrote:

>

>William F Hummel wrote:

>> On Sun, 31 Jul 2005 19:27:16 GMT, Folsom Inmate <[nomail@xxxxxxxx](mailto:nomail@xxxxxxxx)>

>> 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.

>

>How did you arrive at this conclusion?

Which conclusion? There are several statements in the paragraph.

>

>> 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.

>

>Wouldn't the stagflation of the 70's indicate that there was plenty on  
>the demand side and not enough on the supply side?

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In a word, no. The US wage/price spiral of the 70's had its roots in the pricing power of OPEC (remember the two embargoes?), and the pricing power of large corporations coupled with strong labor unions able to extract ever higher wages well ahead of productivity growth. That's not a supply-side problem. For more details see <http://wfhummel.net/deathinflation.html>.

>  
>> 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  
>> 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

>  
>How do you arrive at this conclusion?  
>  
>2003 real incomes (latest figure I found on Census.gov):  
>Bottom Q.: \$17,984  
>Second Q.: \$34,000  
>Third Q.: \$54,453  
>Fourth Q.: \$86,867  
>  
>...versus 1983 incomes (2 decades previous):  
>Bottom Q.: \$15,769  
>Second Q.: \$29,388  
>Third Q.: \$45,061  
>Fourth Q.: \$68,154  
>  
>That's a 14% increase over 2 decades in real incomes for the bottom  
>quintile. For the third quintile, (the ever important middle class?),  
>the increase was 20%.  
>  
><http://www.census.gov/hhes/income/histinc/h01ar.html>

It depends on whose figures you want to believe. Here is what Prof. Robert H Frank of Cornell presents at <http://www.inequality.org/franknov2.html>

Quintile	1978	1988	1998
Bottom 20 percent	\$13,103	\$12,256	\$12,526
Second 20 percent	28,415	28,541	29,482
Middle 20 percent	42,667	44,414	46,662
Fourth 20 percent	58,786	63,785	68,430
Top 20 percent	99,754	117,035	140,846

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I think these numbers are pretty consistent with my statement about little or no growth in real purchasing power, at least for the lowest three quintiles.

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- **Follow-Ups:**

- ◆ **Re: LVT dustup over at AngryBear**  
◇ From: Negloid

- **References:**

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

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