

Re: LVT dustup over at AngryBear

Source: <http://sci.tech--archive.net/Archive/sci.econ/2005-08/msg00092.html>

- *From:* William F Hummel <wfhummel@xxxxxxxxxxx>
 - *Date:* Mon, 08 Aug 2005 11:00:47 -0700
-

On 8 Aug 2005 10:07:31 -0700, "Negloid" <negloid@xxxxxxxxxxx> wrote:

>

>William F Hummel wrote:

>> On 5 Aug 2005 09:41:19 -0700, "Negloid" <negloid@xxxxxxxxxxx> wrote:

>> >

>> >William F Hummel wrote:

>> >> On Sun, 31 Jul 2005 19:27:16 GMT, Folsom Inmate <nomail@xxxxxxxx>

>> >> wrote:

>

>> >> 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.

>

>In the last sentence.

I think you are conflating a lack of funds to invest on the one hand with not investing on the other. I don't think anyone can show that the cause of recessions during the post WW2 period was _caused_ by a drying up of savings representing investable funds.

>

>> >Wouldn't the stagflation of the 70's indicate that there was plenty on

>> >the demand side and not enough on the supply side?

>>

>> 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>.

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>But you are ignoring the cause of the recessions in the '70s and
>instead looking at the causes of the inflation in the '70s. During an
>inflationary period, you would be hard pressed to prove that a recession
>was caused by a lack of demand, no? So if it wasn't a lack of capital
>investment that caused the economic slowdown, what did cause the
>economic slowdowns?

I think I just answered your question. A lack of capital investment does not automatically imply the lack of investable funds. The best explanation for most recessions is what causes the business cycle. See <http://www.econlib.org/library/Enc/BusinessCycles.html>

>

>In addition, I know from first-hand experience that during 2000,
>capital dried up extremely fast. Companies that were just getting
>started, looking for investors so that they could hire more people and
>develop their products, instead went out of business or had to tighten
>down quite a bit to survive. This was the beginning of the 2001
>recession, not a drop in demand—a drop in capital investment. Demand
>never really dropped, (for any appreciable length of time), through the
>recession and recovery. Oh there were exceptions—airlines for
>example. But they were just that—exceptions.

>

>Capital was drying up as early as Q1, 2000. Unemployment would
>continue to drop for months and months after investors began pulling
>their money out, the markets began dropping, and companies began having
>difficulties. Would you argue that dropping *demand* caused that
>recession? That makes zero sense.

"Investors began pulling their money out" is a typical of the business cycle psychology. But it doesn't square with your apparent belief that a lack of investable funds was the cause.

>

>>> 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

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>> >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
>> >
>> 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.
>> >
>> >I got mine from the Census—he claims he did as well. You can go look
>> >mine up if you want though, that's the difference. He just links
>> >census.gov and I cannot find the data he presented anywhere in there.
>> >Here is the exact page I got mine from:
>> >
>> ><http://www.census.gov/hhes/income/histinc/h01ar.html>
>> >
>> >Even if you take his date periods, using these data, you will still
>> >note that incomes in the bottom quintiles increased over the time
>> >period. If he is supposedly adjusting for inflation understatement by
>> >the CPI, that would be quite interesting since your other source
>> >indicates that inflation, if anything, is overstated.

The real income of the lowest quintile actually decreased over that 20-year period. The annualized growth rate in real income for the five quintiles, according to the data by Prof. Frank were:

Lowest quintile -0.22%
Second lowest +0.18%
Middle quintile +0.45%

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Second highest +0.76%
Highest quintile +1.74%

I think that is pretty well substantiates my original statement, so
I'll leave it at that.

• *Follow-Ups:*

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

• *References:*

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

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