

Re: LVT dustup over at AngryBear

Source: <http://sci.tech-archive.net/Archive/sci.econ/2005-08/msg00095.html>

- *From:* "Negloid" <negloid@xxxxxxxxxxxx>
 - *Date:* 8 Aug 2005 10:07:31 -0700
-

William F Hummel wrote:

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

>> 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>.

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

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economic slowdowns?

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.

>>> 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>

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- >
- > 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.

• ***Follow-Ups:***

- ◆ ***Re: LVT dustup over at AngryBear***
◇ From: William F Hummel

• ***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
- ◆ ***Re: LVT dustup over at AngryBear***
◇ From: William F Hummel

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