

Re: LVT dustup over at AngryBear

Source: <http://sci.tech-archive.net/Archive/sci.econ/2005-08/msg00118.html>

- *From:* "Negloid" <negloid@xxxxxxxxxxxx>
 - *Date:* 9 Aug 2005 10:05:58 -0700
-

William F Hummel wrote:

> On 8 Aug 2005 13:36:21 -0700, "Negloid" <negloid@xxxxxxxxxxxx> wrote:

>

>>

>> William F Hummel wrote:

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

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>>>> 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.

>>>>>>>>>

>>>>>>>>>> I think you are conflating a lack of funds to invest on the one hand
>>>>>>>>>> with not investing on the other.

>>>>>>>>>>

>>>>>>>>>>> Let me approach this from a different perspective. Do you believe that
>>>>>>>>>>> recessions since WW2 can be traced to a shortage of demand? Or are you
>>>>>>>>>>> saying that neither have an effect and neither supply-side nor
>>>>>>>>>>> "demand-side" policy would improve economic performance?

>>>>>>>>>>>

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- > Recessions are best explained by business cycle theory. I believe
- > recessions can be exacerbated by a shortage of effective demand which
- > can arise in various ways,

Can they, or have they been exacerbated by a shortage of investment?

- > especially a reduction in disposable
- > (after-tax) income on the broad middle income sector. I definitely do
- > not believe that providing more after-tax income to the wealthy and
- > the upper income bracket would improve economic performance, if that
- > is what you mean by supply-side.

Do you believe that providing more after-tax income to the unwealthy would improve economic performance?

- >>> >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.

>>

>>Well not quite. See my previous question for clarification.

>>

>>> A lack of capital investment

>>> does not automatically imply the lack of investable funds.

>>

>>So recessions can be traced to dropping capital investment, but they

>>cannot be traced to dropping investible funds?

>

> No, dropping capital investment is a result, not a cause of

> recessions.

So why does it tend to be a leading indicator?

- > Further, I doubt that there has been a shortage of
- > investable funds since WW2. Remember that banks are also a source of
- > investable funds, and they can create deposits limited only by the
- > capital adequacy requirement.

>>

>>>>> 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.
> > > > >
> > > > >>Only by his data, which I am questioning. The data I presented show
> > > > >>positive growth in all quintiles over both the 83–03 period I presented
> > > > >>as well as the 78–98 period he chose. My data are linked and easily
> > > > >>verified. I was unable to verify his data. I checked around the

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>> Census site and I just don't see where he is getting the numbers. I
>> don't know what the difference is between what he presented and what I
>> presented and I would like to know what it is before I accept it as
>> truth. Until then, it appears to me that real income for the lowest
>> quintile has done just fine in the past few decades.
>>
>> Perhaps his data are based on mean or median income for each quintile
>> and mine are based on the limits of each quintile. Perhaps his data
>> exclude certain groups of people. Perhaps he used his own inflation
>> rate to deflate the incomes. Perhaps he is a bald-faced liar. Perhaps
>> he made a mistake. Perhaps *I* made a mistake.
>>
>> The problem is that I have no way to tell because all this guy did was
>> link census.gov. Can you verify his claims on census.gov?
>
> I really don't care that much. The important point is that the wealth
> gap has been skewed badly and needs to be corrected by a more
> progressive income tax structure.

Well this is the income gap, not the wealth gap. Heck, many people in the first or second lowest-earning quintiles may well be among the wealthiest Americans—typically retirees. However your point stands. Income inequality continues. But as far as I can tell, income inequality is not being coupled with dropping real incomes for lower earners. That is quite important. Even if someone starts out in and remains in the lowest earning quintile his entire life (which is somewhat uncommon) he will still see his real income increasing.

• *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
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◇ From: William F Hummel

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