

# Re: how to compare living standards

---

*Source:* <http://sci.tech-archive.net/Archive/sci.econ/2006-04/msg00109.html>

---

- *From:* "The Trucker" <[mikcob@xxxxxxxxxxx](mailto:mikcob@xxxxxxxxxxx)>
  - *Date:* Mon, 10 Apr 2006 08:52:45 -0700
- 

"Jim Blair" <[jeb@xxxxxxx](mailto:jeb@xxxxxxx)> wrote in message  
[news:e16321\\$ngk\\$1@xxxxxxxxxxxxxxxxxxxxxxxx](news:e16321$ngk$1@xxxxxxxxxxxxxxxxxxxxxxxx)

"William F Hummel" <[wfhummel@xxxxxxxxxxx](mailto:wfhummel@xxxxxxxxxxx)> wrote in message  
<news:8dk232lfsqp1b5bejtg7k4i9uulu9o7n7i@xxxxxxxxxxx>

On Mon, 3 Apr 2006 10:58:07 -0500, "Jim Blair" <[jeb@xxxxxxx](mailto:jeb@xxxxxxx)> wrote:

"William F Hummel" <[wfhummel@xxxxxxxxxxx](mailto:wfhummel@xxxxxxxxxxx)> wrote in  
message  
<news:5r9r225n3dbmrt3eme0p9g4unv7e9hv5u3@xxxxxxxxxxx>

On Fri, 31 Mar 2006 15:30:50 -0600, "Jim  
Blair" <[jeb@xxxxxxx](mailto:jeb@xxxxxxx)> wrote:

"William F Hummel"  
<[wfhummel@xxxxxxxxxxx](mailto:wfhummel@xxxxxxxxxxx)>  
wrote in message  
<news:u11r221splsdkkmbocqpal8ov8sntd9503@xxxxxxxxxxx>

On Fri, 31  
Mar 2006  
12:13:03  
-0600, "Jim  
Blair"  
<[jeb@xxxxxxx](mailto:jeb@xxxxxxx)>

wrote:

Do  
you  
think  
poor

Re: how to compare living standards

and  
low  
income  
people  
save  
and  
invest  
more  
than

rich

and high income people?

Irrelevant.  
The issue is  
whether  
reducing  
taxes  
primarily on  
the  
wealthy will  
increase  
capital  
formation  
for real  
investment.  
Don't  
confuse  
financial  
investment  
with real  
investment.  
If you  
increase  
after-tax  
income for  
the wealthy,  
most of it  
will end up  
spent on  
financial  
assets and  
drive up  
asset prices.

Or do asset prices increase  
because the assets become  
more valuable?

Re: how to compare living standards

Strange question. Obviously when the market bids up asset prices, their monetary value increases.

But when a company improves/expands/modernizes/markets new products/etc.

the

value of the company increases. And thus the value of a share of the

company

(it stock) also increases in value, doesn't it? And the market price of

a

share of stock is supposed to reflect the value of the stock and thus of

the

company.

On balance, the share price increases with increasing real value of a company. However the monetary value of the shares may or may not increase, depending on the competition and investor psychology. But don't ignore the fact that the market has a life of its own. During recessions, share prices typically fall ....

Hi,

There is a question of causality here. Do stock prices fall because there is a recession/depression? Is the fall in stock prices because profit projections are down because there is a recession/depression and business is not expected to be good? Or is the recession/depression caused by the drop in stock prices?

A recession can be caused by the realization that speculation has grossly inflated the prices of equity assets (non fixed interest assets and non real-estate/commodity assets). It can also be caused by an influx of underpaid H1B's and illegal immigrants that destroy wages.

Re: how to compare living standards

## Re: how to compare living standards

The asset holders move to exchange the equity assets for government backed debt instruments, land and oil and gold and such. And this move to non capital assets chokes off real capital development (plant and machinery). Such a move destroys the real economy.

Welcome to Republican heaven.

For example was the great depression of the 1930's caused by the 1929 stock market crash? Or did investors sell because they saw the depression on the horizon?

They sold because they realized that it was a bubble. The Fed screwed up in addressing the problem and so too the elected government. Of course the bubble was caused by the Fed and the elected government in the first place. Too much easy money and ineffective controls on speculation.

...and during bubbles share prices rise independent of the real value.

If the money chasing a given number of shares increases, share prices will increase — until that liquidity dries up — and then you have just witnessed a bubble. ....

Which I read to mean that sometimes those buying stocks overestimate the "real value" of a company. But not every increase in stock price is an overestimate of the company's value.

Goes without saying.

So when stock prices increase, is it a "bubble" or does that mean companies are increasing in value? I say it can be either, and only the future will reveal the truth.

The "dot.com" increase during the late 1990's was a bubble, but the stock market surge starting in the early 1980's just reflected an increase in real corporate value.

Its a mixed bag. But the, so called, "dot.com" bubble was the result of

Re: how to compare living standards



Re: how to compare living standards

companies,  
etc. is far  
more  
important in  
supporting  
real  
investment.

jeb:

Your  
statement  
above  
must  
stem  
from  
the  
idea  
that  
money  
in  
the

stock

market,  
mutual  
funds,  
bonds,  
T-bills  
and  
bank  
CD's  
does  
not  
correspond  
to  
money  
"invested",  
because  
you  
surely  
don't

think

that

Re: how to compare living standards

people  
with  
low  
incomes  
have  
more  
money  
in  
these  
than  
people  
with  
high  
incomes.

There is no  
shortage of  
funds  
available  
for  
investment.  
But there

is

a chronic  
shortage of  
funds  
available  
among the  
broad  
middle and

lower

middle  
class. That  
shows up on  
the demand  
side and is  
what  
explains  
the business  
cycle and  
the  
occasional  
shrinkage in  
the  
economy,  
otherwise

Re: how to compare living standards

known as a  
recession or  
depression.

The notion  
that  
reducing  
taxes on the  
wealthy  
leads to  
greater

output

is simply  
false.

job:

Interesting theory. But how  
does it explain the fact that  
recessions

in

the

US have become less  
frequent and less severe  
since Reagan  
pushed through his supply  
side tax cuts?

Recessions have been moderate since 1982  
for two reasons: (1) the Fed  
learned from past mistakes regarding  
monetary policy, (2) the enormous  
Reagan/Bush budget deficits primed the  
pump quite effectively.  
Borrowing at a record pace for SDI, a 600  
ship navy, and all the other  
goodies did a lot for aggregate demand.

So it took from the creation of the Federal Reserve until  
Reagan for them

to

Re: how to compare living standards

## Re: how to compare living standards

learn how to properly manage fiscal policy?

Who is "them"? Fiscal policy under Reagan was to shrink government spending in order to shrink the size of the government. He did just the opposite, borrowed and spent like a drunken sailor. Fiscal policy today is non-existent, so don't talk about properly managing fiscal policy. Bush calls for huge spending on his Iraq war while also cutting taxes. He refuses to pass the pain on to the home front, and his Republican-led Congress obliges.

If "them" refers to the Fed, credit Paul Volcker and Alan Greenspan with cleaning up the mess left by the monetary policy mistakes of the 1970s, especially those of Arthur Burns.

Of course Volcker and especially Greenspan get credit for doing a great job, but are they the only reasons the US economy has done so well since 1982? You don't think Reagan's tax cuts played any role?

No. Reagan ripped off the middle class just like ALL Republicans rip off the middle class. The economy was reduced to rubble by Volcker. Any person that could not preside over a growing economy after such destruction would need to be named George Bush. The Clinton, Greenspan, Bush waltz was very much a replay of the Carter, Volker, Reagan thing. But Pinocchio couldn't even manage that deal.

And the US had a large deficit (relative to GDP) from 1945 to the 1960's

but

we also had more and deeper recessions

(And here I should have said a large "debt", not "deficit" ;-(

The deficits from 1945 to the 1960s were small, and there were no deep recessions in that period. There were a couple of mild recessions under Eisenhower, but they were nothing compared to the 1974-1975 recession under Ford and the 1981-1982 recession under Reagan.

Re: how to compare living standards

...Reagan is the most Keynesian  
of all our presidents, although he apparently  
never understood why.

I agree, except perhaps with the "never understood" part. I  
think Reagan  
(pre-Alzheimer) was smarter than he wanted his enemies to  
think. The  
better to out fox them ;-)

Reagan was not a reader of economics, or much of anything else. I  
doubt that he even heard of the Keynesian multiplier effect due to  
fiscal deficits. Reagan had a strong visual memory and his aides  
often used videos to get their messages to him.

<http://www.kc.frb.org/publicat/econrev/PDF/4q98haim.pdf>

What data supports your  
claim?

Another bad link.

Twice you used the term "bad link". Explain.

I get an error message "the page cannot be found" when I try to access  
the link.

Must be something wrong with your system, as I get them both. And both are  
interesting.

Try again. (do you have Acrobat for the pdf link?)

<http://www.kc.frb.org/publicat/econrev/PDF/4q98haim.pdf>

And to find out about Supply Side from the source

<http://www.wanniski.com/ssu.asp>

As I see it, you and other "demand siders" claim that a more  
even  
distribution of incomes would mean a better economy

Re: how to compare living standards

because of "more

demand"

from the bottom of the income distribution. Supply siders say it is the

rich

who invest and provide the capital for a better economy, so cuts in tax

RATES can supply more capital, expand the GDP and thus in the long run

increase tax REVENUE for both the feds and the states.

Supply siders don't understand that financial capital comes from a wide variety of sources. The notion that it is only the wealthy who finance investment is simply wrong. As I've tried to explain, cuts in tax rates for the high income group do little beyond increasing the price of financial assets in the secondary market. The wealthy like to accumulate them.

Financial capital has seldom been in short supply. Can you point to an example where the lack of such capital has caused a recession?

The causes of recession (and of the Great Depression) are still being debated.

<http://www.geocities.com/capitolhill/4834/temin.txt>

These things will be debated forever because Republicans think that they can create their own reality by just closing their eyes and clicking their heels together.

Recessions ultimately result from a shortage of purchasing power within the broad middle class sector, not among the wealthy.

Since the tax rate reductions of Reagan, the US economy has been more

stable

than before, and has grown faster than either Europe or Japan. Isn't

Re: how to compare living standards

that

fact contrary to the "demand side" predictions?

In a word, "no".

??? Sound like your claim of "demand failure" should mean that less income at the bottom relative to the top should result in less growth and more recessions.

While the supply side claim that growth comes from investments by the rich should mean the reverse.

Do you agree that since 1982 the US has had a less equal income distribution than before—and than Europe or Japan?

And do you agree that we have also had fewer recessions per decade than before 1982? And also higher growth than either Europe or Japan?

In 1982 the economy of the USA had been blasted to absolute rubble by the Volcker "War on Inflation". And real growth occurred during the Clinton years BECAUSE OF A TAX INCREASE ON UNEARNED INCOME OTHER THAN CAPITAL GAINS.

—

"I know no safe depository of the ultimate powers of society but the people themselves; and if we think them not enlightened enough to exercise their control with a wholesome discretion, the remedy is not to take it from them, but to inform their discretion by education." – Thomas Jefferson  
<http://GreaterVoice.org>

.