

Re: Budget deficits and GDP

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- *From:* The Trucker <mikcob@xxxxxxxxxxxx>
 - *Date:* Fri, 30 Nov 2007 21:29:15 -0800
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On Thu, 29 Nov 2007 11:19:37 -0800, Lysander wrote:

On Nov 29, 1:17 am, The Trucker <mik...@xxxxxxxxxxxx> wrote:

On Tue, 27 Nov 2007 22:14:48 -0800, Lysander wrote:

On Nov 26, 10:18 pm, dekka <eddiepy...@xxxxxxxxxx> wrote:

Hope this is the right board:

True..... If you cut taxes on the low and moderate incomes then consumption (demand) will rise. This does not hold true if you cut taxes on the high incomes.

This is an assertion I have yet to see one shred of evidence to support. The Bush tax cut didn't work likely because Freidman was right about permanent income and the tax cut was temporary.

You simply won't acknowledge that water is wet if it flies in the face of your ridiculous position on supply side, trickle down horseshit. The 90's utterly refutes your trickle down, supply side, Laffer curve crap.

Note it
did cut taxes for all taxpayers and removed more people from the tax roles. I have seen some prominent economist make the same assertion of who you cut taxes for matters. I have yet to see any data backing that statement up. It assumes that MPC differs by income. I have yet to see on a study on that. It may or may not hold. Until I see evidence I will reach the conclusion that who gets the tax matters.

I care not about YOUR conclusions or your particular theories. The data

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has been presented to you that the tax code adjustments of 1990 and 1993 were an increase of taxation on the more wealthy taxpayers and the economy actually improved to the point where we eliminated deficits while job creation and employment soared. But there is no data that will ever satisfy one who has a religious predisposition such as yours concerning the Satanic nature of government and the sweetness and light of the private sector.

In an inflationary period you would want to cut deficits and run surpluses. This deficits make inflation worse. The traditional Keynesian view is run surpluses during inflation to pay for deficits in recession so the budget is balanced over the cycle.

Tax collections are a direct cure for inflation in that money is removed from the economy

Wrong. Taxes don't remove money from the economy.

Ridiculous.

The government is just another consumer and the money stays in circulation.

Not if there is a budget surplus. There is no reason no suspect that government recirculates tax money. The revenue is simply "retired", reducing the money in circulation. New spending then creates new money. And if more money is needed the Fed buys some T-bills reducing the debt and pumping the active money supply. And when government spending and lack of taxation pits put too much money in circulation T-Bills are sold to convert that money into interest sucking debt.

Even if it were true the effect would be negible at best because any surplus goes to paying back bonds which puts the money right back in people's hands.

Well, DUH.... The placement of money into the economy by retiring debt is a very good thing to do right now. Unfortunately, that opportunity does not present itself in that the Treasury is forced to SELL T-Bills in

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order to soak up all the excess government spending by Bush and his Iraq "war".

Now a sane and rational person understands that T-Bills are all the time being redeemed by the holders for cash or clearing balances. The Treasury is all the time issuing new T-Bills to cover the cost of the retiring T-Bills. If tax proceeds are less than needed for the budget then Treasury spends the money into existence anyway (with a short term loan from the Fed) and then additional T-Bills are offered for sale to "soak up" the live money that should have been soaked up by taxes (thus the M3 live money is turned into T-Bills which are dormant money) IF THAT IS DEEMED NECESSARY to control the money supply. The debt will be seen to rise very quickly as this continues to happen. But in the event that more tax revenue is collected than that which is needed then the opposite CAN take place: The treasury need not sell as many T-Bills in support of soaking up excess government spending. The government can instead repurchase more of the maturing T-bills and the debt is reduced. You see, the way it is designed to work is that the government creates money when it spends and destroys the money when it taxes.

Paying taxes does not decrease the money supply nor does the treasury department issuing a bond increase the money supply.

You really have no @_*\$^& clue as to how the system works. The paying of taxes reduces the money supply no matter what definition you want to use for the words "money supply". The Treasury issuing of a T-Bill will decrease M3 (most folks call this the "money supply") and increase DEBT. But the debt is still an obligation of the US government --- still money as far as the fiat money system is concerned. And the ONLY way to ever remove that debt is to replace the T-Bill with the money and then tax the money out of existence.

The effect of taxes on demand is through less take home pay so consumption drops.

Rich people don't have "take home pay", and they already have all the "stuff" they need and an increase in their disposable income will not give rise to them purchasing another Hummer that they would not have otherwise purchased.

Ironically, those who argue that tax cuts for the rich provide no stimulus are the same that argue raising taxes on the rich fights inflation. Sorry if they have a lower MPC it has a small effect on consumption both ways.

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or you can lower AD by cutting the money supply which drives interest rates up and people invest less.

That is the Volcker Solution. It merely hands money to the rich. They, by definition, have all the money to loan and/or receive better "interest" on their "savings". It was a huge wealth transfer to the already rich from those who were trying to get there.

The end result is the same but how we get to the end result is quite different.

You're going to do your little tap dance forever. The discussion is not about AD versus taxes. The discussion is about WHO gets taxed and what happens to that money, and also about government spending (the actual creation of money). These are two different things -- The tax and the spend. And in each one of these two different things you have the who and the what. The Laffer curve is a laugh. Einstein said it best, "Everything should be made as simple as possible. Not simpler".

The difference is that appropriate taxation need not curtail investment.

Perhaps but that is tough to do. If you are correct and tax cuts for the rich mean little effect because their MPC to consume is low then it implies that the MPS is high. So any straight income tax affects savings greatly and affects investment.

Investment has almost NOTHING to do with savings in a fiat money system. I am always amazed when a neoeconomist says there is no crowding out and then gets right back on that ridiculous trickle down pony.

The increased tax collections must be in the middle income range as opposed to the high range to achieve the opposite effect of the tax cuts that would have stimulated consumption.

This again makes the assumption that MPC is low for the wealthy. If true this would be accurate.

Ergo, it is accurate.

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However, as I have said before I have never seen any evidence to support that statement.

I've shown you the evidence. You just claim that the data look that way because of the mythical "business cycle" or little green men from mars.

I must also note I have never seen any evidence to contradict that statement.

And if you ever do, it will probably come from the Cato Institute and will be as bogus as most of the rest of their cherry picked crap.

As far as I know, there is a hole in the literature here. I could be wrong my interest in business cycles ended around first year of grad school. So I do not claim to have read the literature extensively.

Well if you were reading crap about the "business cycle" then it is good you did not waste a lot of time. Read "Peter Pan" or something else, instead.

Time for the major intrusion on this theoretical stuff: Increased government spending is what stimulates the economy --- NOT DEFICITS.

This is not untrue but it misses an important point.

Nope. It __**IS**__ the important point.

Increased government expenditures

Increases AD in the short run in varying amounts depending on the economic distance (the number of hands through which the money travels) between the spending and some rich asshole's saving account. And in the longer term AD will vary depending on the actual object of the spending. If spent on a Vietnam War or a stupidly conducted War on Poverty then

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there is no real long term benefit in AD or anything else. If spent on a better power grid or a bullet rail system then there will be future benefits that may manifest themselves as beneficial AD. Please note that AD is not the golden fleece here. Hell, if everyone was happy at lower levels of AC and we were not operating in the imperialist mode then a decrease in AD and associated tax revenues would not necessarily be bad.

or decreasing taxes stimulate the economy

If decreases are in the lower income brackets like FICA tax.

but
increasing taxes or decreasing expenditures lowers AD.

Decreasing expenditures will normally lower AD regardless of taxes on the upper income people.

The point is
cutting taxes or increasing spending MUST lead to a deficit.

NO! The point is that increasing taxes in support of increased spending or even in the interest of debt retirement need not create lower AD. As a matter of fact the tax increases of 1990 and 1993 say that if the right taxes are increased (that would be the taxes on the rich) then the economy does much better and AD actually increases.

If the employee share of FICA tax is eliminated on the first \$10k of wages AD would increase dramatically and the increased revenues might be more than enough to compensate for the lost FICA revenue. That would happen because that money would pass through many hands employing even more people and be taxed many times before it ran to ground in a savings account.

If you
cut spending and raise taxes to balance the budget you offset the effects and do nothing.

You are just repeating the mantra over and over.

If you cut taxes and lower spending to balance the budget the two moves cancel out and you do nothing. Yes spending

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or cutting taxes stimulates the economy but these must lead to deficits because you have to leave the other variable, spending or taxes, alone.

More oversimplified horsecrap.

It is entirely possible to increase government spending AND TAXES so as to spend more and actually _cause_ more consumption and investment without ever having a deficit.

Wrong. Increasing taxes will decrease the consumption caused from expenditures. This is equivalent to saying I am giving you \$100 to spend and taking \$100 from you.

Are you really this absolutely dense or are you just bored and determined to lie about reality.

The latter day neoconomist assumes that government must increase or decrease taxes across the board as opposed to varying what or who is taxed.

Wrong. Many of us have not seen the evidence that MPCs differ among income groups.

Your ignorance does not prove sh*t.

If the rich have similar MPC to the poor then government expenditures for the poor and taxing the rich exactly offsets both effects.

But that assumption is known by the rational people to be bogus.

If the MPC and MPS are reversed for the groups

MPS of the rich has little to do with it.

then taxing the rich lowers investment

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Taxing the rich has no effect on investing because there is no substantial link between saving and investing in a fiat money fractional reserve system. Bubbles are not made of "savings".

by the same amount as
consumption increases for the poor having a 0 net effect on AD.

What a ridiculous proposition. Disproved several times over and still you monkeys just refuse to allow it to enter your steel helmets.

In order for this to work the assertion that the rich have a different marginal propensity to consume must hold. Again, it might but I have seen no evidence for or against that statement. It is not even a theoretical statement because good theory has to be founded in facts we know. If the assertion is right then you may be right. However, I am not one to believe a course of action is correct based on an assertion. Even Paul Samuelson is one of the people who have made this assertion. I am way too well trained to accept it as fact just because Samuelson said it. Many careers have been made pointing out that Noble Laurettes made an assertion that once tested was not true.

The only FACT here is that you refuse to let yourself know that which contradicts your basic incorrect and bogus beliefs.

As I said before, I can not say you are wrong here but I can't say you are right either. Your whole argument rest on an assumption that I do not believe has ever been tested. In essence this makes your statements, statements of faith not science. Whereas I can not outright dismiss the statement, I can't support it either.

The 90's is one long display of the data and the facts. Yet you dismiss the data as being a reflection of the "business cycle" as oppose to at least being a very strong indicator that taxes can be increased without adverse effects on the overall economy. I just can't fathom what the hell you would be satisfied with as "proof". I would say that you have a religious predisposition on the matter and that no amount of evidence or "data" is going to do any good. The data and the rationality both say that progressive tax increases are GOOD for the economy, yet you will not abandon your religious position.

It is an area that needs more study and it is unlikely to be done anytime soon. Macro economist who study business cycles are still trying to hammer out international effects and rebuild Keynes on

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microeconomic foundations.

What a waste. All hunkered down to the rich bitch feeding trough.

<<<Total off topic self aggrandizement>>>

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"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

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