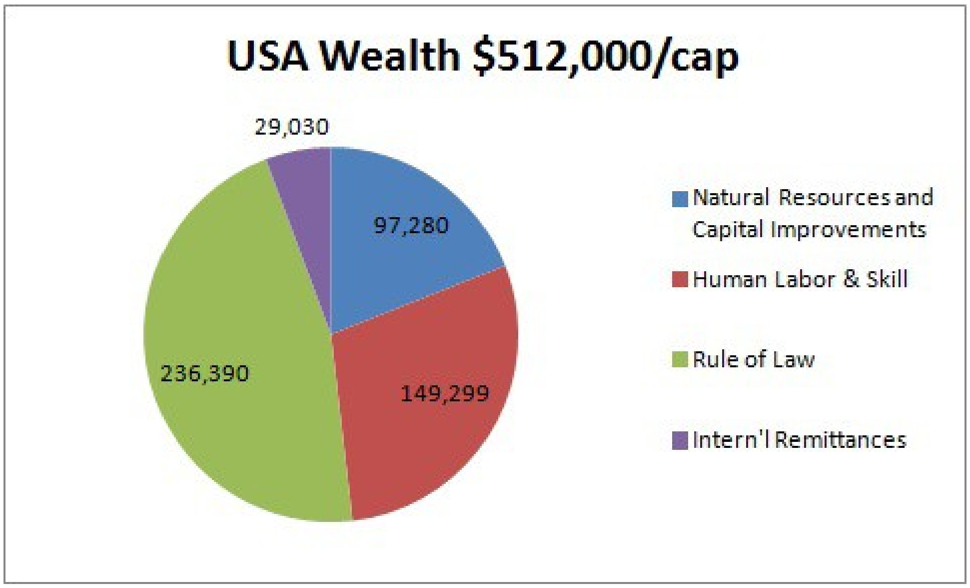
www.rhamill.com /lessons-learned-about-us-economy/

Lessons Learned about US Economy

⋮ 4/13/2023

Economic Value of Civilization



Focus on intangible components

- More than half of our wealth depends on the social fabric, trained workers, clear property rights, and stable government.
- Cheating the tax man only works if everyone doesn't do it. Because a cheat only benefits if the society continues to provide the safeguards that allowed the cheat to make and keep wealth.
- Paying taxes are the price of success, not the onus of wealth.

Invisible Hand of the Marketplace

Invisible Hand. Self-Regulation of
Markets

- Adam Smith named the unseen force that guides individuals to unwittingly benefit society through the pursuit of their private interests.
- But the Fallacy of Composition often short-circuits the Invisible Hand. If it's good for one, it's not always good for all.

Capitalism and the Free Market

- They work well together.
- They require unfettered access to information and ease of entry for competitors.
- Unfortunately, successful companies want to keep unfavorable information hidden and want regulations that inhibit competition.

Government Deficit Debate

- Make a mistake by not considering Net Worth.
- Fifty billion dollars on road building lower the cost of transportation for decades, not just the years the money is spent.
- Homeowners know that a mortgage will put them in a budget deficit but is a valuable tool to increase their net worth.

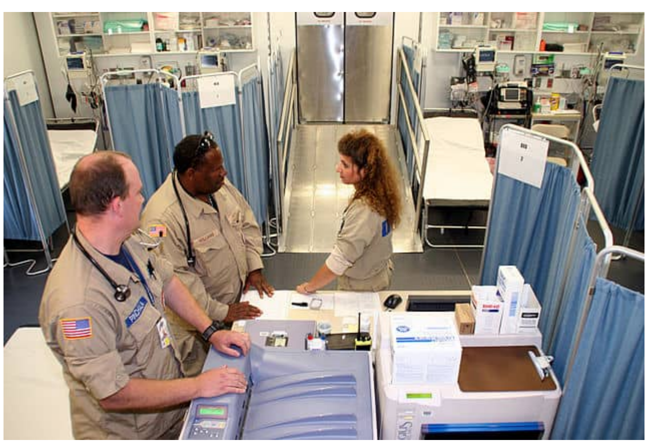
Corporations

- Should not have a separate political voice from their owners, as this doubles their leader’s voices.
- In addition, corporations have foreign interests that often do not align with US interests.

2017 Tax Cut Impact

- Used two primary avenues to boost the economy, reduce corporate taxes and reduce individual taxes.
- Of the $100 billion reduction to corporate tax bills (in the first of 10 years), less than 10% flowed out of the financial system and into the GDP. Ninety-one percent was spent of dividends and buybacks.
- Of the $200 billion reduction that taxpayers received in the first year (of a total $500 billion over 10 years), about two-thirds flowed directly into GDP.
- Conclusion: Bottom-Up tax cuts increase GDP more significantly than trickle-down tax cuts.

Pandemic Lessons



- Everyone needs to be healthy for the economy to flourish. National health insurance is wise.
- We underpay many workers who perform essential services.
- Businesses don’t like the immutable laws of the marketplace when they indicate many of them should go out of business.

Additional Information

Economic Value of Civilization Not just resources

Invisible Hand Operation, consequence, and requirements

The Invisible Hand's Scar Abuses that can occur

Good For One Fallacy of composition in action

Missing Side of Budget Debates All businesses must file net worth statements. Why not government?

Corporations The Constitution doesn't mention corporations.

Lane between Wall Street and Main Street Visual showing money flows between financial world and GDP.

2017 Tax Cut Impact Clear comparison of bottom-up and trickle-down effects on GDP.

Lockdown Economic Takeaway Let's not forget who had to work to keep our society operating.

The Economic Value of Civilization

⋮ 6/8/2016

Since capitalists value everything by the dollar, let's look at society and civilization in that manner.

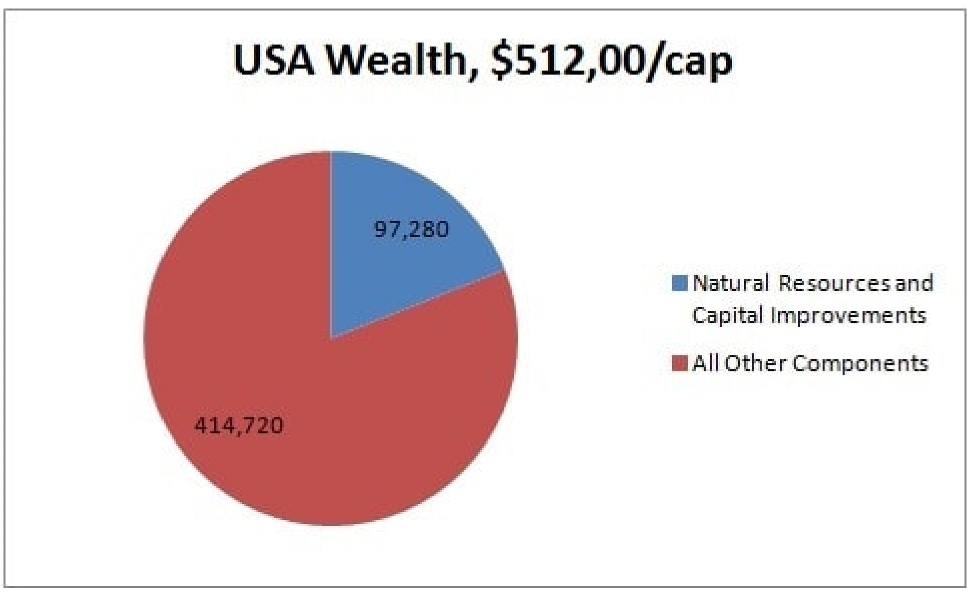
Small Businessman Example

From a BBC article on Trump's Hispanic voter "Doomsday," Mr. De La Fuente says, "In my business 30% is owned by the United States government and 10% is owned by the state of California. I didn't pick them as partners, but they sure know how to mess in my business."

That's a sentiment often uttered. Is that an accurate and fair statement?

Components of Wealth

Economists in the World Bank have collected economic data from countries around the world. The data is not precise, but it gives a relative significance to the components of wealth. In the United States, the average wealth per capita is estimated at $510,000. Approximately $100,000 comes from natural resources and the capital improvements its citizens have made.

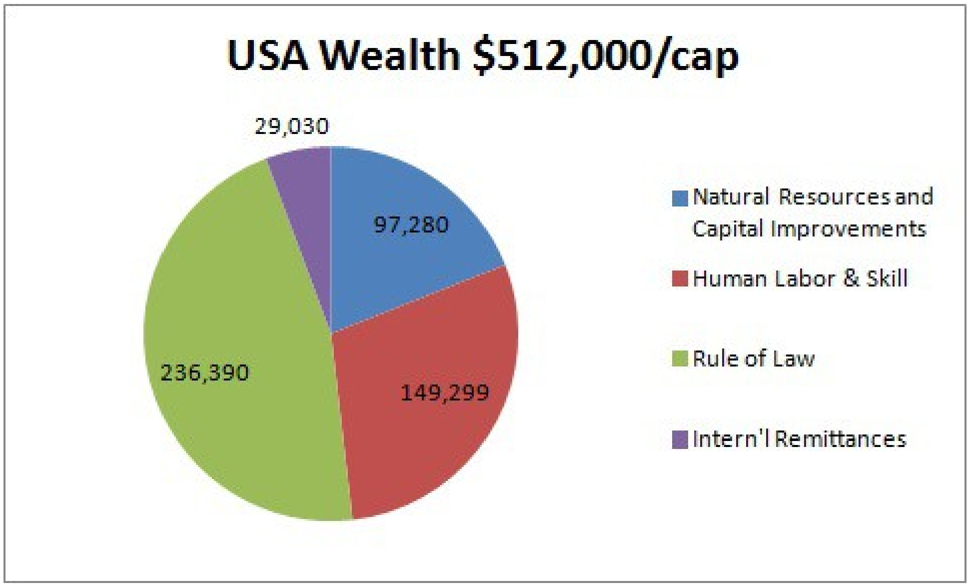


Physical and Intangible Components

The other components of wealth (over $400,00 per US citizen) arise from:

- 36% human labor (manpower and skills)

- 57% to the social capital and the rule of law (efficient judicial system, clear property rights, efficient government and institutions, political stability, regulatory quality, control of corruption)
- 7% foreign remittances



Intangible components of wealth creation

Civilization's Value

Nearly **$237,000 of the American average wealth comes from the societal institutions that support our personal endeavors.** That's 46% of the wealth.

Important social and governmental services are:

- Efficient judicial system
- Clear property rights
- Efficient government and institutions
- Political stability
- Regulatory quality
- Control of corruption

To the extent these services do not meet their goals, that is reflected in less than optimal American wealth.

Your Business, Your Government

Remember Mr. De La Fuente statement at the beginning, "In my business 30% is owned by the United States government and 10% is owned by the state of California. I didn't pick them as partners, but they sure know how to mess in my business."

As I showed above, nearly half of our net worth is attributable to our societal institutions that support personal endeavors. Mr. De La Fuente picked the location and environment where he built his business. He benefited by the governments that provided the nest in which he grew his business.

Taxation is the cost and measure of that governmental fabric while regulations are one form of insuring that fabric is fair and equitable.

Invisible Hand

⁝ 8/31/2020

Oct 29, 2022. *Sync, How Order Emerges from Chaos in the Universe, Nature, and Daily Life*, by Strogatz, Steven H., Hachette Books, 2003, develops many examples of self-organizing systems in the physical and biological worlds.

Self-Regulation of Markets

Dictionary.com describes the pure free market mechanism. The Invisible Hand in the economics of Adam Smith,

an unseen force or mechanism that guides individuals to unwittingly benefit society through the pursuit of their private interests.

Investopedia is more precise and careful when they define the Invisible Hand.

a metaphor for the unseen forces that move the free market economy. Through individual self-interest and freedom of production as well as consumption, the best interest of society, ***as a whole****, are fulfilled. The constant interplay of individual pressures on market supply and demand causes the natural movement of prices and the flow of trade.*

The Invisible Hand is the action of the free market economy which sums individual self-interested activities to the benefit of all society. The “as a whole” recognizes that all results are not perfect.

Consequence

Because it claims the best interest of society is served, supporters of free markets argue strenuously against any interference by government with market activities.

As noted economist Paul Samuelson put it, “pursuing his own selfish good was led, as if by an invisible hand, to achieve the best good of all, so that any interference with free competition by government was almost certain to be injurious.”

Conditions and Scope

Because a good can be bought and sold at a market is not sufficient to label it a free market. Also, there must be multiple vendors supplying the good as well as consumers with access to relevant facts to make an informed selection. There must be a competitive marketplace, not oligarchies controlling the goods or services.

Certain goods and services do not have competitive markets. These public goods—national defense and infrastructure—are vastly expensive. No one company can afford to provide the service on their own without public (government) help. The cost of furnishing of the army, navy, and air force is not the result of supply-demand equilibrium, neither is the costs of roads, bridges, water supply, and so on.

Their costs are beyond the marketplace. Once the societal value is determined by politicians and government experts, contract bidding introduces an element of price competition. But it follows the societal value, it does not determine it.

All federal expenses are rooted in legislation and not in the free market. The United States federal budget in 2018 was 35% of the national GDP.

Ideal Law

The goals of society should precede the goals of economics. Freedom of opportunity, equal pay for equal work, and livable wages for full-time workers should not be sacrificed because the Invisible Hand of market forces might operate better if those societal goals were ignored.

With more than a third of the US economy arising from valuations outside the free market, the reliance of the Invisible Hand to guide allocation of resources is not unlimited. Also observing economic boom and busts, bankruptcies, shortages of desired goals, and extreme income inequality, it’s better to consider the Invisible Hand as an ideal law, often controverted by reality.

Economic Analysis

Despite the general success of the pricing mechanism in aligning economic activities, when media analysts claim that the free market and the Invisible Hand always arrives at the best answer, try to recall the need for competitive markets and their constrained scope.

Image of the Invisible Hand, from jeff-for-progress.blogspot.com

Invisible Hand, sums up individual actions to best pricing and allocation
Design without Designer
Fallacy of Composition, individual actions can lose their advantage
Good for One
Invisible Hand's Scar

The Invisible Hand’s Scar

⋮ 1/10/2018

Thumb on the Scale of Justice

Free Market Requirements

The invisible hand operates when the conditions of fair trade are met. One primary condition is individuals must be able to make informed choices, which products best serve their self-interest. To make informed decisions of one’s self-interest, one **must have access to relevant facts**—at a minimum, price, quality, and alternatives. Another crucial condition is that **new competitors are not restricted** from entering a market.

Decision-Making Facts

If you follow business news, you’ve probably heard the term “asymmetry” tossed about. Asymmetry inevitably exists in an unbalanced relationship. In the economic case, the potential customer and the offering business have considerably different information about the product, its worth and its cost. Of course, the customer knows less about the product than the corporation. Customers only pay attention to the product when they are considering its purchase. Corporations pay attention to their products every day with devoted attention.

Asymmetry doesn't cause a problem by itself. That disproportionate attention to and information about is inevitable and natural. If everyone—customer and corporate—were completely honest then the Invisible Hand would work much better.

Abuse of Asymmetry

Unfortunately, people and the businesses they run are not perfect. When some realize they can profit by hiding known problems with their product, they do that. This violates the requirements needed for the Invisible Hand that leads to efficient markets.

Because a corporation has the upper hand in economic knowledge about its product, those ethically challenged business may shove aside their reliance on the free market, by withholding detrimental information about their product. Thus customers can't make informed purchases.

Barriers to Market Entry

The free market also requires easy entry for competitors. That is, no high fixed costs assessed regardless of sales volume or agreements that distributors can only carry a particular corporation's product. A similar constraint arises from exclusivity agreements barring suppliers from providing materials to new manufacturers.

The business pages routinely reveal that large corporations lie, cover up, and misdirect their customers. Some examples are: Volkswagen and car manufacturers, Wells Fargo leading a pack of banks, cigarette manufacturers for decades, Facebook, Google, and big pharma.

Limiting Competitors

Although corporations pay the chamber of commerce to ensure the message of free markets with limited government regulation is treated as a laudable goal, they pay other lobbyists to promote/write legislation that favors their own corporation and inhibits competitors from entering their markets.

When corporations are newly born, they love the free market. When they are mature, they endeavor to constrain it. It makes me laugh to hear huge corporations berate regulations, when often those corporations have often arranged for their lobbyists to frame those regulation to raise the cost for competitors to enter their product areas.

Inefficient Markets

In free markets with honorable participants, the invisible hand guides market prices to their natural level, where supply equals demand.

The forked scar of hiding essential information and inhibiting competition forces the prices of goods higher than their equilibrium price, which damages the economic efficiency of resource allocation.

We all pay more for less when enterprises violate the integrity of the free market.

Invisible Hand sums up individual actions to best pricing and allocation

Design without Designer

Fallacy of Composition individual actions can lose their advantage

Good for One

Invisible Hand’s Scar

Good For One

⋮ 12/1/2020

Published Mensa Maryland Newsletter Dec 2020


Wheat farmed by combine

The fallacy of composition (what is good for one is good for all) lies behind the failure of farmers to earn more income when each farmer increases their crop. In economics class, a discussion about wheat farmers exposed this conundrum. If one wheat farmer grows an additional bushel, he may expect more income. However, if all farmers grow additional bushels, the price of a bushel may drop so much that each farmer earns less, even though producing more.

Odd Math

The individual can profit if only a small portion of the industry follows their path, because then the pricing mechanism does not change system. Avoiding the Fallacy of Composition allows one to use the original price the free market originally arrived at.

However, if everyone follows the first, the system changes and one's advantage is lost (the Fallacy of Composition kicks in).

This leads to an unexpected mathematics. Each individual sees a gain but eventually the group action affects the market and each earns less. Then a series of pluses results in a negative.

Individual positive events combine to product a negative impact.

Positive + positive + positive + … = negative

Not like the old math, 1+1 = 2, is it?

A similar trap can lurk in personal decisions.

Taxes

If you elect to not pay your taxes, the government will not grind to a halt. Its services will continue. National defense stays at the ready. The Federal Aviation board will continue to track down causes of airplane crashes and make regulations to avoid a similar disaster in the future. Skip your taxes and you will have more cash in your pocket.

If others see you prospering by tax avoidance, they may decide to do the same. However, when everybody does that, the government doesn't have enough income to continue its services. The Food and Drug Administration may stop ensuring that food products are safe to eat and contain the ingredients claimed.

Public infrastructure—roads, bridges, airports, water, electricity, power supply, and so on—will be at risk if government doesn't have sufficient funds for attend to them. That is certainly not to say that government should automatically be given all the funds it requests. Their worthiness and costs must be considered, but skimping on taxes—individually on April 15 or as a society by levying too low a rate to support the mandates put on the government—is a path to a failing society.

The price of a successful society is an individual's payment of levied taxes and laws requiring a sufficient tax rate on all participants in the economy. Only in that way can government provide the services our representatives vote for and mandate.

Natural Resource Management

Limited resources be allocated by the free market; however, the market is the aggregation of individual wants and needs. As suppliers and consumers do, the free market deals with the present and near term. Future years are beyond its ken. An additional constraint is needed.

Consider seafood, from tuna and anchovies to shrimp and lobsters. There are quotas placed on the individual, boat and country. Quotas are enforced to stave off depletion which would occur if everyone took as much as they could. Regulators recognize that although one boat doing so might not cause much harm, all boats doing so would ruin replacement of future stocks resulting in the collapse of the industry.

Three other quick examples of limited resources are beneficial wildlife, minerals and forests. They need quota rationing so that future generations have their benefits.

Principles Clash

The Invisible Hand holds that the free market aggregates individual needs into a balanced system. Yet considering the Fallacy of Composition, there are many cases where actions that benefit an individual lead to a negative consequence if the entire group follows along.

Quotas are a useful though not perfect tool.

A solution some people arrive at, of dubious ethics, is to keep secret any change that they think will benefit them, so everyone doesn't do the same. That violates free market conditions.

Good for one is not always good for all.

But personal secrecy is not the most striking shortcoming of relying on free markets to allocate resources. The Invisible Hand's biggest scar arises from a stronger violation of its required conditions.

Invisible Hand, sums up individual actions to best pricing and allocation
Design without Designer
Fallacy of Composition, individual actions can lose their advantage
Good for One
Invisible Hand's Scar

Image of wheat combine. Public Domain Wikicommons.

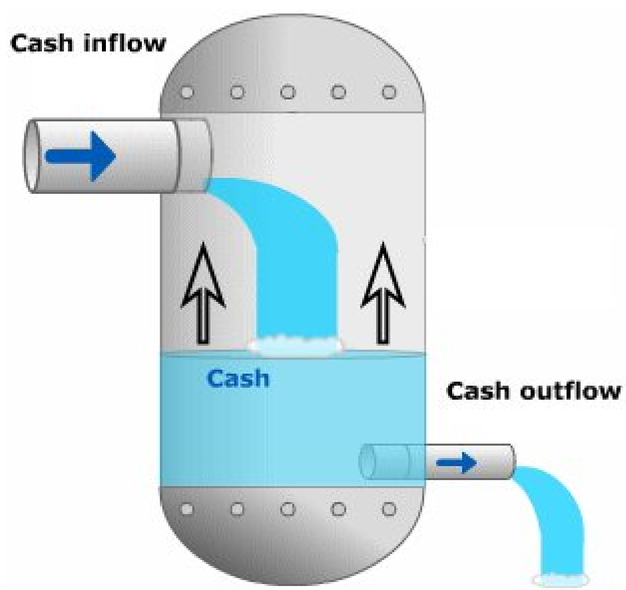
Missing Side of Budget Debates

⋮ 12/17/2017

Every year, all year, we hear about the United States federal deficit (this was written only three years ago and, although happily the yearly budgetary deficit is gone, the exclusive focus on the yearly income-outgo budget is still a flaw). The federal budget is worth serious and sober discussion, but we should expand that discussion to include the changing net worth of the US for better understanding of the health of the economy.

If we spend **$50 billion on highways**, what is the benefit y**ear-over-year** of the **increased productivity** from **ease of movement** for both people and goods? That is, how is the net worth of the United States affected by the yearly expenditures?

Every year, all year, we hear about the United States federal deficit (this was written only three years ago and, although happily the yearly budgetary deficit is gone, the exclusive focus on the yearly income-outgo budget is still a flaw). The federal budget is worth serious and sober discussion, but we should expand that discussion to include the changing net worth of the US for better understanding of the health of the economy.

- 

  Budget cashflow

- 

Net worth

If we spend $50 billion on highways, what is the benefit year-over-year of the increased productivity from ease of movement for both people and goods? That is, how is the net worth of the United States affected by the yearly expenditures?

Spending on Investment

When President Clinton came into office, he argued that we should spend for investment. His critics responded—No. Spending was spending. Although that is a truism, there is significant difference in effect between spending on consumption and spending on investment.

- **Consumption** is necessary, but it is spending that uses up what it purchases right away. It does not increase net worth.
- **Investment** is necessary to build works which yield benefits for multiple years. It increases net worth.

(Maintenance is a third type of spending. It is spending to keep operational investment projects of previous years.)

What are some components of the US net worth?

Assets are tangible and intangible, like

- Social factors—efficient judicial system, clear property rights, efficient government and institutions, political stability, regulatory quality, control of corruption
- Roads, bridges, tunnels, airports
- Natural resources (minerals, arable land, water, timber)
- Intellectual property. Research and findings. Education of our people, the Internet, etc.

Liabilities are obligations and commitments, like

- Social security, Medicare, Medicaid commitments
- Government and Veterans pensions

- Health research
- Cleaning up the environment

Household Example

In a family's personal finances, when a house is purchased, the effect on the budget is almost always negative in that year, then with time, principal reduction and household appreciation pushes household net worth up. Nearly two-thirds of all households decide this negative cash flow in their current year's budget is paid for by the future growth in net worth.

From a glance at the US federal budget it is obvious that a good portion is investment, but immediate cost vs. long-term benefit is not subject to the same public scrutiny that the consumption elements of the budget are. We deserve the best enumeration of these factors when the federal budget is discussed.

- Has the value of our roads, bridges, and tunnels increased this year?
- Have we discovered new wealth in mineral deposits?
- How much did the consumption of petroleum reserves cost in terms of pollution and habitat damage?

Government vs. Private

Since many assets are privately owned, not government owned, they are not included in the government calculations. The total net worth statement is essential for understanding the overall well-being of the US economy, but the Federal budget and Federal net worth statements are essential for assessing the functioning of government.

It would allow a relative cost-benefit analysis for leasing of government resources to private concerns. Leases on which Clinton flip-flopped when he commenced his presidency.

Measuring Progress

I'm certainly not saying that calculating the net worth of the US will be easy or that we'll get it perfectly right from the start. Fortunately, the value of a net worth statement is gained by observing its change year-over-year. It's a crucial measure of the economy's success.

In making budgetary decisions, the change in net worth is at least as important as a yearly deficit.

Government and Corporations

⋮ 5/14/2015

Constitution

“The government of the people, by the people, and for the people” doesn’t mention corporations—yet corporations now deeply influence the people’s government.

Citizens United

People interested in the political world know about the 2010 Citizens United ruling that allows corporations to give unlimited funds to political causes.

Conflict

But corporations are not people. They do not have a limited lifespan. They can’t be sent to jail if they commit a crime. Yes, these economic constructs are composed on people, but those people already have individual rights. “Corporations are people, too” is double-dipping for citizenship rights. Are corporations going to get the right to vote next?

Consequences

Corporations are concerned with their financial well-being as it is affected by laws, regulations, and enforcement by the government.

- Once corporations are successful, they no longer desire competition. They desire protection of their market share.
- That desire makes them want regulations which stifles competition and enhances their market ownership.
- That makes them promote actions contrary to the public good.

Huge corporations have financial and political interests in foreign countries that are **not necessarily aligned with the interests of the United States**.

Microsoft is headquarters in the US, but has foreign financial interests which can misalign with the US

- Corporations cannot be clearly defined as solely US, untinged by foreign interests.
- Financing of US political causes is being influenced by foreign money—despite the fancy footwork of accounting stratagems.

But we are allowing multinational corporations to affect US political elections!


Corporation as a Person

Under the prevailing interpretation of the US Constitution, corporations have the rights and responsibilities similar to people. In many ways, I don’t have a problem with that, but â€¦

â€¦ it’s wrong that they can actively participate in the political process. The country exists to promote life, liberty, and the pursuit of happiness of real people, not artificial associations of people.

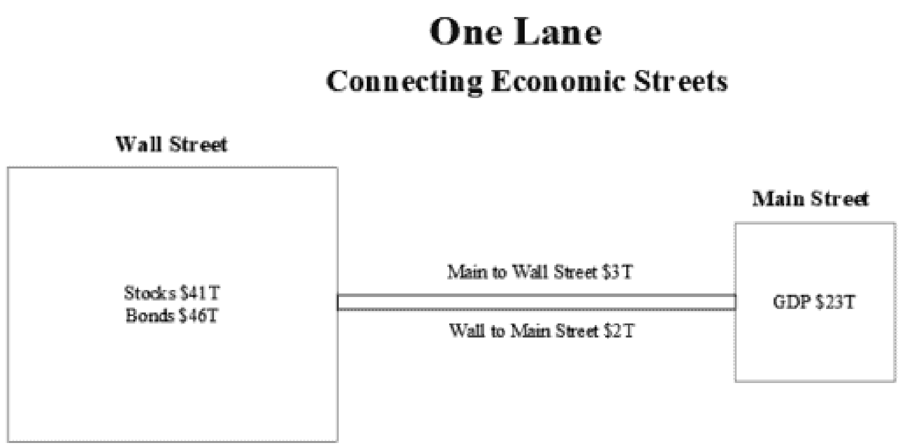
In addition, corporations have allegiances to profits, to their stock holders, and their consumers which are not solely in the United States. Their goals are not aligned with those of our country.

By Coolcaesar – Own work, CC BY-SA 4.0, https://commons.wikimedia.org/w/index.php?curid=63236663

The Lane Between Wall Street and Main Street

⋮ 8/6/2014

Update Aug. 25, 2022. The Tuition Loan Forgiveness is an example of a Bottom-Up policy mentioned in the post. The entire economy will benefit.



We hear the terms, Wall Street and Main Street, all the time in political and economic discussions. They aren't the same thing, but how are they different? Do governmental policies affect them differently?

What is Main Street? It is everyday economic activity as measured by GDP. It's workers, factories, retail outlets, services and consumers. In 2021, the magnitude of GDP, the size of Main Street, was $23 trillion dollars.

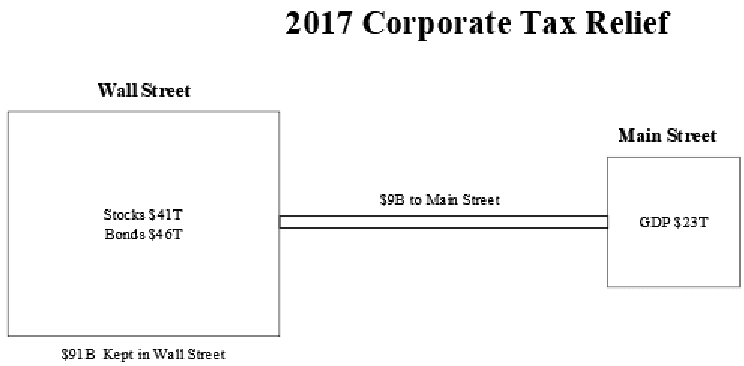
What does that leave for Wall Street? Wall Street handles ownership and financing of economic activity. It reflects past successes and weighs future prospects. It's the NYSE stock market, Nasdaq, commodity markets, banking and insurance systems. In 2021, US stock market capitalization ($41T) and US bond capitalization ($46T) amounted to $87 trillion dollars. We use Wall Street as a store of wealth in America through the ownership of stocks and bonds.

The lane that connects the two streets flows with money. Net profits, $3T in 2021, from GDP flow to Wall Street, while Wall Street invests in new products, $2T in 2019, using past profits and loans to grow Main Street economic activity. Interesting that more money flows from smaller Main Street to larger Wall Street.

Now that we have a bit of background, let's consider how two recent policy changes affected the two streets.

Tax Reduction Impact

In the 2017 Tax Cut and Jobs Act (TCJA), the corporate tax rates were reduced and touted as allowing American business to become more competitive worldwide and to increased economic activity. Here's what Forbes (Nov 17, 2017) wrote.



The argument for cutting corporate tax rates is that it will stimulate business capital spending. Greater capital spending increases the economy's total productive capacity, and it boosts the value of each additional worker. Thus, capital expenditures grow the economy and wages both.

What actually occurred? The lowering of the corporate tax rate resulted in a boost to corporate profits of $100B in the first year. Roughly 91% of that gain was kept by Wall Street in the form of stock buybacks and dividends. Only 9% was used to fund R&D and capital investment that benefited Main Street.

On Feb 21, 2019, Forbes addressed the lack of capital investment from the tax reduction.

[I]t's helpful to focus on R&D, because R&D is a leading investment—it creates opportunities. Capital investment then follows to exploit those opportunities. In short, the reason the TCJA didn't increase R&D investment is that most companies were already over-investing in R&D.

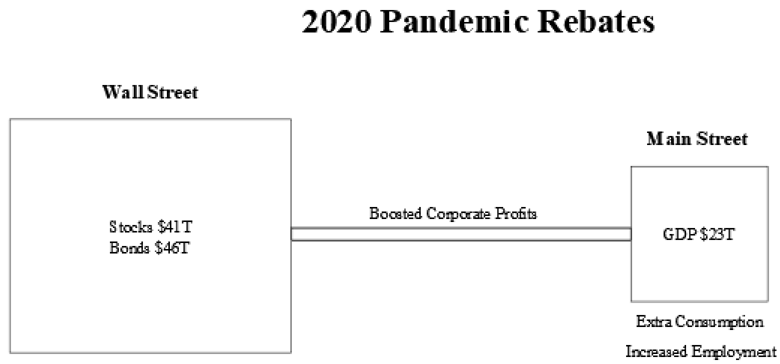
The corporations gave bought back stock which triggered bonuses for executives. This Forbes statement, of course, contradicts the argument they made to support TCJA!

Trickle Down gave Wall Street $100B lesser tax burden in the first year. It kept $91B. Wall Street trickled down $9B to Main Street.

Lower corporate taxes enriched CEOs and helped the already well-to-do and wealthy who own corporate stocks. The TCJA did not noticeably increase economic activity, the pulse of Main Street, where most people experience the economy, through jobs, wage increases, and inflation.

Federal Pandemic Rebates

Because of the lockdown required to escape the worst effects of the business shutdowns and limiting economic activities because of the COVID-19 pandemic, the Fed followed a multi-prong strategy. Let me focus on the cash rebates issues to every American. The vast majority of citizens spent those funds. This increased GDP as the money flowed down Main Street, with stops at the grocery, personal shoppers, and door-to-door delivery and hence to wholesalers and manufacturers. Finally, the new profits landed in corporate coffers and Wall Street.



This spending of the rebates generated jobs and business activity such that, in 2022, we see historically low unemployment rates and rising salaries.

The monetary effect of broad-based rebates benefited Main Street first, then the increased profit flowed up to Wall Street.

The Bubble Up policy gave Main Street a bundle of money to spend. Main Street spent that bundle on goods, services, and salaries, delivering 13%, the net profit, to Wall Street.

Future Economic Actions

Bubble Up is a more efficient than Trickle Down in countering troubles in the broad economy.

Equal reduction of individual tax burden is the way to boost the economy, not by a change to all rate brackets. A decrease in taxes of $1,000 to each taxpayer is spent by the overwhelming majority of recipients. That extra spending money generates a greater activity than the original amount. This multiplier effect describes the turnover of the busboy’s salary by his spending and those shopkeepers spending it on services and goods, whereby further peoples have their income increased and spend the increase on goods and services. As a result, corporate profits increase and flow up to Wall Street.

The impact of new debt incurred by the legislation is ignored here. Not because it is unimportant to consider, but because it distracts from the different manner by which Wall Street and Main Street react to government policies.

Republican Tax Cut GDP Impact

⋮ 12/10/2014

Only a part of the recent tax cut will add to GDP growth. There are two main components to the tax cut—decrease the tax paid by households and decrease the tax paid by businesses.

Purpose of Republican Tax Cut Bill

The justification for a tax bill should be—will it help or hurt the economy and the population?

The present tax bill plans to reduce business taxes by $1000B, while individuals will see a reduction of $500B in the next ten years.

1. There is the trickle-down idea. In this case allowing business twice as much. Economists have thoroughly debunked that idea.
2. I will deal with from a different angle. What will be the GDP impact and its cost in the first year (2019) of the proposed tax reduction?
3. A final point, though I also don't address further in this post, is that the tax bill will grow the government debt. As Republicans long preached before their apostasy, annual deficits that grow government debt have the danger of overwhelming the economy with debt which can't be carried. It is a folly that net worth is not considered alongside the yearly budget, because some debt can be carried when net worth is growing.

GDP Impacts

I focus on GDP change because economic activity is the means that most people gain benefit from the economy. What else is there you might wonder? The stock and bond markets draws funds. Rising stock prices—inflation that is not measured in CPI—are financial windfalls which occur on Wall Street are not tallied in GDP.

A practical consideration. The rich have become rich in the system already—through hard work, planning, system support, and even luck. Since they are already prospering, why should they be the prime beneficiaries of changes to tax codes.

If the markets rise, they does not help wage earners in daily life. For that we must consider, salary growth and consumer inflation.

Households

Quintile	2019 tax change	% of after-tax income	Consumption of Income 2010	# in quintile	Total cut	Chg GDP	Chg Non-GDP
Lowest	40	0.3%	163.00%	25061	$1,002,440,000	$1,633,977,200	-$631,537,200
Second	300	0.9%	112.00%	25486	$7,645,800,000	$8,563,296,000	-$917,496,000
Middle	840	1.4%	93.00%	25264	$21,221,760,000	$19,736,236,800	$1,485,523,200
Fourth	1560	1.6%	81.80%	24070	$37,549,200,000	$30,715,245,600	$6,833,954,400
Top	5420	2.0%	54.30%	23477	$127,245,340,000	$69,094,219,620	$58,151,120,380
All	1210	1.6%		123472	$194,664,540,000	$129,742,975,220	$64,921,564,780

Consumption by household income level

The table (Figure 1) is based on the historical spending patterns of households according to income. The richest people consume about half of their income, contributing to GDP. The other half goes to investments, which does not add to GDP activity.

The consumption by household income level is a dense chart. A brief discussion of the columns supports the summary as people's wealth increases, their gain in disposable income contributes less and less to GDP growth.

- The first column divides household incomes into named fifths (quintiles)
- The second shows the actual increased income per household due to the new tax law
- The third column calculates the fraction amount of income that the tax law reduction provides. It goes up as people becomes wealthier.
- The fourth tells the percentage of their income that the households consume. For example,
  - The poorest consume more than their income—163%. Although their income averages $13,000, they consume $20,000. This is accomplished by government welfare, charities, family gifts, and underground economy.
  - The richest consumes 54.3% of their income.
- The fifth column displays the number of households (thousands) in the section. The poorest has 25,061,000 households. The richest fifth has 23,477,000.
- Next, in the sixth column is the aggregate amount of tax reduction for the group. From $1 billion for the poorest to $127 billion in the richest.
- The seven column estimates the immediate impact on GDP assuming each household consumes the same fraction of their tax reduction as they currently do.
- The final column shows the amount of excess income due to tax reduction that the household will be saving and investing. The top two household groups spend more than they make, thus their contribution to investment is negative.

Bottom Line on Household Reductions

The bottom line is that **$129B will be added to GDP from the $194B** in increased take-home pay for all householders. Not bad, about 0.7% of our $18.6T GDP. Two-thirds of the individual tax reduction grows GDP and overall health of the economy. The non-consumption income feed into financial institutions will result mainly in inflation of asset values.

I'd be remiss if I didn't mention that nearly $200B of the total $500B individual tax reduction occurs in the first year. The tax savings for household go down dramatically as the years go on.

Businesses

A big part of the hype about the tax plan is that businesses will use their tax reductions to invest in their businesses and new ventures. I don't know of anyone who wishes that to be false, but is that wish reasonable?

Business investment contributes about 16% of GDP. Most of that is in support of ongoing business activities. Research and Development (R&D), the manner in which next business opportunities arrive, is estimated to be 2.79% of US GDP.

Before discussing corporations, let's discuss small businesses and pass-through entities.

Small Businesses

- 90% of small businesses pay less than 25% tax rate. They will see no benefit from the business tax rate being cut to 25%.
- 10% of small businesses which pay above 25% tax rate will be the only small businesses that benefit from the tax cut. They already earn 50% of all small business profits.
- The tax rate change will benefit the small businesses that already are flourishing. They will be given an addition **financial benefit to beat their small business rivals with**. That's anti-Free Market.

Corporations

When they see larger numbers on their after-tax profit, corporations have shown the actions they take with their tax cut money. Only a very **small fraction** of their gain goes to **business activity** which increases GDP.

- Stock buybacks. Inflating the share price and increasing the earning per share, so company executives get bonuses and large shareholders hold stock of increased value.
- Dividends.Paying money to stockholders. In 2016, 40.2% of all S&P 500 corporate income was paid out as dividends.
- Yardeni, Research, Inc. calculate that S&P 500 companies paid out 91% of their operating income as buyback and dividends in the 2nd quarter 2017.
- Perhaps there will be a tiny increase in Research & Development out of the remaining 9% of their tax reduction.

Summary

The new tax law will increase household spendable income enough to increase the GDP, a small 0.7%. The corporate tax change will put upward pressure on stock and asset prices. It will also increase financial maneuvers, which are not new business investment.

The upshot of the Republican Tax Cut bill will be a **minor increase to GDP** due to increased consumer consumption yet a **major increase to stock prices** due to reduced corporate tax liability and increased funds looking for investment homes.

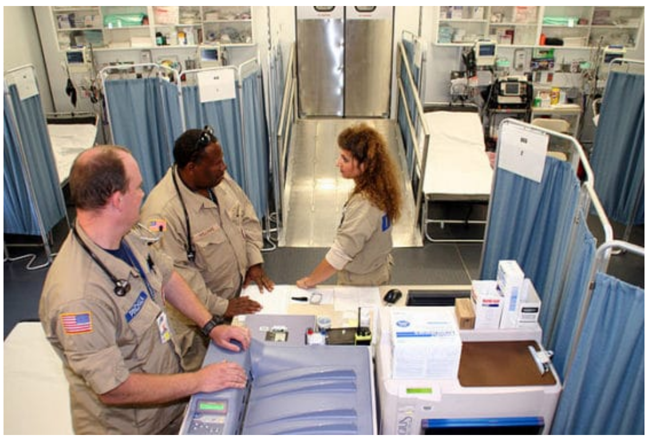
Lockdown Economic Takeaways

⋮ 4/29/2020

The lockdown imposed to fight the coronavirus has highlighted 3 economic facts.

- The health of everyone is essential for the entire economy to operate.
- Essential services are delivered by many people who are paid too little by their employer.
- Corporations don't like free markets when they show the corporation should go out of business. Remember TARP and now this bailout.

Remedies



1. We should have **universal health care**, independent of a person's employment. It should be single payer and not-for-profit. It should be a national medical service administered by medical professionals.
2. Essential workers should get, at least, the **average wage earned at their employer**. We have neglected to pay work according to the value it delivers.
3. Corporations. Their bailouts must come with significant strings attached. First, no stock buybacks and no bonus. Second, for **each dollar of dividend** they pay out, they must **pay back a dollar** to the government.

Click for more on healthcare

In a transition to universal healthcare, current employers and employees should pay their health care premiums to national medical service.

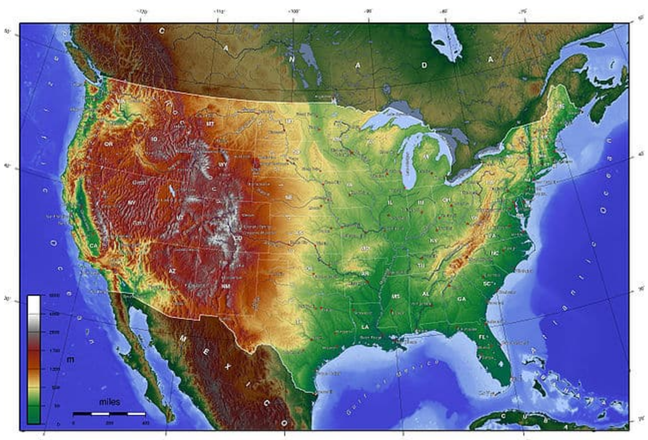
This pandemic clearly demonstrates, the health of the entire society is dependent on the health of all its members. This common connection is not delivered to the society when health care depends on being employed.

Also, this pandemic and the Great Recession show that corporate plans do not acknowledge or provide for outlier events. Unhindered by cautionary expenses, businesses collect excess profits then they expect the federal government to bail them out.

Preparedness and Cost-Splitting

Preparedness costs to businesses, governments, and individuals is a type of insurance. We didn't have sufficient insurance costs and expenditures built into our response to COVID-19. The costs of the governmental bailouts is a reflection of the under-preparation of companies—at the cost to the taxpayers.

Each dollar spent in **preparation saves six dollars** of spending in response. Our government should be funding for future pandemic and disaster preparations.



One country or fifty states

One Country or Fifty States

The virus doesn't stop at state boundaries. We need a national response, although that does not mean the same response to an unaffected area as to an affected area. The response should depend on measured targets, not the whim of the president or the person in charge.

The national government should be the custodian of the collective preparatory efforts. They should support states when it does not conflict with the national interest. The **federal government** should **not** be **bidding against** the **states** for personal protective equipment.

More about lockdown decision

Because sufficient testing was not available at the start, identification of infected individuals couldn't be used to support sensible isolation of those individuals; therefore, social distancing was mandated for the entire population—to flatten the peak requirement on our hospital system. However, essential services needed to continue, which required many employees to have contact with their coworkers and customers. Since there was the lack of personal protective equipment (masks, immediately), those essential workers were at risk and many caught Covid-19.

Now, so many people (1 million in US; 800 thousand active cases) have caught the virus that it is with us to stay and we must adjust to that reality.

Because of the surging pandemic, many governments moved to shutter most of the economy. They hoped to limit the numbers of sick and hospitalized so that the best care could be offered, to lessen the death rate.

Although different governments varied somewhat on which services to deem essential, the result was approximately 1/3 of the economy was shuttered. Those employees and owners had to live off savings, until the government delivered additional unemployment benefits and corporate bailouts. These actions use borrowed money.

Images, public domain. Retrieved from Wikimedia Commons