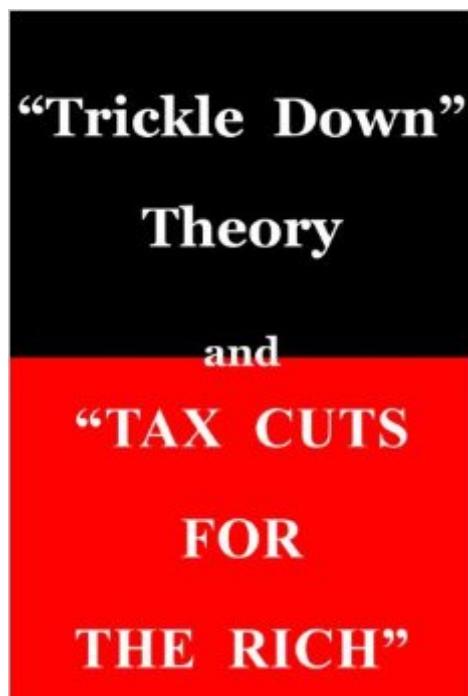


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# "Trickle Down Theory" And "Tax Cuts For The Rich"



## **Synopsis**

This essay unscrambles gross misconceptions that have made rational debates about tax policies virtually impossible for decades.

## **Book Information**

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## **Customer Reviews**

Sowell outlines the evolution of "Trickle Down Theory." His main points are that: 1. After World War I, Democrats and Republicans and even John Maynard Keynes, agreed that tax rates were too high. Because of the high rates of taxation, rich people tended to put their money into tax shelters, rather than investing in business ventures that employ people. This was not a politically divisive issue at the time. 2. No politician nor economist ever advocated anything called the "trickle-down theory." In fact, when tax rates are reduced, money is taken out of tax shelters and invested in business ventures that hire workers. The money goes directly to those workers, in hopes that the business will succeed and money will Trickle Up to the investors. FDR coined the phrase "trickle-down" as an epithet for his opponents. 3. The tax debate eventually became a political issue, with Democrats (but not JFK) advocating higher tax rates and Republicans advocating lower tax rates. At that point, Democrats started accusing Republicans of wanting to decrease tax rates because they only care

about the rich. This is pure demagoguery; both parties previously admitted that when tax rates are too high, it diminishes revenues to the treasury and hurts the common working man who needs a job. The pamphlet is short (main text 13 pages), to the point and very readable. It's replete with numerous little-known facts about the politics of our past and even a little criticism of popular history texts.

This is an excellent use of 30 minutes and for only a few bucks, you can't go wrong. General impressions on this short piece: Yes! Tax rates are symbolic, and nominal rates of tax have almost nothing to do with actual tax collection. Taxable income is different to gross income, and this is a distinction that is lost on much of the electorate. He could have gone a bit further in his discussion of tax exempt securities and explained why the government is not going to make them taxable any time soon (i.e., they need money from somewhere to finance their schemes and they may be dishonest and incompetent-- but they aren't stupid/ self-destructive). The net effect of higher taxes on the wealthy is to tax lower income of people MORE because the value of tax exempt securities is higher to high earners. There are two very different visions with respect to earnings spillover of wealthy people vs. different decisions generating more wealth for EVERYONE, and people keep talking past each other because they don't realize the details of their vision. Because this broadside is so short, it costs nothing to reread it a week or so later in order to pick up the last few bits of information out of it that you might not have been able to pick up on the first pass. There are also MANY references, and so it is possible to look further into this topic if you care to. (I don't, as I'm prepared to take Sowell at his word.) Verdict: Highly recommended. Worth the time. Worth the money.

13 pages of facts and meat. Non-partisan facts about tax revenue and how to create it. Lower taxes increase revenue. Sowell does a great job of distinguishing between the goals of redistribution of wealth and generating tax revenue. Distinguishing the two is essential in making a point. I have already given this book to my 20 year old son and am ordering more to give away.

Here is the essence of Sowell's argument: The debate about "tax cuts for the rich" has been framed as a debate about giving the rich more to spend, so that some of that money would end up in the pockets of lower classes. This short booklet makes it clear that the real debate is about the economic choices the rich make to maximize the return on money they save-- Fundamentally, whether to invest in lower interest government issued tax free bonds that encourage government

spending but weakly stimulate the economy as a whole, or whether to invest in private bonds that both pay higher interest and that enable businesses to make infrastructure investments resulting in immediate jobs and setting the stage for future growth. In a high tax environment, tax free government issued bonds result in a higher net rate of return than do the higher interest rate private bonds-- because interest received from private bonds is generally taxed at the tax payer's marginal rate. An implication of this explanation is that there should be a strong correlation between the interest rate spread of government and private issued bonds, and the marginal tax rates. There is also an agency related conflict of interest, where government reaps a benefit because by raising taxes the investor attractiveness of government bonds to investors is increased; government has no intrinsic motive to make private investment attractive. I really enjoyed reading this in-depth explanation of a concept that is ridiculed by so many, mainly because of the inaccurate stereotype to which it has been reduced by the media. The material is not easy, but the explanation is clear and understandable. Thank You, Mr. Sowell!

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