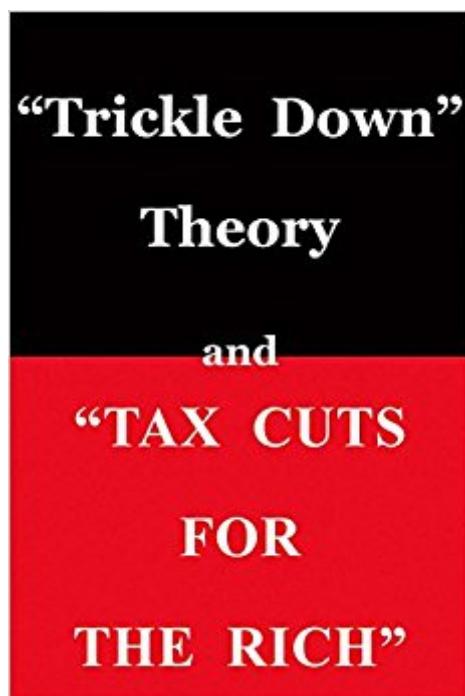


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# "Trickle Down Theory" And "Tax Cuts For The Rich"



## **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**

Thomas Sowell is the Rose and Milton Friedman Senior Fellow on Public Policy at the Hoover Institution, Stanford University. Among his published works are Basic Economics, Late Talking Children, and Race and Culture. He has also published in both academic journals and the popular media including Newsweek, Forbes, the Wall Street Journal, and 150 newspapers that carry his nationally syndicated column.

What Thomas Sowell has done is show why tax cuts are good for the United States. Imagine yourself with a lot of money. If taxes are high you are going to look for shelters from the tax. And there are a lot of these! But if taxes are lower, you wouldn't take the effort needed to shelter your taxes as these are not profitable. This is the crux of the story for the rich: find tax shelters and pay less taxes or if the shelters become to burdensome, pay the taxes! When taxes are paid, the percent of taxes paid by the rich goes up resulting in more tax revenues for the government. This is empirically proven by looking at tax cuts in the 1920's, the 1960's and the 1980's in the United States. The theorists and academics focus on a false notion that the rich are involved in a zero sum game with the poor. What they fail to realize is that amount that rich have put in tax shelters to

avoid high taxes takes money out of the economy and results in less opportunities for the poor: the poor will still pay taxes regardless as they do not have access to the tax shelters. So the poor do not benefit from high taxes. With lower taxes, more resources are available to invest in the economy. In this process, the poor gain employment opportunities that would not exist otherwise. Thus, their description of "trickle down" is inherently false. What is also ignored is that the amount of tax revenue collected by the government is higher because the rich are now contributing their taxes. The book is essentially a long essay but well worth reading and thinking about.

Thomas Sowell clearly and logically refutes criticisms of income tax rate reductions. Dr. Sowell backs up his support for his argument in several ways. All of his arguments are convincing, but there are three that seem particularly persuasive to me. First he points out that the "trickle down" theory is a non-existent theory. No such theory has been found in the history of economic theories, either in name or in essence. "Trickle down" is a mischaracterization of tax reduction policies that misstates both their intent and the normal result of their implementation. One of the first uses of the term "trickle down" was by Franklin D. Roosevelt's speechwriter Samuel Rosenman, who referred to "the theory that had prevailed in Washington since 1921, that the object of government was to provide prosperity for those who lived and worked at the top of the economic pyramid, in the belief that prosperity would trickle down to the bottom of the heap and benefit all." Mr. Sowell points out that this was neither the intent nor the result of the income tax reductions of the 1920s. First of all, income tax rates were increased to high levels in the belief that this would help finance World War I. Unfortunately this resulted in investments of the wealthy being directed to tax-exempt municipal bonds and other tax shelters. President Calvin Coolidge and Secretary of the Treasury Andrew Mellon considered this unfair and implemented sharper percentage cuts in tax rates at the lower income levels. They attempted to find the tax rates that would produce the most tax revenues and they succeeded in increasing tax revenues by reducing tax rates. Secondly, Dr. Sowell points out that efforts to increase income tax revenues through reducing income tax rates, have been successful. Reduced income tax rates in the 1920s resulted in rising output, rising employment, rising incomes and rising tax revenues for the government. There were similar results following the income tax rate reductions implemented during the administrations of John Kennedy, Ronald Reagan, and George W. Bush. Thirdly, he points out that, even though low income tax rates now seem to be a partisan issue, throughout the twentieth century they were supported by liberal economists, such as John Maynard Keynes, and Democrats, including presidents Woodrow Wilson and John Kennedy. Unfortunately, many people

continue to be confused about the difference between reducing tax rates on taxpayers and reducing tax revenues received by the government. Dr. Sowell points out that part of the problem is that several widely used textbooks perpetuate this confusion by misstating the goals and results of twentieth century income tax rate reductions. A lot of this confusion could be eliminated if Dr. Sowell's essay were required reading instead.

Dr. Sowell again unmasks liberal cliches and their semantic obfuscations. Just like more recently, "Muslim ban" became a media meme that lacked any relation to the actual executive order or to the reasons for it. As Dr. Sowell explains, "trickle down" represents no known economic theory of conservatives (or any other economists.) Mere slogan to obfuscate the reasoned arguments (and evidence) that support lower tax rates (not necessarily lower taxes) and more productive government spending. Here, I do not argue pro or con on issues, *per se*. Only that all too often liberal semantics avoid the intellectual debate that address the primary issues. Sowell's books all cut to the heart of the subjects discussed and does so with well-written, comprehensively researched, and thoughtfully presented narratives.

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