Redistributive Policies

Intermediate Macroeconomics - UCLA - Econ 102

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Section 1

The General Theory - Keynes (1936)

Chapter 24 on the vanishing importance of thrift

Since the end of the nineteenth century significant progress towards the removal of very great disparities of wealth and income has been achieved through the instrument of direct taxation—income tax and surtax and death duties—especially in Great Britain. Many people would wish to see this process carried much further, but they are deterred by two considerations; partly by the fear of making skilful evasions too much worth while and also of diminishing unduly the motive towards risk-taking, but mainly, I think, by the belief that the growth of capital depends upon the strength of the motive towards individual saving and that for a large proportion of this growth we are dependent on the savings of the rich out of their superfluity. Our argument does not affect the first of these considerations. But it may considerably modify our attitude towards the second. For we have seen that, up to the point where full employment prevails, the growth of capital depends not at all on a low propensity to consume but is, on the contrary, held back by it; and only in conditions of full employment is a low propensity to consume conducive to the growth of capital. Moreover, experience suggests that in existing conditions saving by institutions and through sinking funds is more than adequate, and that measures for the redistribution of incomes in a way likely to raise the propensity to consume may prove positively favourable to the growth of capital.

On death duties

The existing confusion of the public mind on the matter is well illustrated by the very common belief that the death duties are responsible for a reduction in the capital wealth of the country. Assuming that the State applies the proceeds of these duties to its ordinary outgoings so that taxes on incomes and consumption are correspondingly reduced or avoided, it is, of course, true that a fiscal policy of heavy death duties has the effect of increasing the community's propensity to consume. But inasmuch as an increase in the habitual propensity to consume will in general (i.e. except in conditions of full employment) serve to increase at the same time the inducement to invest, the inference commonly drawn is the exact opposite of the truth.

Chapter 24: the vanishing importance of thrift

Thus our argument leads towards the conclusion that in contemporary conditions the growth of wealth, so far from being dependent on the abstinence of the rich, as is commonly supposed, is more likely to be impeded by it. One of the chief social justifications of great inequality of wealth is, therefore, removed. I am not saying that there are no other reasons, unaffected by our theory, capable of justifying some measure of inequality in some circumstances. But it does dispose of the most important of the reasons why hitherto we have thought it prudent to move carefully. This particularly affects our attitude towards death duties: for there are certain justifications for inequality of incomes which do not apply equally to inequality of inheritances.

Channeling dangerous human proclivities

For my own part, I believe that there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist to-day. There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition. Moreover, dangerous human proclivities can be canalised into comparatively harmless channels by the existence of opportunities for money-making and private wealth, which, if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandisement. It is better that a man should tyrannise over his bank balance than over his fellow-citizens; and whilst the former is sometimes denounced as being but a means to the latter, sometimes at least it is an alternative. But it is not necessary for the stimulation of these activities and the satisfaction of these proclivities that the game should be played for such high stakes as at present. Much lower stakes will serve the purpose equally well, as soon as the players are accustomed to them. The task of transmuting human nature must not be confused with the task of managing it. Though in the ideal commonwealth men may have been taught or inspired or bred to take no interest in the stakes, it may still be wise and prudent statesmanship to allow the game to be played, subject to rules and limitations, so long as the average man, or even a significant section of the community, is in fact strongly addicted to the money-making passion.

Theory is moderately conservative in its implications

In some other respects the foregoing theory is moderately conservative in its implications. For whilst it indicates the vital importance of establishing certain central controls in matters which are now left in the main to individual initiative, there are wide fields of activity which are unaffected. The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways. Furthermore, it seems unlikely

On individualism

Whilst, therefore, the enlargement of the functions of government, involved in the task of adjusting to one another the propensity to consume and the inducement to invest, would seem to a nineteenth-century publicist or to a contemporary American financier to be a terrific encroachment on individualism, I defend it, on the contrary, both as the only practicable means of avoiding the destruction of existing economic forms in their entirety and as the condition of the successful functioning of individual initiative.

On authoritarian state sytems

The authoritarian state systems of to-day seem to solve the problem of unemployment at the expense of efficiency and of freedom. It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated—and, in my opinion, inevitably associated—with present-day capitalistic individualism. But it may be possible by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom.

Section 2

Marriner S. Eccles

Interpretation of the 1920s - 1930s Crisis

- Marriner S. Eccles: Federal Reserve Chairman, 1934 - 1948.
- Interpretation of the 1920s boom, and 1930s depression: there was too much saving.
- Therefore, households piled on debt.
- Financial sector, lenders: no other game in town.
- Sounds familiar? Similar phenomenon during the 2000-2007 boom.
- According to him, less inequality would have allowed to avoid this lending, and therefore the financial crisis.

Congressional Testimony, 1933 1/3

- Hearings before the Committee on Finance authorizing and directing the finance committee to make Committee to make an investigation and study of the present' economic problems of the United States with a view to securing constructive suggestions with respect to the solution of such problems. pdf

It is utterly impossible, as this country has demonstrated again and again, for the rich to save as much as they have been trying to save, and save anything that is worth saving. They can save idle factories and useless railroad coaches; they can save empty office buildings and closed banks; they can save paper evidences of foreign loans; but as a class they can not save anything that is worth saving, above and beyond the amount that is made profitable by the increase of consumer buying. It is for the interests of the well to do—to protect them from the results of their own folly—that we should take from them a sufficient amount of their surplus to enable consumers to consume and business to operate at a profit.

Congressional Testimony, 1933 2/3

ployment insurance and old age pension laws (such laws left up to the States only create confusion and can not meet the situation nationally unless similar and uniform laws are passed by all States at the same time, which is improbable); all new capital issues offered to the public and all foreign financing should receive the approval of an agency of the Federal Government; this control should also extend to all means of transportation and communication so as to insure their operation in the public interest. A national planning board, similar to the industries board during the war, is necessary to the proper coordination of public and private activities of the economic world.

Such measures as I have proposed may frighten those of our people who possess wealth. However, they should feel reassured in reflecting upon the following quotation from one of our leading economists:

> It is utterly impossible, as this country has demonstrated again and again, for the rich to save as much as they have been trying to save, and save anything that is worth saving. They can save idle factories and useless railroad coaches; they can save empty office buildings and closed banks; they can save paper evidences of foreign loans; but as a class they can not save anything that is worth saving, above and beyond the amount that is made profitable by the increase of consumer buying. It is for the interests of the well to do—to protect them from the results of their own folly—that we should take from them a sufficient amount of their surplus to enable consumers to consume and business to operate at a profit.

Congressional Testimony, 1933 3/3

Mr. ECCLES. We could, as an alternative, further raise our tariff wall, put an embargo on gold and live entirely within ourselves.

The program which I have proposed is largely of an emergency nature designed to bring rapid economic recovery. However, when recovery is restored, I believe that in order to avoid future disastrous depressions and sustain a balanced prosperity, it will be necessary during the next few years for the Government to assume a greater control and regulation of our entire economic system. There must be a more equitable distribution of wealth production in order to keep purchasing power in a more even balance with production.

If this is to be accomplished there should be a unification of our banking system under the supervision of the Federal reserve bank in order to more effectively control our entire money and credit system; a high income and inheritance tax is essential in order to control capital accumulations (this division of taxes should be left solely to the central government—the real property and sales tax left to the States); there should be national child labor, minimum wage, unem-

1939 Speech

It is beyond dispute, I think, that consumption taxes fall too heavily on the great masses of our people. A recent round table group, gathered together by Fortune magazine, all agreed that the present tax system bears too heavily on the lower income groups because of excise and sales taxes. Various studies that have been made by the Brookings Institution, the National Resources Committee, and other groups, all indicate that the great majority of our people at the bottom of the income scale would consume far more if they had the purchasing power. It is not among these people that idle funds accumulate, but in the numerically smaller groups, less than 10 per cent of the population, whose income taxes are low relative to the British scale and that prevailing in most other countries.

1939 Speech

However, in my judgment, the most important tax deterrents on business activity are those taxes which bear directly on consumption. And, therefore, the most important tax reform would be to reduce consumption

taxes, which are, including Federal and State, about $3 billions more now than in 1929. This would increase the purchasing power of consumers and stimulate the markets for business and industry. Such a reduction in taxes should be made up--since I think no one will argue that we should reduce

1939 Speech

A reasoned appraisal of our economic situation compels me to warn against the illusion that the reduction of taxes that fall on us as business men would solve our fundamental problem of idle men and idle money. On the contrary, the requirements of a sounder and more stable economy will, in my opinion, call on us in our own interest to provide relatively more rather than less of the total tax revenue as a means of maintaining and increasing consumption and thus of preserving existing investment and paving the way for new investment by providing a profitable outlet.

Eccles (1951)

According to Marriner S. Eccles, who was the Federal Reserve Chairman from 1934 to 1948,

> *The stimulation to spending by debt-creation of this sort was short lived and could not be counted on to sustain high levels of employment for long periods of time.* ***Had there been a better distribution of the current income from the national product — in other words, had there been less savings by business and the higher-income groups and more income in the lower groups — we should have had far greater stability in our economy.*** *Had the six billion dollars, for instance, that were loaned by corporations and wealthy individuals for* ***stock-market speculation*** *been distributed to the public as lower prices or higher wages and with less profits to the corporations and the well-to-do, it would have prevented or greatly moderated the economic collapse that began at the end of 1929.*

Eccles (1951)

As mass production has to be accompanied by mass consumption; mass consumption, in turn, implies a distribution of wealth — not of existing wealth, but of wealth as it is currently produced — to provide men with buying power equal to the amount of goods and services offered by the nation's economic machinery. Instead of achieving that kind of distribution, a giant suction pump had by 1929-30 drawn into a few hands an increasing portion of currently produced wealth. This served them as capital accumulations. But ***by taking purchasing power out of the hands of mass consumers****, the* ***savers denied to themselves the kind of effective demand for their products that would justify a reinvestment of their capital accumulations in new plants****. In consequence, as in a poker game where the chips were concentrated in fewer and fewer hands, the other fellows could* ***stay in the game only by borrowing****. When their credit ran out, the game stopped.*

Eccles (1951)

That is what happened to us in the twenties. We ***sustained high levels of employment in that period with the aid of an exceptional expansion of debt outside of the banking system****. This debt was provided by the large growth of business savings as well as savings by individuals, particularly in the upper-income groups where taxes were relatively low. Private debt outside of the banking system increased about fifty per cent. This debt, which was at high interest rates, largely took the form of mortgage debt on housing, office, and hotel structures, consumer installment debt, brokers' loans and foreign debt.*

Section 3

Data on Progressivity

Progressivity varies with taxes

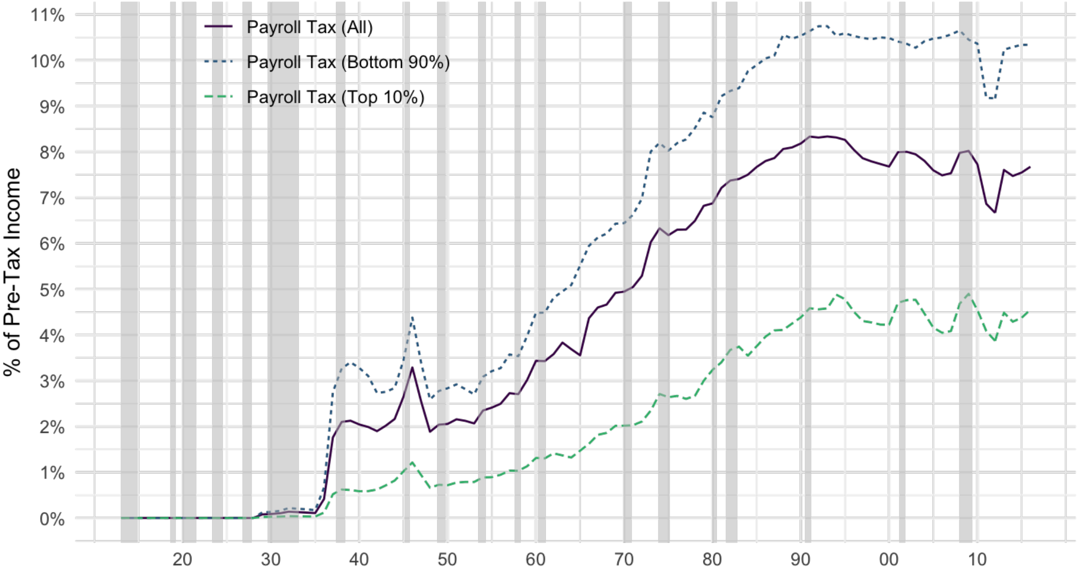
Data shows marked differences in progressivity:

- Income / Corporate / Estate taxes = **quite progressive**.
- Property / Consumption taxes = **less progressive**.

I show now the progressivity of different taxes according to the bottom 90% / top 10% dichotomy:

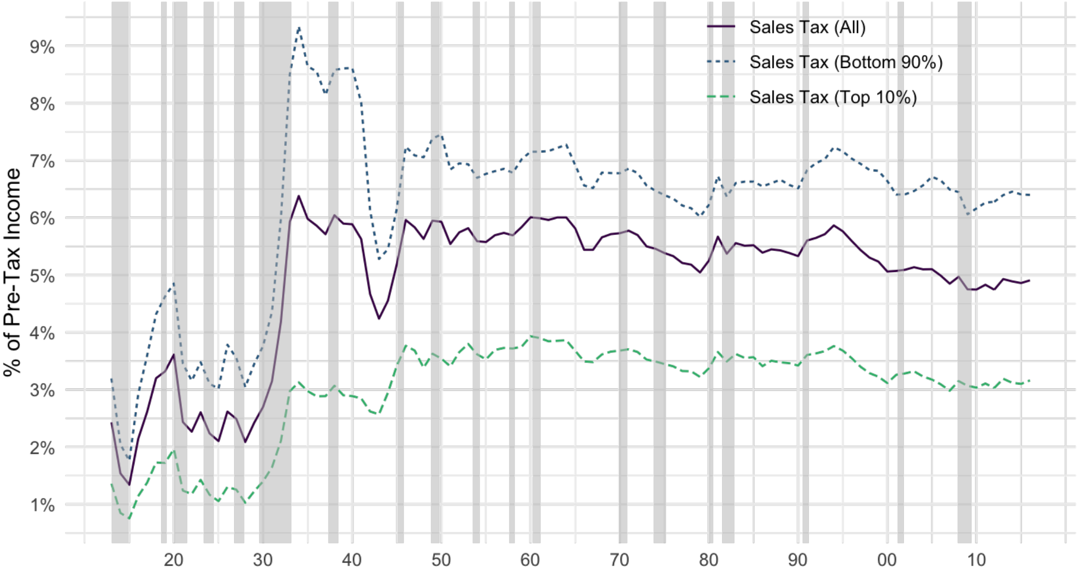
- Payroll Tax.
- Sales Tax.
- (Residential) Property Tax.
- Income Tax.
- Corporate Tax.
- Estate Tax.

Payroll Tax



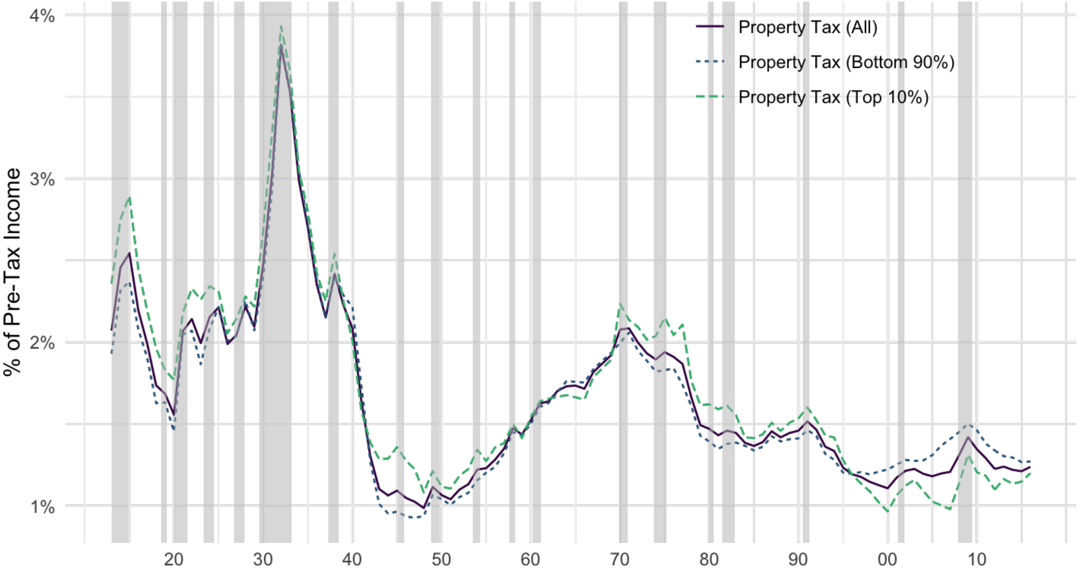
Payroll Tax (All)
Payroll Tax (Bottom 90%)
Payroll Tax (Top 10%)
% of Pre-Tax Income
11%
10%
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
20
30
40
50
60
70
80
90
00
10

Sales Tax

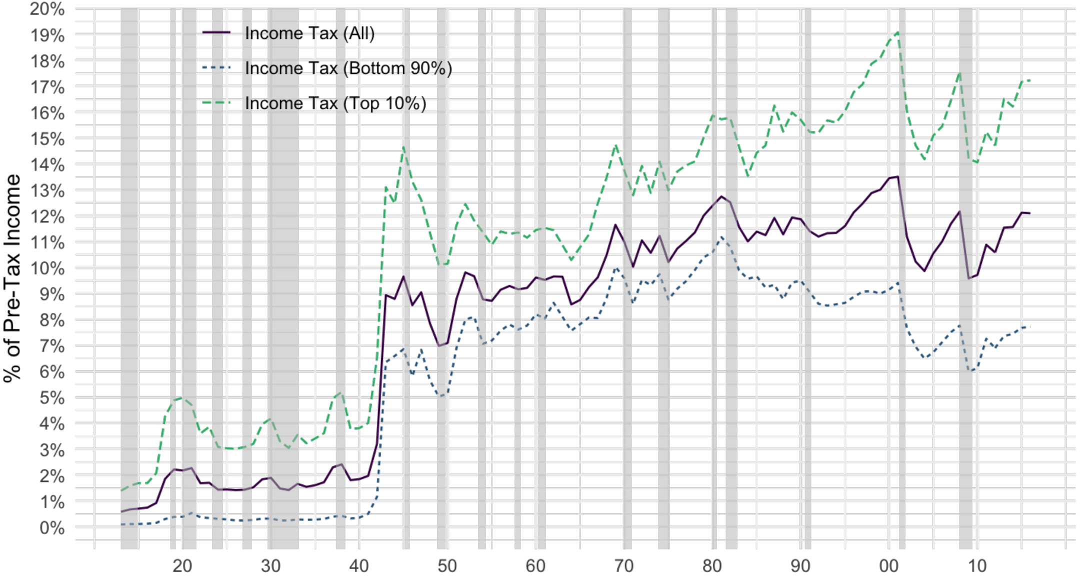


Sales Tax (All)
Sales Tax (Bottom 90%)
Sales Tax (Top 10%)
% of Pre-Tax Income
9%
8%
7%
6%
5%
4%
3%
2%
1%
20
30
40
50
60
70
80
90
00
10

(Residential) Property Tax

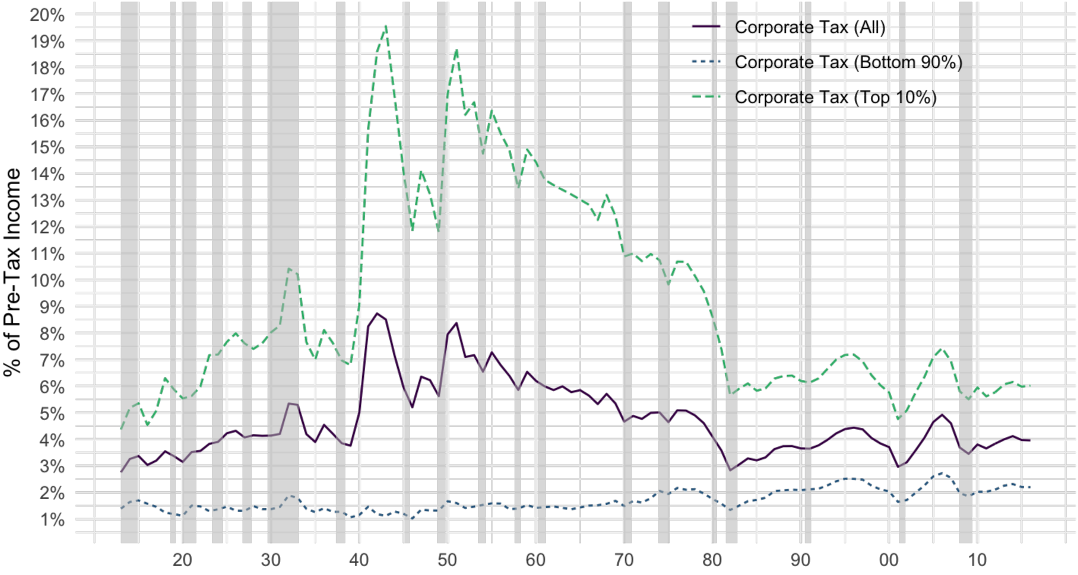


Income Tax

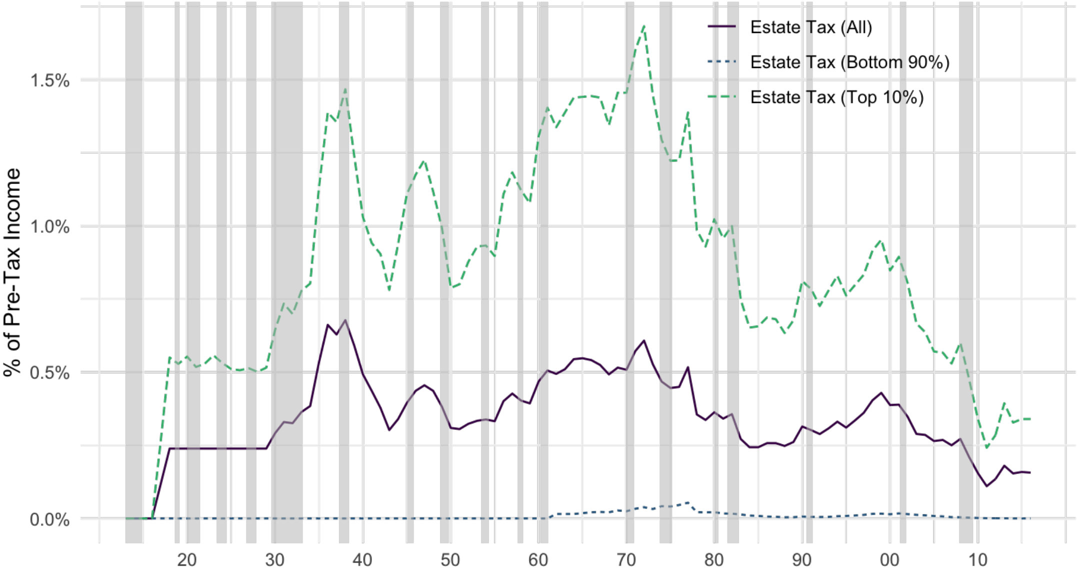


Income Tax (All)
Income Tax (Bottom 90%)
Income Tax (Top 10%)
% of Pre-Tax Income
20%
19%
18%
17%
16%
15%
14%
13%
12%
11%
10%
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
20
30
40
50
60
70
80
90
00
10

Corporate Tax



Estate Tax



Estate Tax (All)
Estate Tax (Bottom 90%)
Estate Tax (Top 10%)
% of Pre-Tax Income
1.5%
1.0%
0.5%
0.0%
20
30
40
50
60
70
80
90
00
10

Section 4

The Economic Consequences of the Peace - Keynes (1919)

Keynes (1919)

Europe was so organised socially and economically as to secure the maximum accumulation of capital. While there was some continuous improvement in the daily conditions of life of the mass of the population, Society was so framed as to throw a great part of the increased income into the control of the class least likely to consume it. The new rich of the nineteenth century were not brought up to large expenditures, and preferred the power which investment gave them to the pleasures of immediate consumption. In fact, it was precisely the *inequality* of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital improvements which distinguished that age from all others. Herein lay, in fact, the main justification of the Capitalist System. If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a régime intolerable. But like bees they saved and accumulated, not less to the advantage of the whole community because they themselves held narrower ends in prospect.

Keynes (1919)

The immense accumulations of fixed capital which, to the great benefit of mankind, were built up during the half century before the war, could never have come about in a Society where wealth was divided equitably. The railways of the world, which that age built as a monument to posterity, were, not less than the Pyramids of Egypt, the work of labour which was not free to consume in immediate enjoyment the full equivalent of its efforts.

First Transcontinental Railroad

Keynes (1919)

Thus this remarkable system depended for its growth on a double bluff or deception. On the one hand the labouring classes accepted from ignorance or powerlessness, or were compelled, persuaded, or cajoled by custom, convention, authority, and the well-established order of Society into accepting, a situation in which they could call their own very little of the cake, that they and Nature and the capitalists were co-operating to produce. And on the other hand the capitalist classes were allowed to call the best part of the cake theirs and were theoretically free to consume it, on the tacit underlying condition that they consumed very little of it in practice. The duty of "saving" became nine-tenths of virtue and the growth of the cake the object of true religion. There grew round the non-consumption of the cake all those instincts of puritanism which in other ages has withdrawn itself from the world and has neglected the arts of production as well as those of enjoyment. And so the cake increased; but to what end was not clearly contemplated. Individuals would be exhorted not so much to abstain as to defer, and to cultivate the pleasures of security and anticipation. Saving was for old age or for your children; but this was only in theory,—the virtue of the cake was that it was never to be consumed, neither by you nor by your children after you.

Section 5

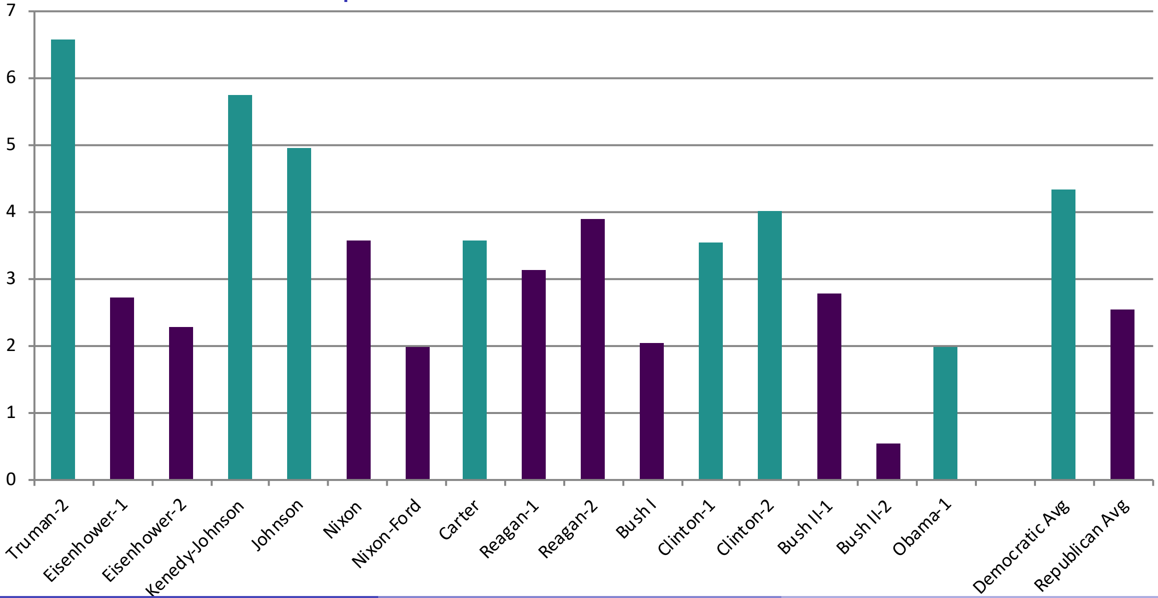
Macroeconomic Performance of U.S. Presidents

Presidents and the US Economy: An Econometric Exploration†

By Alan S. Blinder and Mark W. Watson*

The US economy has performed better when the president of the United States is a Democrat rather than a Republican, almost regardless of how one measures performance. For many measures, including real GDP growth (our focus), the performance gap is large and significant. This paper asks why. The answer is not found in technical time series matters nor in systematically more expansionary monetary or fiscal policy under Democrats. Rather, it appears that the Democratic edge stems mainly from more benign oil shocks, superior total factor productivity (TFP) performance, a more favorable international environment, and perhaps more optimistic consumer expectations about the near-term future. (*JEL* D72, E23, E32, E65, N12, N42)

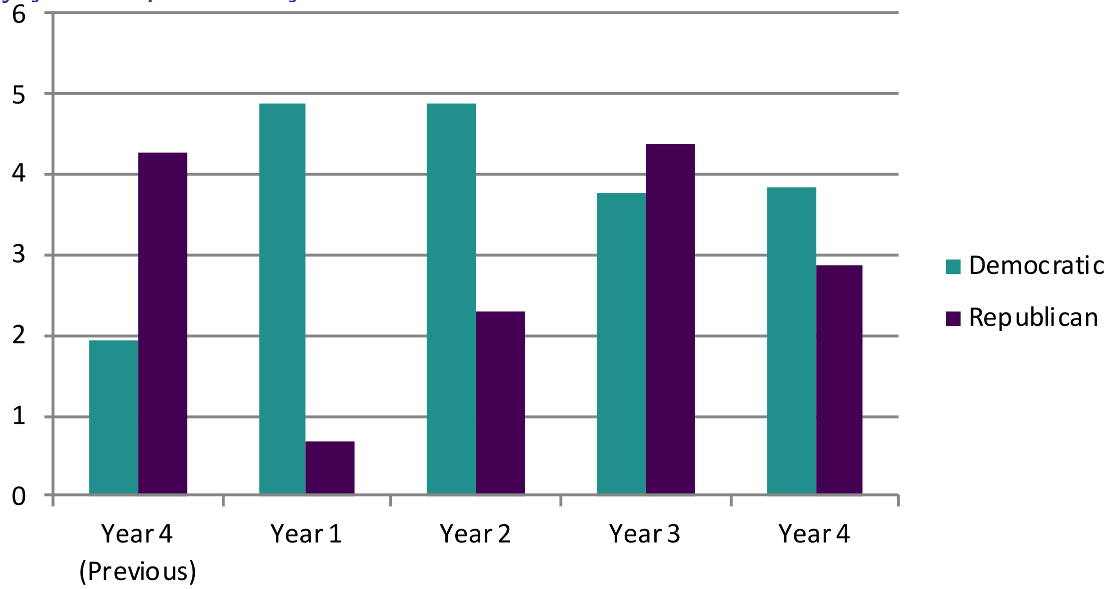
Performance for each president



Comparing other outcomes

Variable	Democratic	Republican	Difference	p-value
Panel A. Other output measures				
GDP per capita (GR)	3.09 (0.47) [0.42]	1.35 (0.35) [0.45]	1.73 (0.59) [0.61]	0.01
Nonfarm business output (GR)	4.81 (0.56) [0.52]	2.65 (0.43) [0.61]	2.15 (0.71) [0.80]	0.01
Industrial production (GR)	5.57 (0.95) [0.84]	1.79 (0.62) [0.93]	3.78 (1.13) [1.24]	0.00
Panel B. Employment and unemployment				
Employment (payroll) (GR)	2.59 (0.41) [0.36]	1.17 (0.32) [0.38]	1.42 (0.52) [0.49]	0.02
Employee hours (NFB) (GR)	2.22 (0.31) [0.39]	0.57 (0.38) [0.50]	1.65 (0.49) [0.58]	0.01
Employment (HH) (GR)	1.76 (0.28) [0.25]	1.20 (0.26) [0.31]	0.56 (0.38) [0.37]	0.17
Unemployment rate (level, PP)	5.64 (0.67) [0.41]	6.01 (0.41) [0.29]	−0.38 (0.78) [0.47]	0.62
Unemployment rate (change, PP)	−0.83 (0.42)	1.09 (0.45)	−1.92 (0.62)	0.01
Panel C. Stock returns and corporate profits				
Returns S&P500 Index (PP)	8.35 (2.12) [2.56]	2.70 (2.84) [3.20]	5.65 (3.55) [4.22]	0.15
Corporate profits (share of GDI)	5.61 (0.31) [0.22]	4.74 (0.20) [0.16]	0.87 (0.37) [0.27]	0.03
Panel D. Real wages and productivity				
Compensation/hour (GR)	1.78 (0.55) [0.36]	1.43 (0.34) [0.27]	0.35 (0.65) [0.44]	0.57
Output/hour NFB (GR)	2.53 (0.46) [0.38]	2.06 (0.29) [0.29]	0.47 (0.54) [0.49]	0.37
TFP (GR)	1.89 (0.47) [0.37]	0.84 (0.30) [0.35]	1.05 (0.55) [0.52]	0.07
Panel E. Structural government surplus				
Surplus/pot. GDP (PP)	−2.09 (0.87) [0.51]	−2.78 (0.22) [0.26]	0.69 (0.89) [0.54]	0.30
Panel F. Inflation				
Inflation PCED (level, PP)	2.97 (0.95) [0.59]	3.32 (0.63) [0.41]	−0.35 (1.14) [0.68]	0.73
Inflation GDPD (level, PP)	2.89 (0.88) [0.55]	3.44 (0.60) [0.39]	−0.55 (1.06) [0.63]	0.59
Inflation PCED (change, PP)	1.06 (0.67)	−0.83 (0.87)	1.89 (1.10)	0.12
Inflation GDPD (change, PP)	0.93 (0.69)	−0.81 (0.85)	1.74 (1.09)	0.15
Panel G. Interest rates				
Three month T-bill rate (level, PP)	4.01 (1.10) [0.66]	4.87 (0.92) [0.58]	−0.86 (1.44) [0.82]	0.56
Federal funds rate (level, PP)	4.75 (1.36) [0.82]	5.55 (1.10) [0.69]	−0.79 (1.75) [0.99]	0.54
Three month T-bill rate (change, PP)	1.75 (0.91)	−1.47 (0.59)	3.22 (1.09)	0.00
Federal funds rate (change, PP)	2.34 (1.37)	−2.09 (0.72)	4.42 (1.55)	0.00
Ten-year/three-month term spread (PP)	1.17 (0.37) [0.25]	1.65 (0.22) [0.20]	−0.48 (0.43) [0.30]	0.25
Baa-Aaa spread (PP)	0.80 (0.11) [0.07]	1.08 (0.11) [0.08]	−0.29 (0.15) [0.10]	0.09

By year in presidency



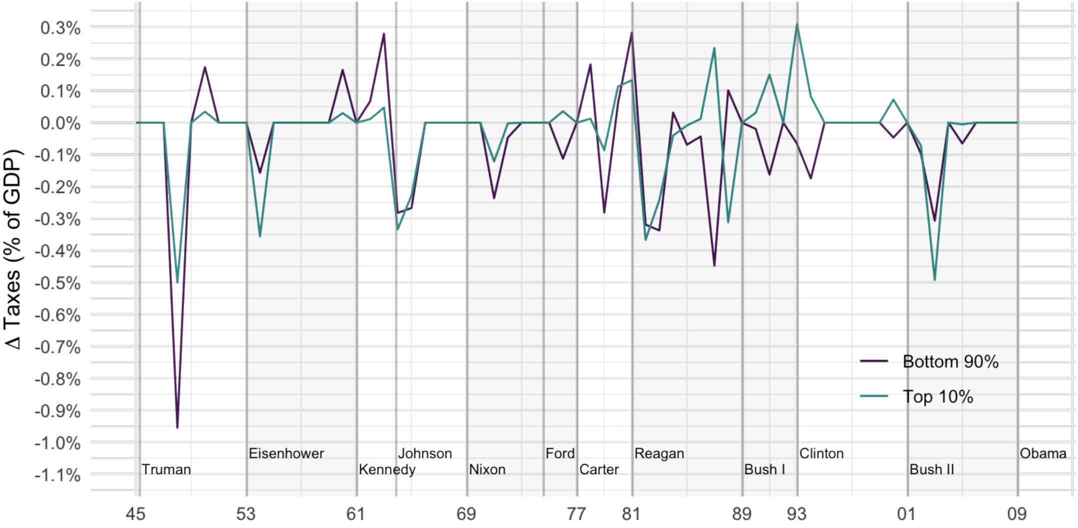
Determinants

Shock	Sample period	Total D-R gap	Explained D-R gap: Distributed lag specification — Common	Explained D-R gap: Distributed lag specification — Party-specific
Panel A. Oil				
Prices (Hamilton)	1949:II–2013:I	1.79 (0.64)	0.49 (0.10)	0.51 (0.11) [0.72]
Quantities (Kilian)	1972:III–2004:III	0.81 (0.75)	0.21 (0.19)	0.40 (0.18) [0.00]
Panel B. Productivity				
TFP (util. adj., Fernald)	1949:II–2013:I	1.79 (0.64)	0.05 (0.02)	0.05 (0.02) [0.65]
Labor prod. (LR-VAR)	1950:III–2013:I	1.72 (0.62)	0.20 (0.08)	0.16 (0.07) [0.07]
TFP (LR-VAR)	1950:III–2013:I	1.72 (0.62)	0.29 (0.05)	0.29 (0.05) [0.99]
TFP (util. adj. by authors)	1950:III–2013:I	1.72 (0.62)	0.50 (0.07)	0.50 (0.07) [0.15]
Panel C. Defense spending				
Ramey	1949:II–2013:I	1.79 (0.64)	0.21 (0.04)	−0.04 (0.44) [0.70]
Fisher-Peters	1949:II– 2008:IV	2.12 (0.65)	0.02 (0.06)	0.02 (0.05) [0.59]
Panel D. International				
GDP growth Europe	1963:IV–2013:I	1.18 (0.65)	0.03 (0.16)	0.04 (0.15) [0.27]
Exchange rates	1975:IV–2013:I	0.64 (0.69)	0.00 (0.06)	−0.04 (0.07) [0.01]
Panel E. Taxes				
Romer and Romer	1949:II–2007:IV	1.97 (0.64)	0.01 (0.06)	−0.01 (0.04) [0.17]
Panel F. Monetary policy				
Romer and Romer	1970:III–1996:IV	0.47 (0.95)	−0.09 (0.17)	−0.15 (0.13) [0.43]
SVAR (Sims and Zha)	1961:IV–2003:I	1.49 (0.70)	0.05 (0.13)	−0.10 (0.12) [0.03]
SVAR (authors)	1957:II–2008.IV	1.77 (0.64)	−0.23 (0.12)	−0.32 (0.12) [0.20]
Panel G. Interest rates and loan surveys				
Baa-Aaa spread	1950:I–2013:I	1.91 (0.67)	0.25 (0.18)	0.17 (0.19) [0.00]
GZ spread	1975:III–2012:IV	0.60 (0.70)	0.51 (0.21)	0.34 (0.16) [0.10]
TED spread	1973:III–2013:I	0.90 (0.69)	0.16 (0.07)	0.03 (0.07) [0.00]
FRB SLOOS	1972:III–2013:I	0.74 (0.67)	−0.11 (0.08)	−0.08 (0.07) [0.00]
Panel H. Consumer sentiment, expectations, and uncertainty				
Consumer sentiment	1962:III–2013:I	1.24 (0.64)	0.05 (0.05)	0.04 (0.05) [0.05]
Consumer expectations	1962:III–2013:I	1.24 (0.64)	0.23 (0.11)	0.17 (0.10) [0.08]
Uncertainty Index (BBD)	1950:I–2013:IV	1.91 (0.67)	−0.13 (0.06)	−0.14 (0.06) [0.19]
Uncertainty Index (JLN)	1963:I–2013:IV	1.26 (0.64)	0.18 (0.09)	0.17 (0.09) [0.27]

Different Fiscal Policies?

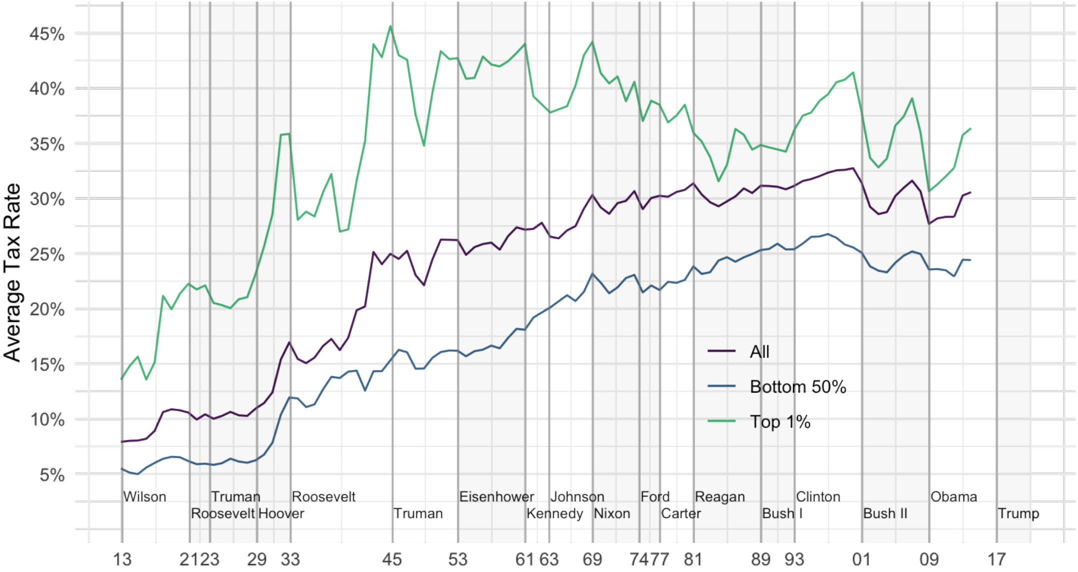
- One explanation could be different fiscal policies.
- However, according to Romer, Romer (2010), both democrats and republicans have equally accommodative fiscal policy.
- Another interpretation: Republicans' tax cuts are typically more favoring the top 1% than Democrats' tax cuts. See the lecture on redistributive policies.
- Clinton's and Kennedy's expansions can be interpreted in that way.

Zidar (2019)

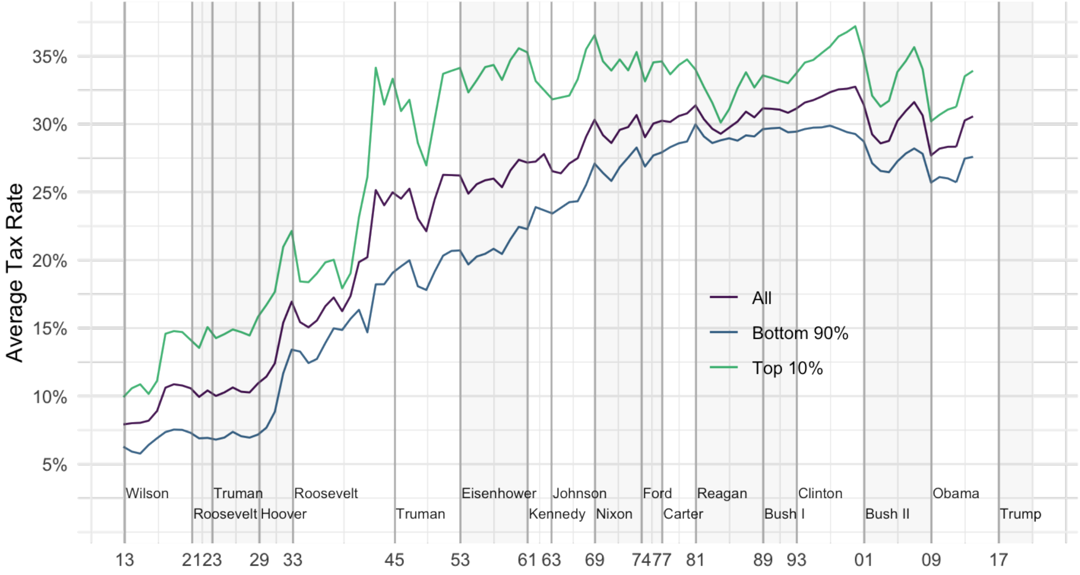


Source: Owen Zidar. 'Tax Cuts for Whom? Heterogeneous Effects of Income Tax Changes on Growth and Employment.' Journal of Political Economy 127, no. 3 (2019): 1437-72

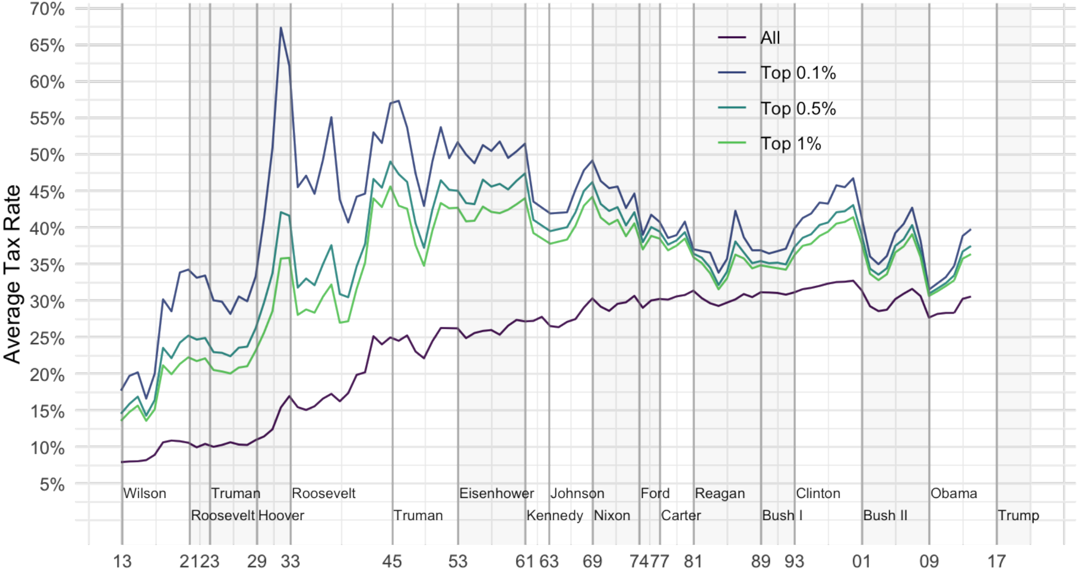
Average Tax Rates - Top 1%, Bottom 50%



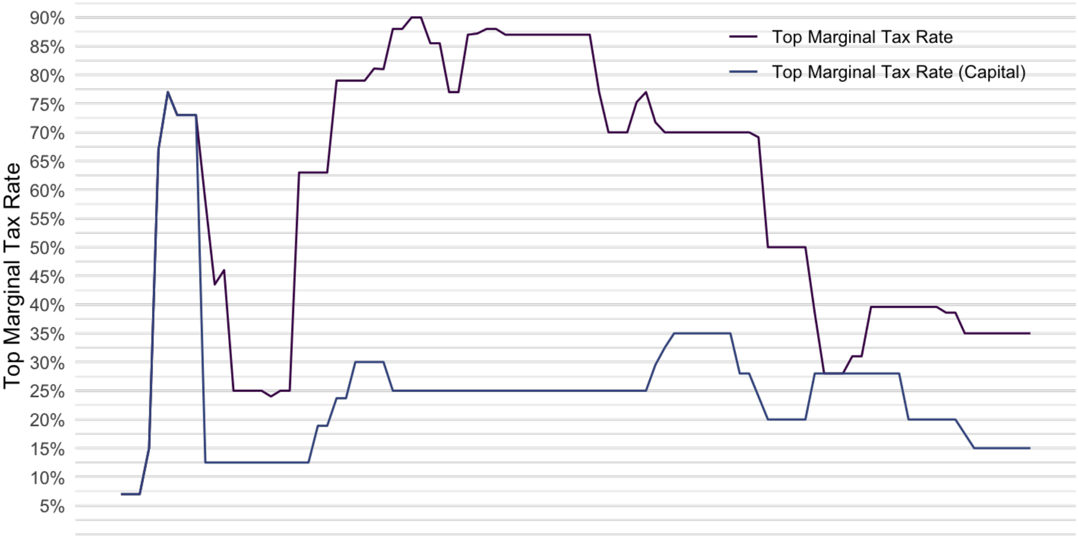
Average Tax Rates - Top 1%, Bottom 50%



Average Tax Rates - Top 0.1%, 0.5%, 1%



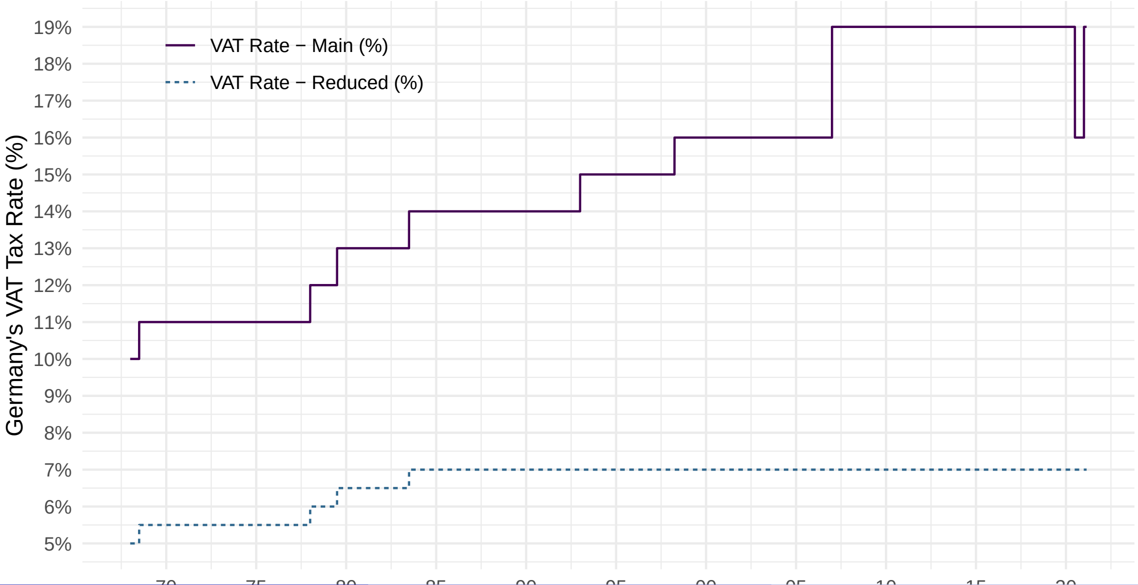
Top Marginal Tax Rates



Section 6

Examples

Germany's VAT Tax Increases



Germany's VAT Tax increase in 2007: 16% to 19%

German move to raise VAT found puzzling

By Mark Landler

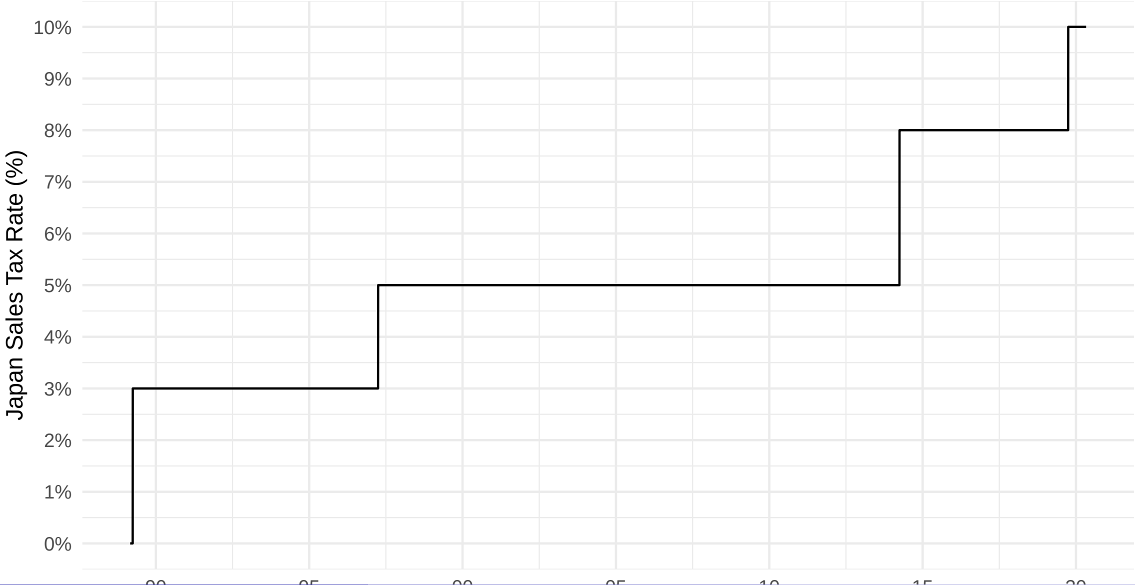
Nov. 15, 2005

Germany's VAT tax increase in 2007: 16% to 19%

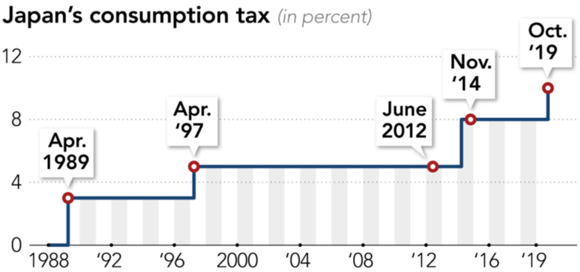
FRANKFURT — Germany, saddled with some of the highest taxes and lowest-spending consumers in Europe, has come up with a novel approach to whip its economy into shape: increase the tax on consumption.

The new German coalition government, which will take power next week, intends to increase the value-added tax to 19 percent in 2007 from 16 percent now. The move will raise an estimated Â27 billion, or $31 billion, which the government plans to use primarily to whittle down its huge budget deficit.

Japan's Sales Tax Increases



Japan’s Sales Tax Increases



Apr. 1989	Consumption tax introduced at 3%; ruling LDP defeated in upper house election in July
Apr. 1997	Tax raised to 5%; LDP defeated in upper house election in 1998
June 2012	Ruling coalition and opposition agree to raise tax to 10% in two phases
Nov. 2014	Prime Minister Shinzo Abe suspends tax hike planned for 2015; LDP wins subsequent lower house election
Oct. 2019	Tax to be raised to 10% following upper house election

Source: Nikkei Asian Review research

Japan's Sales Tax Increases

Japan's Sales Tax Increases

MARKETS | HEARD ON THE STREET

Japan's Third Sales-Tax Blunder Must Be Its Final Mistake

By Mike Bird

Feb. 17, 2020 12:33 am ET

SAVE PRINT TEXT

Japan's economy shrank sharply in the final three months of 2019, logging its second-worst quarter in the past decade. That would be easier to stomach if it weren't because of a mistake policy makers have now made three times.

In October, Japan raised its sales tax to 10% from 8%—and spending tanked. Household consumption fell 11.5% on an annualized basis in the October-December quarter, fueling a 6.3% fall in annualized gross domestic product.

THE

Japan's 2014 Sales 5% to 8%

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Japan's 2019 VAT 8% to 10%

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Wall Street Journal

OPINION | REVIEW & OUTLOOK

Japan's VAT Blunder

A consumption-tax increase hits growth as the coronavirus looms.

By The Editorial Board
Feb. 17, 2020 11:23 am ET

PRINT   TEXT   139

Section 7

Readings

Appelbaum - Blame Economists for the Mess we are in

- "Blame Economists for the Mess We're In," Binyamin Appelbaum, New York Times Online, August 25, 2019. html

This is not just bad for those who suffer, although surely that is bad enough. It is bad for affluent Americans, too. When wealth is concentrated in the hands of the few, studies show, total consumption declines and investment lags. Corporations and wealthy households increasingly resemble Scrooge McDuck, sitting on piles of money they can't use productively.

Scrooge Mc Duck

- Corporations and wealthy households increasingly resemble Scrooge McDuck, sitting on piles of money they can't use productively.

Where the poor and rich spend really spend their money

- Ehrenfreund, Max. *The Washington Post*. April 14, 2015. html

The greatest difference by far between rich and poor is not in how they spend, but how they save. For every dollar they spend at the grocery store, the poorest households save 12 cents, while the wealthy sock away $3.07 in pensions and life insurance.

This is one reason that some economists are concerned about rising levels of inequality. The rich save more than the poor, and the more they have, they more they'll save. Money that's being saved isn't being spent, which means less business for everyone from the dry cleaner on the corner to the owner of a five-star hotel. In turn, that means less work for everybody and a lethargic economy.

To be sure, banks can invest the money that the wealthy save, which can stimulate the economy as well. Yet many observers, including former Federal Reserve Chairman Ben Bernanke, are worried that as a global society, we've accumulated too much in the way of savings already.

Section 8

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