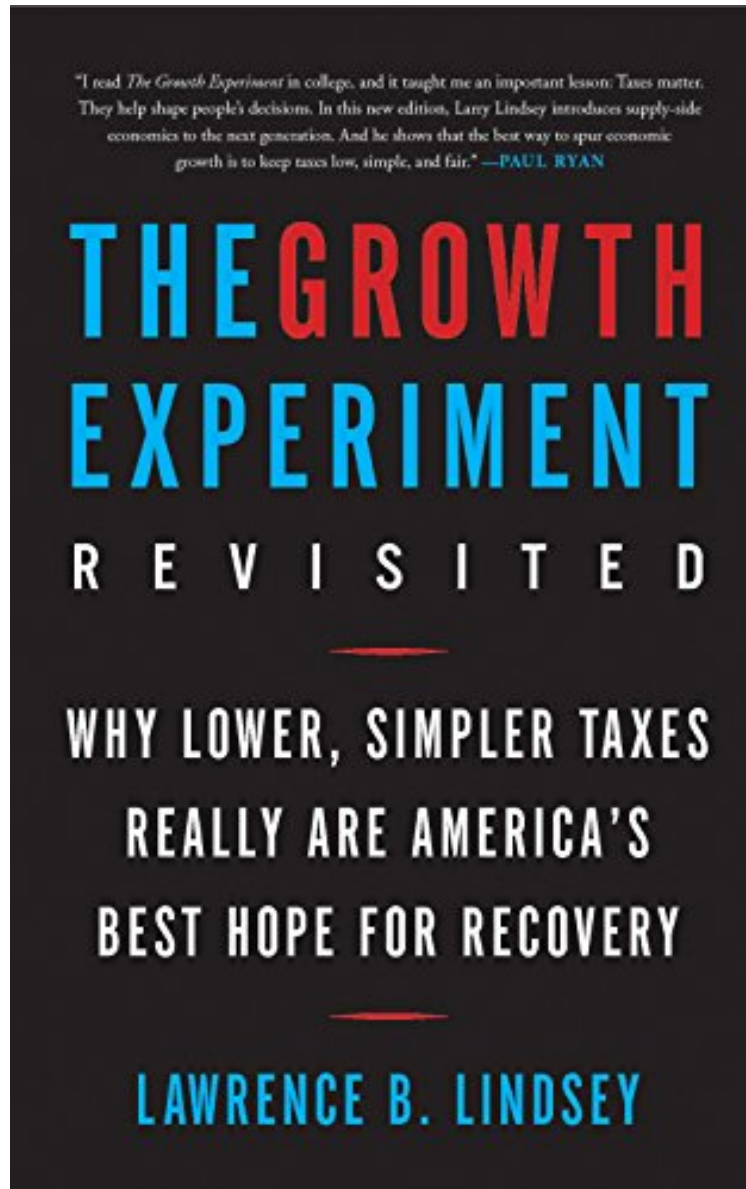


(Download pdf ebook) The Growth Experiment Revisited: Why Lower, Simpler Taxes Really Are America's Best Hope for Recovery

# The Growth Experiment Revisited: Why Lower, Simpler Taxes Really Are America's Best Hope for Recovery

Lawrence B. Lindsey

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Lawrence B. Lindsey : The Growth Experiment Revisited: Why Lower, Simpler Taxes Really Are America's Best Hope for Recovery before purchasing it in order to gage whether or not it would be worth my time, and all praised The Growth Experiment Revisited: Why Lower, Simpler Taxes Really Are America's Best Hope for Recovery:

1 of 1 people found the following review helpful. Too many unproven assertions; more art than science  
By J. Davis  
The Growth Experiment is a difficult book to evaluate. There are many claims/economic projections he makes that are neither obviously true or false. Don't take my word for it: Lindsey admits this is true. On page 62, he writes: "You may feel appear that estimating revenues from the old law has a never-never land quality and so it does." (He also says the same thing, page 59) in relationship to the "pecuniary" effect, which are changes in taxpayer behavior that do not affect the size of the economy). "The economic impact of other responses, such as shifting assets from taxable to tax-free benefits are even harder to assess." His evaluation of the elasticity of labor supply to taxes (I'm assuming readers of this book understand what this means), has been challenged in several economic papers by prominent economists. See, for instance, <http://faculty.chicagobooth.edu/austan.goolsbee/research/laf.pdf> My verdict: Neither True nor False. I'll go with: Unproven and Up for Debate.

10 of 11 people found the following review helpful. Replace all taxes with a uniform VAT!  
By Alan F. Sewell  
This book is in two parts. The first 90% covers the history of the tax cuts made by Congress at the behest of Presidents Kennedy, Reagan, and Bush. These are told from the perspective of a conservative, "supply side" economist. The remaining 10% is author Lawrence Lindsey's proposal to replace our current system with his version of The "KISS" (keep it simple, stupid) System. I warmed to this book immediately upon reading Lindsey's opening sentence:===== TAXES HAVE ALWAYS HELD A FASCINATION FOR ME, EVER SINCE my dad let me use his adding machine (the kind you find in museums today) when he did his taxes.===== I feel the same way. I've spent decades programming computer systems to compute payroll taxes, VAT taxes in other countries, and customs duties on international trade, so I'm something of a tax geek. I don't mind FIGURING my taxes (maybe enjoying figuring taxes is a masochistic fetish like smelling old tennis shoes?) but I do mind PAYING them. The next sentence drew my interest even more:===== But I really became hooked when I got to serve on the Council of Economic Advisers during the Reagan administration where I was Senior Staff Economist for Tax Policy.===== I also started working in 1979, the year before Reagan was elected President. Taxes, with a top rate of 70% were a heavy burden. High taxes were cited by Reagan as the root cause of the "stagflation" that had sent unemployment to 10%, inflation to 12%, and mortgage interest rates to 18%. The inflation rate of 10% pushed people into higher tax brackets without boosting their real incomes. Businesses and their investors were paying taxes on phantom earnings derived by selling products in an inflating currency. And try buying a house or taking out a business loan at 18% interest! Reagan drove a stake through the heart of our economic malaise by convincing Congress to: 1) Lower the top personal income tax rate from 70% to 28% 2) Index the tax brackets to inflation, ending bracket creep 3) End the "marriage penalty" that taxed combined incomes of spouses at a higher rate than each would earn as individuals. 4) Allow businesses to expense their purchases of capital equipment instead of depreciating them over a period of years. Reagan's tax cuts were enacted and the economy recovered. We returned to full employment; wages rose; inflation and interest rates fell. Reagan's tax cuts worked so well in growing the economy that Presidents and Congresses continued cutting taxes for the next thirty years. By the mid 2000's we had: 1) Reduced the tax rates on dividends and capital gains from 28% to 15%. 2) Reduced the income tax for middle class families with children by giving an extra \$1,000 tax credit for each child under 17 and by expanding tax-sheltered IRA's and college accounts. 3) Turned homes into tax shelters by allowing people to deduct the mortgage interest on their primary residences AND vacation homes and to deduct up to half a million dollars in home appreciation tax free. Despite all those additional tax cuts, the economy collapsed in 2008 and remains mired in the Great Recession of slow economic growth and perennially high unemployment. We have now elected a President and Congress who believes in reversing some of the tax cuts. My perspective is that I am no friend of taxes. I don't itemize my deductions and have no tax shelters. I pay tons of taxes to all levels of government. My former business partner used to say, "We have a THIRD partner I our business. Uncle Sam takes a third of our money off the top!" On the other hand, I understand that our country has taken on important social commitments such as Social Security and Medicare. I take pride in our ability to defend ourselves with a strong military. I understand these things have to be paid for by taxes. The collapse of the economy in 2008 also changed my thinking. We cut taxes to the lowest levels since the 1920s and the economy froze. The tax cuts of that era were NOT used to build up the U.S. economy, but rather to relocate the productive parts of it overseas, while fueling a crazy speculative boom here at home. And I was annoyed by the spectacle of billionaires paying themselves with tax-sheltered income (dividends, capital gains, and carried interest) at 15%, while the rest of us get socked with tax rates going up to 40% on wages. But I don't want to impose confiscatory taxes merely to "punish" the well-to-do. I just want tax rates to be consistent and fair with everybody and to be sufficient to pay for the commitments we've collectively asked our government to make on our behalf. I read this book to glean Lindsey's advice on reforming them to encourage future growth. His credentials are impressive:===== I got to serve on the Council of Economic Advisers during the Reagan administration where I was Senior Staff Economist for Tax Policy... The first President Bush asked me to serve as Special Assistant to the President for Domestic Economic Policy, where I got to observe the tax changes in the 1990 budget deal. Bush then appointed me to the Board of Governors of the Federal Reserve... I was put in charge of Housing and Community Affairs and one of my assignments involved rebuilding America's inner-city neighborhoods.===== Lindsey excels in explaining why the tax cuts enacted by Presidents Kennedy and Reagan boosted economic growth. People under the age of 45 probably won't remember how awfully bad things were

when Reagan took office, and they will not remember how effective Reagan's tax cuts were in restoring non-inflationary economic growth. However, I do think the book is lacking a perspective on why tax cuts were not effective in growing the economy during President Bush's 2001-2008 administration: 1. In Kennedy's and Reagan's time we did not have an offshored economy. When the wealthy received a tax cut they spent some of it on American-made products and invested some of it in expanding American-based businesses. In the current days of globalization America's wealthy buy mostly foreign-made goods and invest their money in foreign-based businesses that export back to the USA. Their purchases and investments don't add value to the economy for the 99% who work for wages. 2. In the 1960s through 1980s the 1% felt an economic responsibility to keep the 99% employed. All Americans of that generation had suffered mightily during the Great Depression. The 1% believed that their prosperity depended on keeping the 99% employed. In those days Vulture Capitalists did not use borrowed money and junk bonds to gain control of a company for the purpose of putting its employees out of work and then looting the cash flow. Until the 1980s business was about creating wealth through long-term sustainable growth. These days business is more about destroying wealth. Buy a company, fire half its people, and then pocket their paychecks and pensions. Thus, tax cuts for the 1% today have a less happy impact on the economy of the 99% than did those of the Kennedy and Reagan eras.

Final Chapter: Pro-Growth Tax Policy for the Twenty-First Century=====The main reason you'll want to read this book is to glean Mr. Lindsey's proposal for tax reform, which he calls "The Kiss (keep it simple, stupid) System." It's a VAT (value added) tax of 20% imposed at all levels of business (manufacturing, wholesale, and retail). If a company's cost inputs are \$1,000,000 and its revenues are \$1,500,000, then its tax is  $(\$1,500,000 - \$1,000,000) * 20\% = \$100,000$ . That is an easy tax to administer. It gets business focused on the RIGHT objectives of growing its revenues and profits, instead of soaking up 1/3rd of its accounting staff in tax avoidance schemes. It would encourage companies to commit their capital to innovating new goods and services instead of wasting their money buying up failed businesses just to acquire their tax credits on loss carry forwards. Employees would be taxed the same way. If an employee is paid \$70,000 the company would withhold 20% of his/her pay. Anybody who receives non-wage income would presumably be taxed 20% on the income, regardless of source. All deductions, exemptions, and loopholes would be removed from the code. The "KISS" advantage of course is simplicity and fairness. All business and personal income (value-added income in the case of business) is taxed at 20%. No more taxing of different kinds of incomes at different rates or of allowing some people to avoid paying taxes by sheltering their income in dodgy loopholes. Mr. Lindsey isn't at his best in explaining this uniform VAT concept. I had to read the chapter five times to grasp it, but once I did, I liked the idea. He makes the case conclusively for replacing the current corporate income tax of 35% on profits (which are easy to manipulate for tax avoidance) with a VAT tax of 20%. Replacing the personal income tax rate with a flat 20% (no deductions or exemptions) is going to be more controversial, but Mr. Lindsey has convinced me to support it in principle. My only questions is whether 20% across the board is sufficient to do away with ALL other taxes. I'm sure 20% would be sufficient to eliminate the personal income tax, but I'm dubious about it being sufficient to eliminate Social Security and Medicare, which in any case are supposed to be insurance programs, not taxes. Again, Mr. Lindsey's writing isn't at its most lucid in this most important final chapter, but if you read it slowly a couple of times his arguments become convincing. He succeeds in making his case for replacing our current mish-mash of taxes with a uniform VAT at the personal and corporate levels. 3 of 3 people found the following review helpful. VAT, Control Spending, History By SoundSponge The author clearly understands we can't continue down the path we are on. The most profound statement was it may be too late to turn back if pols continue to function in ways that will get them reelected rather than protecting the free market. The author does a great job shining a light on the real reasons the economy reacted to tax cuts and how most people ignore the need for reducing debt and government spending. Would like this book to be required reading for our liberal friends. They might learn how fairness can really be achieved through the reality of economics. The book is well footnoted and should be considered very credible.

The first edition of *The Growth Experiment*, originally published in 1990 as a response to critics of the Reagan-era tax cuts, became a kind of bible for proponents of supply-side economics. This new and updated edition, which explores the economic effects of America's tax policy over the last five presidential administrations, makes a bold and timely argument against the centerpiece of Obama's economic policy—increasing taxes on the wealthy. Lawrence Lindsey provides a data-rich argument showing that because of changes in human behavior prompted by tax cuts, lowering taxes on the wealthy “costs” the treasury far less than most economists calculate and creates an economic boon to middle and lower income earners. Sure to be controversial, *The Growth Experiment Revisited* is essential reading for anyone looking to understand the arguments at the heart of this most fractious of American policy debates.

“A valuable project.... Lindsey makes a convincing case that Mr. Bush doesn't receive nearly the credit he deserves for steering the economy clear of a mini-depression in the early 2000s.... What is beyond dispute, after reading Mr. Lindsey's book, is that tax rates have a direct effect on the health of the economy, a lesson that the current Obama

administration has chosen to ignore.”—The Wall Street Journal “I read *The Growth Experiment* in college, and it taught me an important lesson: Taxes matter. They help shape people's decisions. In this new edition, Larry Lindsey introduces supply-side economics to the next generation. And he shows that the best way to spur economic growth is to keep taxes low, simple, and fair.”—Paul Ryan “This book was the Wall Street Journal editors' primer when it came out, and can serve as a primer again for all who value growth today. Lindsey is that rare figure in economics, both sage and honest broker. His magnanimity and wisdom shine a light on the economic topic, illuminating our (tax) path forward.”—Amity Shlaes, author of *Coolidge*