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An Inquiry into the Causes of Growth in Gross Domestic Product

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INTRODUCTION

Taxes -

- Personal income
- Corporate income

Saving rate

Disposable Income

Public Investment

Why?

Twenty Pounds
£20
BB05 847132
The division of labour in pin manufacturing:
(and the great increase in the quantity of work that results)
Bank of England
ADAM SMITH 1723-1790
BB05 847132

LITERATURE REVIEW

Karel Mertens & Morten Ravn American Economic Review 2012 (USA)

- Personal tax decrease of 1% increased GDP per capita by 1.8%
- Corporate income tax decrease of 1% increased GDP per capita by 0.6%

Christina Romer & David Romer, American Economic Review 2010 (USA)

- Tax increase of 1% leads to a fall in GDP of 3%

N. Bania, J. A. Gray, & J. A. Stone, National Tax Journal 2007 (USA)

- Government investment increase of 1% leads to increase of 0.4 % in GDP

THE EMPIRICAL MODEL

Change in GDP $_{(1977\text{ - }2007)}$ = f (personal income tax rate (high), personal income tax rate (low), corporate income tax, disposable personal income, savings rate, government expenditure)

DATA

- Federal Reserve of St. Louis
- Bureau of Economic Analysis

Findings

Equation 3		
Independent variable	Coefficient	Probability
C	8.133471	0.0000
Log (high bracket income tax rate)	-0.008591	0.6593
low bracket income tax rate	0.007732	0.0001
Log (Corporate tax rate %)	-0.062519	0.1581
Gov Spending % GDP	-0.009283	0.0479
Saving rate %	-0.015508	0.0001
Disposable Income $	8.78E-05	0.0000
Log (Gov Spending $)	0.111015	0.0024
Observations = 29 Adjusted R2 = 0.997988 Durbin-Watson = 1.691236		

FINDINGS

Conclusions

Taxes	Mixed
Disposable income	Positive
Saving rate	Negative
Public investment	Mixed

QUESTIONS