

THE ONSLAUGHT FROM THE LEFT, PART I: FACT VS. FICTION

By Arthur B. Laffer

We are approaching the most critical presidential election in a generation, and the voice of the Left is gaining prominence. As the timeless growthist vs. redistributionist debate once again takes center stage, it will be crucial to see the truth. This paper is a first step in that direction. Then, in preparation for a potential Democratic victory in 2008, we'll soon publish an in-depth analysis of historical asset market responses—magnitude and timing—to anti-growth policies.

Summary

- This paper serves as a response to a recent *The New Republic* article by Jonathan Chait which criticizes the supply-side economics movement and lays out the typical redistributionist's case for raising taxes on the rich.
- While the article refers to supply siders as “wingnuts,” the tenets of supply-side economics—low taxes, sound money, free trade, reduced regulations, etc.—have been adopted (successfully, I might add) in the U.S. and across the globe.
- The best way to help the poor is not to make the rich poorer, but to make the poor richer. *All* Americans as a whole have gotten richer as a result of pro-growth supply-side policies. The economic and social gains of the past 25 years—across class, race and gender lines—speak for themselves. The irony is that many of the policies promoted by the Left would hurt the very classes of people whom the Left professes to champion.

The New Republic recently published an article entitled “Feast of the Wingnuts: How Economic Crackpots Devoured American Politics,” by senior editor of *The New Republic*, Jonathan Chait. The article is excerpted from Chait's book, *The Big Con: The True Story of How Washington Got Hoodwinked and Hijacked by Crackpot Economics*.

If you haven't had a chance to read Chait's article, you might want to get a copy. The article lays out the Left's case for raising tax rates, especially on “the rich.” If Chait's article is the Left's best shot, then supply-side economics remains unscathed. My only warning is that Chait is a world-class name-caller who rants non-stop. But he did have the presence of mind to include an ancient picture of me on the front page of the article (at right).

I'd like to give my thoughts on the major points made in the article:

Wanniski and Gilder More than half of Chait's article is an *ad hominem* attack on the late Jude Wanniski and the very much alive George Gilder. Chait goes on at length about Wanniski's personal past, including his obsessive infatuation with Louis Farrakhan, Slobodan Miloevi (Milosevic), Lyndon LaRouche and Saddam Hussein. And, factually, Chait is completely correct. If only he had talked to me, I could have added greatly to his collection of Jude's personal idiosyncrasies. But the fact that Jude morphed into a “misunderstood autodidact” over the course of his life does not disprove anything about supply-side economics. Surely, some of the far Left have also been a touch unusual.



In point of fact, however, Jude had quite an illustrious career early in his life in Las Vegas and later in New York. As an editorial writer for *The National Observer* and *The Wall Street Journal*, Jude was amazing, as almost anyone in the know will attest. It was after he wrote 1978's *The Way the World Works* that his inner demons took ever-greater control of his mind. My relationship with him broke around 1980, but by the end of his life he had alienated virtually all of his old friends, including Bob Bartley and Jack Kemp. That Jude went off the deep-end is a matter of fact, of which we all were aware and by which we all were deeply saddened.

Be that as it may, Chait's extension of Jude's personal torments to the logical foundation of supply-side economics is the classic fallacy of *argumentum ad hominem* and should be paid no heed. If you ever get a chance to read *The Way the*

World Works, you'll be impressed. Yes, it's true, as Chait writes, that Jude (who was a professional journalist, not a trained economist) does go overboard in places. But, then again, is *The New Republic* itself guiltless on this count? Almost 30 years after its first publication, Jude's book remains a *tour de force* and a must read.

Given that George Gilder is still alive and kicking, I'll let him have the pleasure of defending himself against Chait's personal slurs.

\$1,065 Somehow, Chait is able to restrain from *ad hominem* attacks on yours truly, but he does quite clumsily try to paint me with guilt by association. He stretches the truth throughout his article in describing my shortcomings (e.g., the accuracy of my 1971 GNP forecast) and also my accomplishments (e.g., "hijacking" American politics and converting the masses to the supply side).

For starters, Chait claims that my optimistic forecast of 1971 Gross National Product—\$1,065 billion—made me a "Washington laughingstock." That's true, it did—for a short while. Just look at the cartoon below (which I love, by the way), which appeared in *Business Week* in 1971. Surely, the young, crazed economist depicted—the one with the newfangled approaches to modeling the economy—couldn't be accurate, could he?

Regarding this GNP forecast, Chait concludes, "Indeed, he [Laffer] turned out to be horribly wrong. Laffer left the government in disgrace and faced the scorn of his former academic colleagues."

I contacted George Shultz, who had been dean of the University of Chicago Business School where I was a faculty member and for whom I worked in the White House at the time of the GNP estimate. I sent Shultz a copy of Chait's article to get his recollection of the events. Shultz's quote was, "It is clear the man [Chait] is simply not acquainted with the facts...Evidence seems to play no part in what he has to say." As credible as George Shultz is, he does have a dog in the fight, so why don't we look at the facts?

My infamous 1971 GNP estimate was \$1,065 billion, as depicted at the top of the cartoon. Now, GNP is an oft-revised series, revised when the underlying data that make up GNP—the same data on which I based my forecast—are revised. Real-time data are the least reliable, and as the revisions come in, the data become more and more reliable. So, with this in mind, let's consult a data source a few years removed from 1971, the year in question. In the 1976 *Economic Report of the President*, in the detailed national accounts tables in the back, you find that the official 1971 GNP figure was \$1,063.4—not too far removed from my forecast of \$1,065 billion, if you ask me.

The Wizard Behind the Curtain?

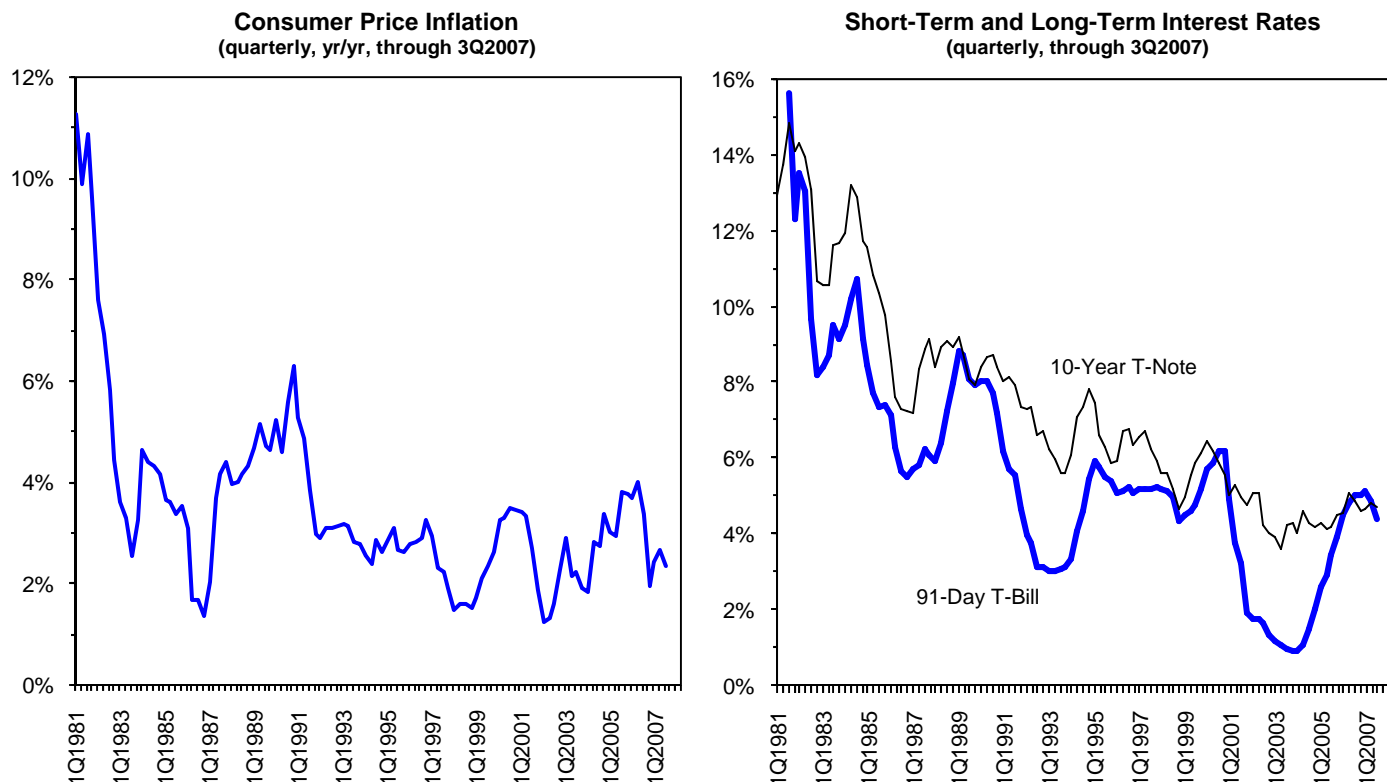


Presidents and Peers That's just the first of a number of examples in the article where editorial license trumps fact. In any other context, I would have taken Chait's attempt to be even-handed as a joke when he praises GOP Presidents Herbert Hoover and Gerald Ford for being "quite willing to raise taxes in order to balance the budget...thus exhibiting a strong sense of social responsibility that transcended their class interests." Yikes! Those are two of the worst presidents ever! How on earth could he use Herbert Hoover and Gerald Ford as examples of responsible statesmanship? Does Chait know no economic history?

On substantive points, Chait asserts that "Wanniski and Laffer believed it was possible to simultaneously expand the economy and tamp down inflation by cutting taxes, especially the high tax rates faced by upper-income earners. Respectable economists—not least among them conservative ones—considered this laughable." Chait's rendition of what happened is correct; again, that is what we believed back then, and even "respectable" economists did think it "laughable." Chait fails to mention that we also insisted on sound money and other critical supply-side tenets, in addition to the tax cuts. Today, we haven't changed our tune one iota, yet few if any "respectable" economists still find our beliefs "laughable." History has shown our views far more correct than incorrect and, if held up against a lesser standard, far, far preferable to the now-risible Phillips Curve.

Sustained inflation is a monetary phenomenon resulting from too much money chasing too few goods, where near-term changes in inflation are due to shocks to aggregate supply and aggregate demand. If you restrain money growth and increase the number of goods, then *voilà*: inflation falls, both in the near term and in the long run. When Reagan's tax cuts took full effect on January 1st, 1983, along with Paul Volcker's sound money, the economy soared and inflation fell. Just look at the two charts on the following page, for they tell the whole story. The interest rate on the 10-year T-note, which back

in the late 1970s and early 1980s was principally comprised of high inflationary expectations, went from 15.84% in September of 1981 to its present level below 5%. Similarly, short-term rates followed a similar path. If these types of results attract the guffaws of my colleagues, I'll take it all day long.



The Laffer Curve A little later on, Chait deridingly describes “the core principle” of supply-side economics as the belief “that economic performance hinges almost entirely on how much incentive investors and entrepreneurs have to attain more wealth, and this incentive in turn hinges almost entirely on their tax rates.” I could quibble as to the meaning of “almost entirely,” but we do believe that the primary tools government has to affect economic performance consist of the tax codes for sure, as well as monetary policy, trade and immigration policies, and overall regulations. We do believe that incentives matter and matter a lot. But then again, who doesn’t nowadays? Does Chait really believe that if government increases taxes on people who work and simultaneously increases the amount paid to people who don’t work, the volume of work will increase? Does Chait also believe that if you raise the capital gains tax rate, the level of savings and investment will increase? Does Chait honestly believe that people will continue to pursue entrepreneurial efforts and bring new innovative ideas to the market with the same level of motivation if they face a reduced expected after-tax rate of return?

Now, when it comes to deficits and the Laffer Curve, Chait gets a little goosy. He writes “supply-siders argue either that tax cuts will produce enough growth to wipe out deficits or that deficits simply don’t matter.” And to hammer in the “lunacy” of this notion, Chait reminds us that it was none other than the Republican presidential wannabe in 1980, George H.W. Bush, who called supply-side economics “voodoo economics.” Whoa...I feel chastened already. Couldn’t Chait have found a source of criticism more deeply grounded in economics than a quote from President Bush taken from a campaign speech in 1980?

I’d like to address the feedback effect of tax cuts on budget deficits, i.e., the Laffer Curve. The Laffer Curve has its origins way back in time—it is, in fact, as old as the hills. For example, the Muslim philosopher, Ibn Khaldun, wrote in his 14th century work, *The Muqaddimah*:

*It should be known that at the beginning of the dynasty, taxation yields a large revenue from small assessments. At the end of the dynasty, taxation yields a small revenue from large assessments.*¹

And while I know I don’t need to refute Chait’s assertions that use of the Laffer Curve is confined to “right-wing economic extremists” and that the Curve itself is a “revelation, for it presented in a simple, easily digestible form the messianic power of tax cuts,” the Curve transcends “totalistic ideology.” Surely, the name John Maynard Keynes is known to, and revered by, the readers of *The New Republic*. Just read how Keynes described the concept behind the Laffer Curve:

¹Ibn Khaldun. *The Muqaddimah: An Introduction to History. Volume I, II, III.* Translated by Franz Rosenthal. London: Routledge & Kegan Paul, 1958.

When, on the contrary, I show, a little elaborately, as in the ensuing chapter, that to create wealth will increase the national income and that a large proportion of any increase in the national income will accrue to an Exchequer, amongst whose largest outgoings is the payment of incomes to those who are unemployed and whose receipts are a proportion of the incomes of those who are occupied, I hope the reader will feel, whether or not he thinks himself competent to criticize the argument in detail, that the answer is just what he would expect—that it agrees with the instinctive promptings of his common sense.

Nor should the argument seem strange that taxation may be so high as to defeat its object, and that, given sufficient time to gather the fruits, a reduction of taxation will run a better chance than an increase of balancing the budget. For to take the opposite view today is to resemble a manufacturer who, running at a loss, decides to raise his price, and when his declining sales increase the loss, wrapping himself in the rectitude of plain arithmetic, decides that prudence requires him to raise the price still more—and who, when at last his account is balanced with nought on both sides, is still found righteously declaring that it would have been the act of a gambler to reduce the price when you were already making a loss.²

A little closer to home, President John F. Kennedy did with tax cuts what we did under President Reagan with almost the exact same results. Read what President Kennedy's chief economist, Walter Heller, testified to under oath before Congress in 1977 when describing President Kennedy's tax rate cuts:

What happened to the tax cut in 1965 is difficult to pin down, but insofar as we are able to isolate it, it did seem to have a tremendously stimulative effect, a multiplied effect on the economy. It was the major factor that led to our running a \$3 billion surplus by the middle of 1965 before escalation in Vietnam struck us. It was a \$12 billion tax cut, which would be about \$33 or \$34 billion in today's terms, and within one year the revenues into the Federal Treasury were already above what they had been before the tax cut.

Did the tax cut pay for itself in increased revenues? I think the evidence is very strong that it did.³

Supply-side economics is not new, nor is the concept exclusive to neo-cons, and I didn't invent it, but if Chait insists I'll sure as heck take credit for it and say "thank you" at the same time.

Taxes, Growth and Deficits Now, let's address the tax rate/deficit issue head-on. What would Chait have us do? Even in a frictionless world with no supply-side effects, balancing the federal budget by unbalancing households' budgets seems sort of pointless and perhaps even mischievous. What is the difference if government taxes the money from you or borrows the money from you with a promise never to repay? It's all the same.

But the world isn't frictionless and raising taxes isn't costless. What people pay is not what the government receives. It takes lots and lots of resources to raise taxes. People hire accountants and lawyers, shift assets, move, change jobs, cheat and all sorts of other things to avoid paying taxes. Government hires all sorts of revenueurs and spends mega-bucks to collect taxes. These wasted resources can be huge and to scoff at someone's reticence to raise tax rates is inappropriate. Plus, tax rates do affect output, employment, production, savings and investment. In Chait's own understated (just kidding) way, he admits this:

Like most crank doctrines, supply-side economics has at its core a central insight that does have a ring of plausibility. The government can't simply raise tax rates as high as it wants without some adverse consequences... You could plausibly argue that, say, Reagan's tax cuts contributed around the margins to the economic growth of the 1980s.

So, where's the beef? Are we just quibbling over the magnitude of the supply-side economic responses? Please, Chait, stand your ground.

A recent academic study by Christina and David Romer⁴ concludes that tax increases are highly contractionary, strongly significant and highly robust.⁵ Here are some quotes from their paper:

"...the resulting estimates indicate that tax increases are highly contractionary".⁶

²John Maynard Keynes, "The Collected Writings of John Maynard Keynes," London: Macmillan Cambridge University Press, 1972.

³Walter Heller, in testimony before the Joint Economic Committee of Congress, 1977, quoted by Bruce Bartlett in the *National Review*, October 27, 1978.

⁴Christina and David Romer (2007). "The Macroeconomic Effects of Tax Changes: Estimates Based on A New Measure of Fiscal Policy", working paper: <http://www.econ.berkeley.edu/~cromer/RomerandRomer707.pdf>

⁵The earlier literature uses much broader definitions of tax changes, which results in substantial downward biased estimates.

⁶Christina and David Romer (2007). Ibid. Abstract.

"...exogenous tax increases have a large, rapid, and highly statistically significant negative effect on output".⁷

"...we find that the estimated effect of exogenous tax changes on output is extremely robust".⁸

"...tax cuts have very large and persistent positive output effects".⁹

Christina and David Romer find that the effect on real GDP of a tax increase of 1% of GDP is strongly negative both in the short run and over time. The effect on GDP of a 1% tax increase is consistently negative and increasing in the damage it does over time, finally reaching a maximum negative impact after 10 quarters at which point real GDP is reduced by 3%. Yikes! Given that both Christina and David Romer are faculty members at the University of California, Berkeley, we can be pretty sure that the results have not been artificially inflated, if you know what I mean. Now *this* is academics, not political rhetoric. Do you really want to advocate tax increases, Chait?

Deficits are a consequence of both tax and spending policies. Sometimes deficits are good, and sometimes they are bad. If someone could borrow at 3% and, at equal risk, lend at 10%, that person should borrow as much as he could get his hands on. But, if the numbers are reversed, and he could borrow at 10% and only invest at 3%, then he shouldn't borrow anything. How much an individual or a country borrows depends on the spread. Deficits are neither bad nor good *per se*—it's how the proceeds from borrowing are used that matters.

Income Distribution Boiling Chait down to the bare essentials, it's clear he really doesn't like rich people, and as a result doesn't like supply-side economics because it makes too many people too rich. But, I'm also forced to conclude that he also probably doesn't like poor people very much, either. In the vernacular of the trade, Chait is not a people person. Let me show you why this is true.

Chait froths at the pen when he considers the maldistribution of income:

Any forthright examination of this topic will lead one quickly to the realization that American society has been spreading apart rapidly for three decades and that Republican economic policies have without a doubt contributed mightily to this gulf...This gulf has widened precisely at the same time that the right, growing ever more plutocratic and suspicious of popular demands, was battering away at the culture of American democracy...[which is] the consequence of a cult-like fringe taking control of a political party and using it to wage class warfare on behalf of a tiny minority.

Let's take a look at the facts. Experts debate the topic of income distribution *ad nauseum*, and I don't want to delve too deeply into this topic for space reasons. But, I am comfortable with the IRS data in the two charts that follow. When looking at these charts, which compare tax and income data today with their counterparts approximately 30 years ago, keep in mind a few factual points about the data:

- The average number of people per tax return has been declining over the time period covered. Therefore, the trend in average income per tax return understates the trend in income per capita;
- The number of filers with zero income tax liability has also increased over time due to expanded credits and deductions in the tax code. This, too, biases the trends against the bottom half of the tax filers because more low income households are filing returns in order to get a tax rebate;
- The income data reported in the charts are all pre-tax, and therefore, given that average tax rates have declined sharply for the bottom 50% over time to today's levels, after-tax incomes of that group have increased more than pre-tax incomes; and lastly,
- The IRS income data do not include transfer payments, which have increased dramatically up to the present time, again biasing the trends to understate the gains made by the bottom 50%.

Each of these effects, and all of them together, have distorted the numbers, making it appear as though the standard of living of the poor has grown much more slowly than it truly has. While these biases materially impact the measured growth in after-tax income of the bottom 50% of filers, they do not rise to the level of changing the distribution of income conclusions drawn by Chait.

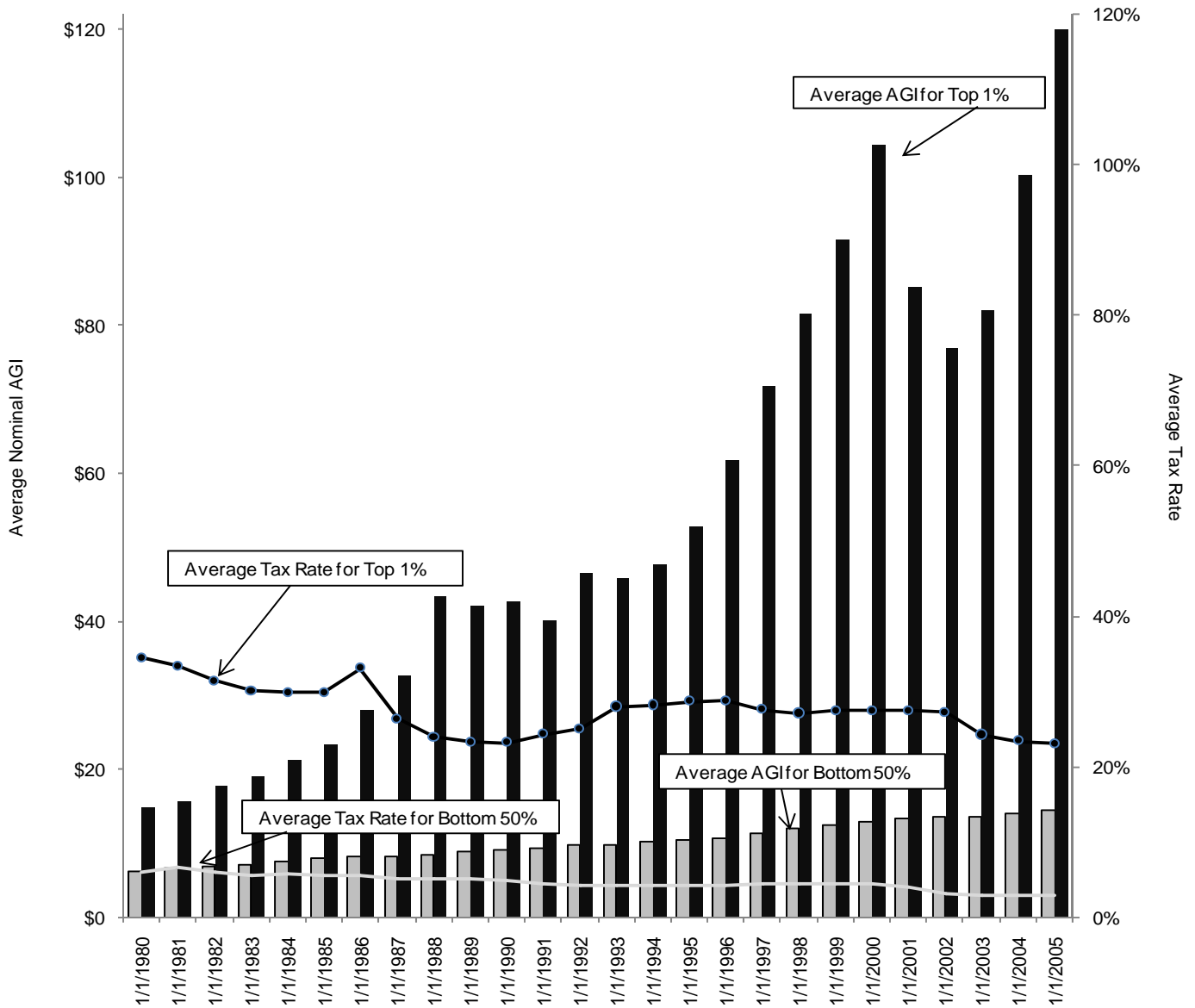
⁷Ibid. P. 3.

⁸Ibid. P. 4.

⁹Ibid. P. 20.

To illustrate Chait's point on income distribution, I've plotted the average amount of income earned (i.e., Adjusted Gross Income, or AGI) by the top 1% of America's tax filers and by the bottom 50% of America's tax filers. While the meaning of these figures is hotly contested, these data do illustrate what Chait claims. Income distribution is becoming far more skewed. The rich are becoming a lot richer, especially after the adoption of supply-side economic policies such as sound money, low taxes, free trade, freer immigration, less unions, more business competition, less regulation, and other free market economic policies. The reality of less equal distribution of income would be hard to deny even if I wanted to deny it, which I don't.

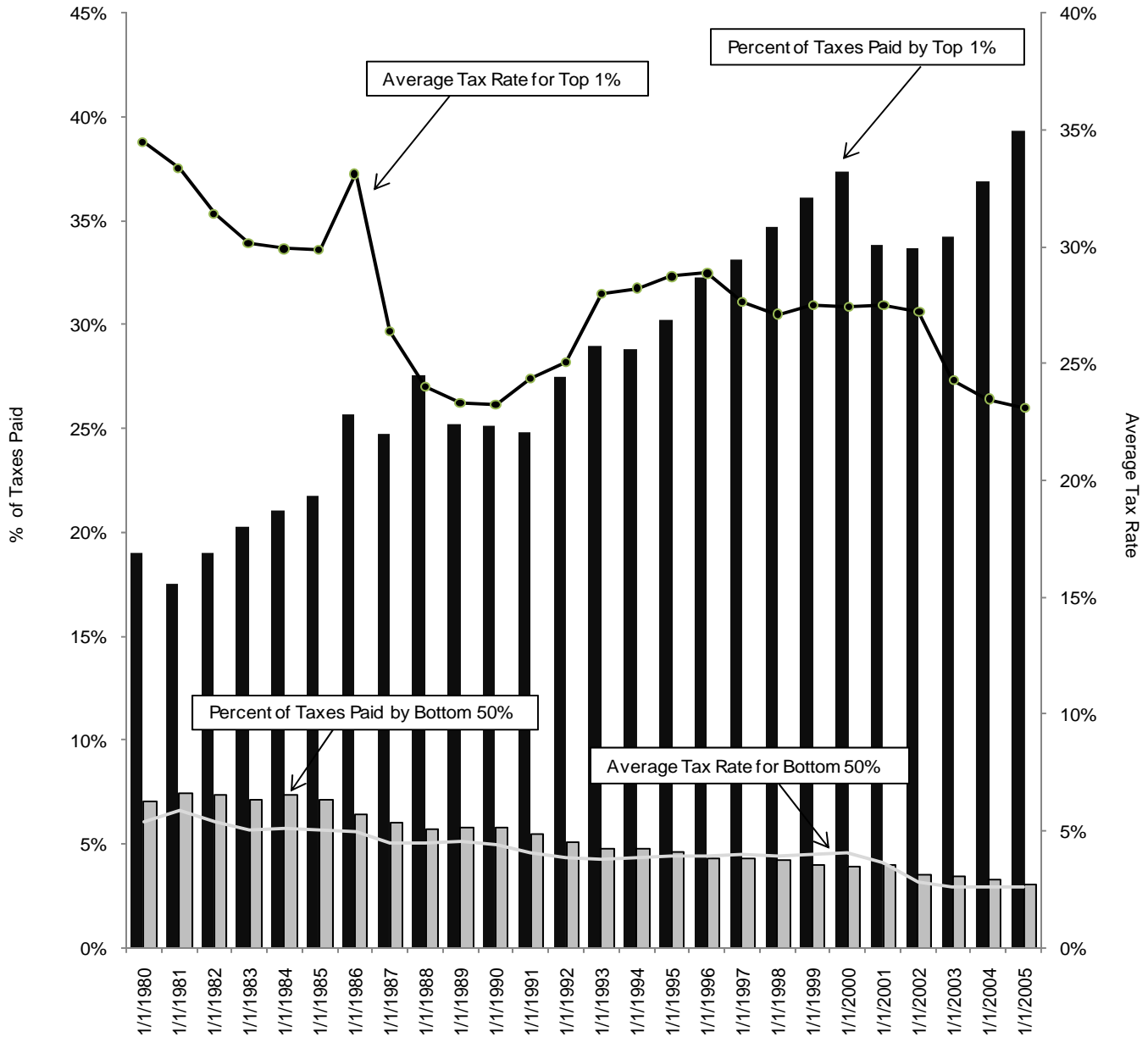
Average Nominal AGI for Top 1% and Bottom 50% vs. Average Tax Rate Faced
 (Average AGI for Top 1% is in \$10,000s, Average AGI for Bottom 50% is in \$1,000s)



Source: IRS Statistical Service

The increasingly unequal distribution of income during the era of supply-side economics, however, has resulted from the poor increasing their incomes at a rate that has not kept pace with the phenomenal gains in income the rich have experienced—not from the poor getting poorer. In addition, this era of supply-side economics and especially the tax rate cuts on the highest income earners has resulted in a greater share of total taxes being paid by the highest income earners (see chart on the following page). Together, supply-side economics has led to higher pre-tax incomes for the lowest 50% of income earners and lower taxes paid by the lowest 50% of income earners.

Percent of Federal Income Taxes Paid and Average Tax Rate on Top 1% and Bottom 50%



Note: Average tax rate is equal to the ratio of the total federal income tax and AGI. Source: IRS Statistical Service

The Global Economy While Chait flatters me by crediting me with the ability to convert—almost single-handedly—America to the dark side of economics—the supply side—he fails to consider what has been happening in the rest of the world. And, by this I don't mean to disrespect Chait for not giving me credit for converting myriads of foreigners to supply-side economics as well. But, foreigners *have* been converted to supply-side economics in droves. What Chait fails to mention is the clear vision foreigners have acquired about competing schools of macroeconomics by observing the American experiment from afar. Foreigners have not gotten caught up in the internecine arcane politics of the U.S., as has *The New Republic*. Foreigners simply have observed the facts and love what they saw—supply-side economics. If imitation is the greatest form of flattery, the rest of the world has flattered supply-side economics (and me) beyond belief.

There are now 17 countries with low-rate flat taxes. As of 1950, there was only one. Europe has also created the euro and formed the European Central Bank based on the concept of sound money. European monetary policies were created by my dear friend, colleague, mentor and fellow supply-sider, Nobel Laureate Robert A. Mundell. European Central Bank President Jean Claude Trichet, along with stalwart country central bankers such as Christian Noyer of France, have followed the Volcker, Greenspan and Bernanke model of sound money, all an integral part of supply-side economics. In their earlier lives, these two also wrote extensively on the need for tax cuts on the rich. The rest of the world, following U.S. leadership, has also adopted the model of globalization and free trade plus more open borders for immigration. Surely, all of these

countries wouldn't adopt supply-side economics if they believed even for a moment that it didn't work. And, by the way, they're correct—supply-side economics does work. Just look at China and India—it's amazing how tax cuts, sound money and free trade have created an economic juggernaut out of some of the poorest nations on earth.

Reluctant France, which waited as long as possible, finally moved into the ranks of the countries adopting tax cutting, pro-growth supply-side economics. And, France moved into our camp through the democratic process of nationwide elections.

Just look at what has happened to the highest tax rates in major tax categories over the past 15 or so years in the countries of the OECD (see table). Tax rates have fallen virtually across the board. Surely, the whole world can't be wrong and only Jonathan Chait right!

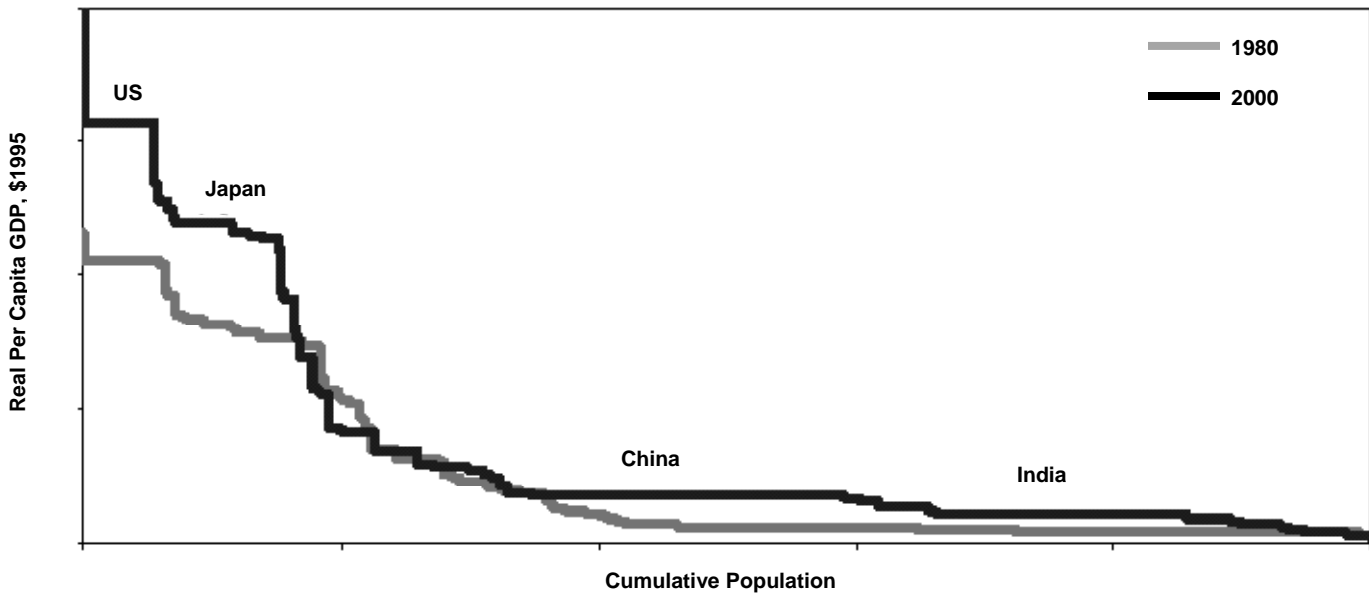
The 30 Countries of the OECD: Average Top Marginal Tax Rate By Type of Tax, Select Years*

	<u>1992</u>	<u>1997</u>	<u>2002</u>	<u>Current</u>	Percentage Point Change in Average Tax Rate <u>1992 to 2007</u>	Current U.S. <u>Tax Rate</u>
Personal Income Tax	49.1%	49.5%	46.1%	44.3%	-4.8%	35.0%
Corporate Income Tax	38.8%	36.9%	32.6%	28.8%	-10.0%	35.0%
VAT	16.4%	17.2%	17.5%	17.5%	1.1%	8.3%
Capital Gains Tax	34.3%	29.7%	16.1%	14.6%	-19.7%	15.0%
Dividend Income Tax	36.8%	36.0%	27.7%	25.2%	-11.6%	15.0%

*Sub-national tax rates included, where applicable. Data for three of the 30 OECD countries (Iceland, Luxembourg and Slovak Republic) were not available. Source: Author's calculations using data taken primarily from PricewaterhouseCoopers' "Individual Taxes--Worldwide Summaries" and "Corporate Taxes--Worldwide Summaries," various editions.

Income inequality is a global phenomenon.¹⁰ Both capitalistic and socialistic countries are facing increased income inequality. For instance, a country like Sweden, which no one can accuse of having implemented supply-side economics, has experienced a five percentage point increase in their Gini coefficient (the economist's measure of income inequality) from the early 1980s to the early 2000s.¹¹ The true cause of income inequality probably has much more to do with globalization and improvements in technology than with American tax cuts on the rich.

Global Income Distribution, 1980 and 2000



¹⁰Leamer, Edward E. "A Flat World, a Level Playing Field, a Small World After All, or None of the Above? A Review of Thomas L. Friedman's The World is Flat", *Journal of Economic Literature*, Vol. XLV (March 2007), p. 109.

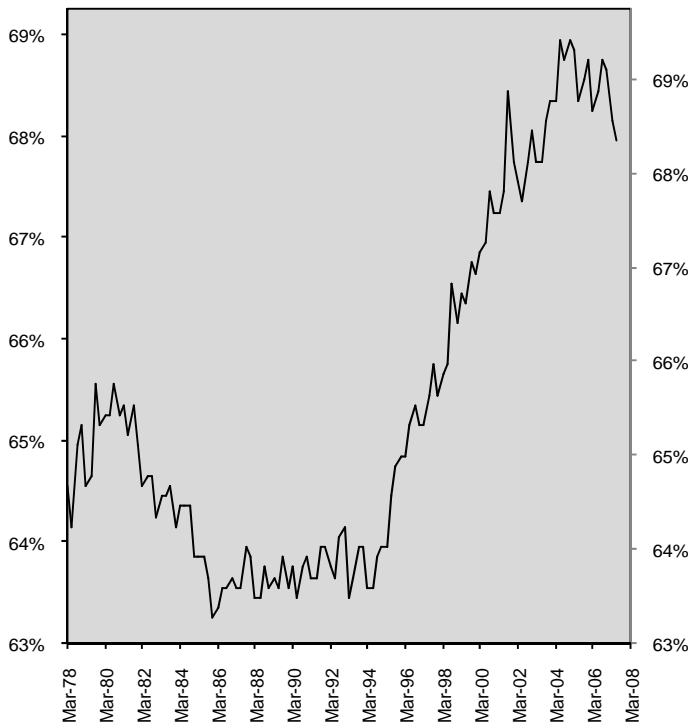
¹¹Source: IMF Working Paper (WP/07/169).

The skewness of the distribution is a fact of life. But that skewness is not unique to the U.S. In fact, income distributions the world around are becoming more and more skewed. Income is becoming less and less equal everywhere. Surely, I and my fellow colleagues in the supply-side movement cannot be credited or cursed with the happenings in all four corners of the earth.

Citizen Quality of Life But, the skewness of the distribution of income is only one part of the story and it is, in my opinion, not the critical part. To me, what has happened to the poor, the minorities and the disadvantaged is far more important than whether the rich have gotten richer. In fact, if you will indulge my reiteration, there is nothing wrong with the rich getting richer. Their welfare and wellbeing are also part of the greater good. But the central focus must be whether those who have the least are seeing maximal improvement of their lot in life.

As for the general population, I provide five measures below relating to the overall welfare of Americans in general during the era of supply-side economics in the U.S. These measures, plus the graphs displayed earlier on U.S. inflation and interest rates, portray a picture of unprecedented prosperity for this wonderful country of ours. Take the time to contemplate each of these indicators of U.S. welfare and just how pervasive the effects are—how deep they penetrate into each and every one of our fellow citizens' lives. The prosperity of the past quarter century is amazing and, in my view, it is a direct consequence of bipartisan supply-side economics.

Homeownership in America
(quarterly, through Jun-07)



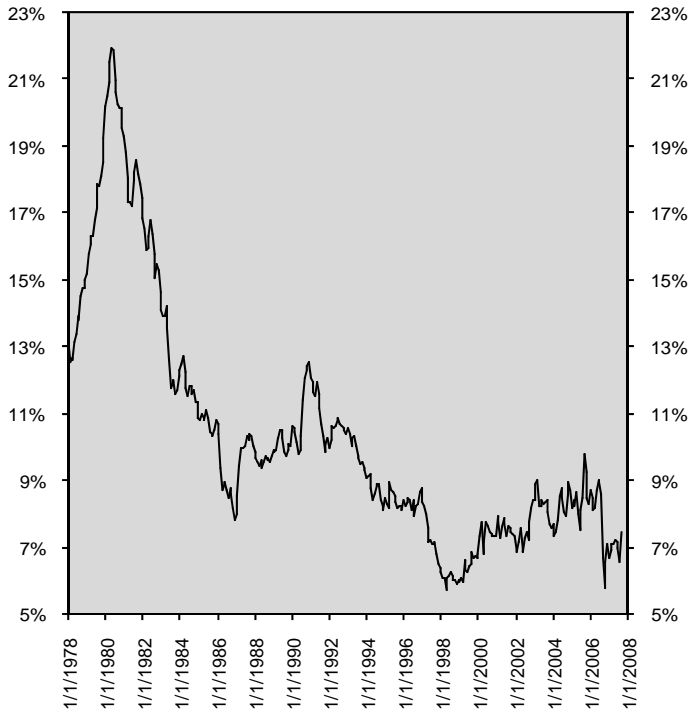
Source: U.S. Census Bureau

Real Median Family Income
(annual, in \$2005, through 2005)



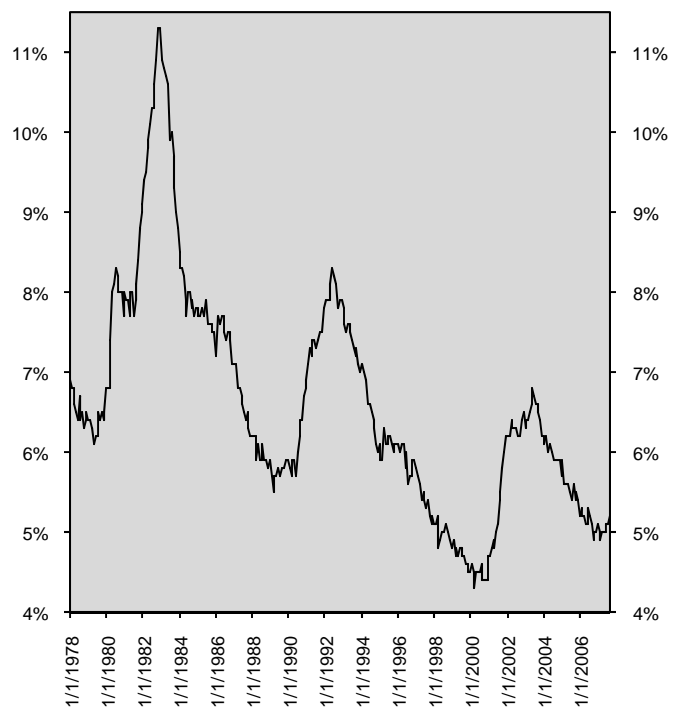
Source: U.S. Census Bureau

U.S. "Misery Index:" Unemployment + Inflation
(Inflation is yr/yr, monthly through Sep-07)



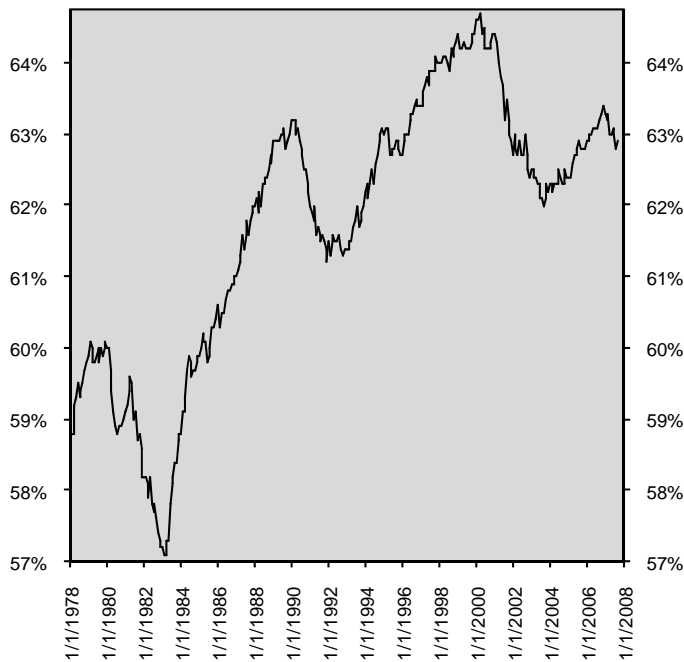
Source: BLS, F.R.E.D.

Unemployment Rate
(monthly, through Sep-07)



Source: BLS

U.S. Employment to Population Ratio
(monthly, through Sep-07)

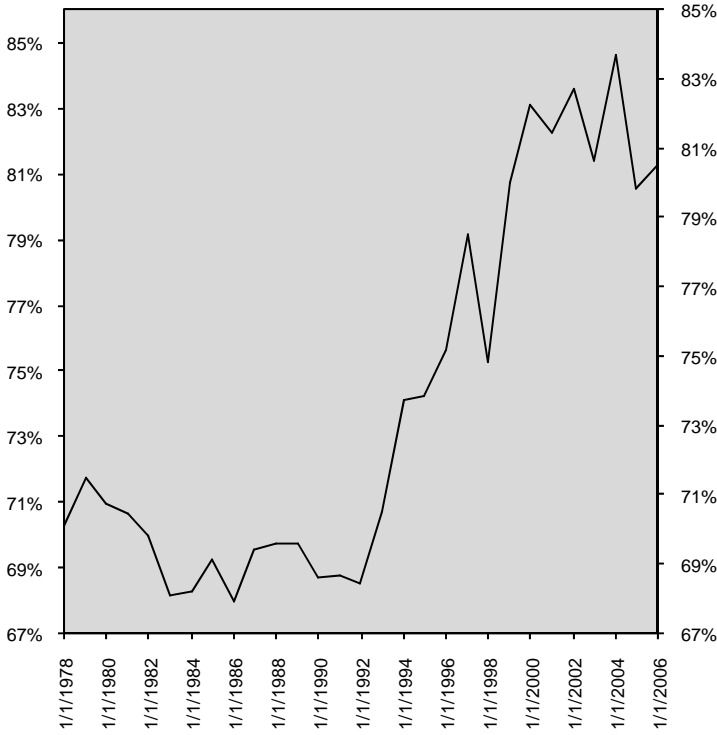


Source: BLS

The U.S., however, often doesn't see itself as a singularity. Major groupings frequently result in the idea of several Americas. To many, there is a "black America" and a "white America," and this now is a common political theme with massive economic ramifications. In the two graphs on the following page, I have plotted key metrics of the black/white economic divide over the past 30 or so years. While far from equal, the gains made in the direction of equality are palpable. While we've made a lot of progress, and we still have a ways to go, it should be self-evident to anyone that bipartisan supply-side economics has shouldered an enormous part of the burden of making America a more equal society.

As a final bifurcation appropriate for this brief rebuttal to the Chait thesis is the concept of a "male America" and a "female America." Over the past 30 years, female participation in the American economy has grown enormously (see two charts on the bottom of the following page). Clearly we have a long distance yet to travel, but the progress made under bipartisan supply-side economics has been stupendous.

Ratio of Black/White Median Income
(annual, through 2006)



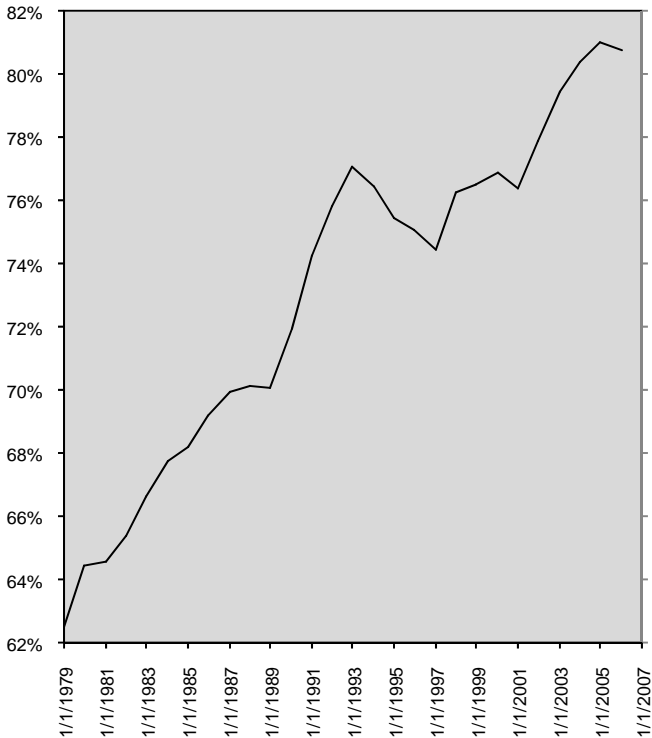
Source: U.S. Census Bureau

Black/White Employment Ratio
(annual, through 2006)



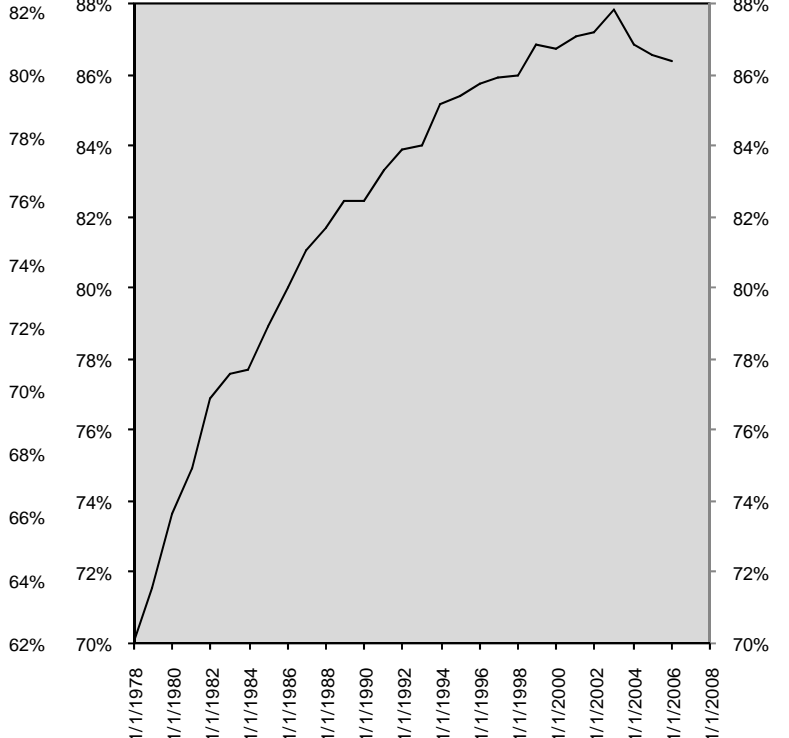
Source: BLS

Female/Male Median Weekly Earnings Ratio
(annual, through 2006)



Source: BLS

Female/Male Employment Ratio
(annual, through 2006)



Source: BLS

The reason I, at an earlier point in my paper, made the harsh statement that Mr. Chait and his like-minded colleagues “probably don’t like poor people very much, either” is because their policies will retard, offset and perhaps even destroy the major social gains we have achieved for the very classes of people whom they profess to champion. And, they should know these facts by the very circles of people with whom they associate. If they don’t know these facts, they have a moral obligation to investigate the facts before they go making massive public announcements through publications and other media. They must remember that the most immoral act a government can ever perpetrate on its citizenry is to enact policies that have the effect of destroying the production base from whence all beneficence ultimately flows. We have shown them the way with common sense basic economics.

Gains For All My dream has always been to make the poor richer, not to make the rich poorer. And, in fact, it is an added bonus if the rich get richer while the poor get richer, as well. My favorite quote on this subject is from President John F. Kennedy who said: “No American is ever made better off by pulling a fellow American down, and every American is made better off whenever any one of us is made better off. A rising tide raises all boats.” Mr. Chait, the challenge I’ll place to you is, would you like to see less inequality in the distribution of income if it also meant that all income groups suffered income reductions?

The policies you espouse will definitely reduce income inequality but only by reducing all income. To see what I mean, imagine a tax reform where everyone who earns above the average wage is taxed 100% of the excess above the average and everyone who earns below the average wage is subsidized up to the average wage. I will stipulate that income inequality will decline, but so will the average wage. It is simply a fundamental misunderstanding of human behavior to believe that people don’t respond to incentives. Tax people harshly to reduce income inequality and you can be sure that income growth will collapse throughout the entire distribution!

If you win the argument you have so valiantly put forth in your article in *The New Republic* when America goes to the polls, be prepared to also be held responsible for the consequences.



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