Republican Perspective
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TAXES MATTER

"We have a system that increasingly taxes work and subsidizes non-work." Milton Friedman

Dr. Art Laffer received his PhD from Stanford in economics and played a key role in writing California's property tax initiative, Prop 13. Later he went on to become a member of President Reagan's Economic Policy Advisory Board and is associated with supply-side economics. Progressives will probably stop reading at the mention of "supply-side" economics. The "Laffer-curve" is his idea that government tax revenues suffer when tax rates are either too low or too high.

Dr. Laffer is referenced in this "Perspective" because the 2016 election is the battleground over economic policies. Both the Progressive Democrat and the Socialist candidates are calling for higher taxes. What will be the impact of raising taxes on people that work and paying people who don't work? Progressives argue that the "rich" need to pay their fair share and discount the amount of taxes they are already paying. What amount is fair share and who determines? Since they believe their taxes are too low, why doesn't Warren Buffet and George Soros write a large supplemental payment to the Treasury each year?

It's not rocket science to understand that if you tax rich people more and give their money to the poor, your going to get lots of poor people and fewer rich people. When you redistribute income, you always take from people who make more and give it to people who make less. The question becomes what incentive does this provide for people to work?

What impact does redistribution make on output? Common sense should tell you that entrepreneurs lose incentives to produce as much. The person receiving someone else's wealth has lost an incentive and will work less. Laffer argues that whenever you redistribute income, you reduced income. And the more you redistribute the bigger the drop in income will be.

In his recently completed book, The Wealth of States, Dr. Laffer examined the economic results of the eleven states (West Virginia, Pennsylvania, Ohio, Illinois, Michigan, Nebraska, Indiana, Rhode Island, Maine, New Jersey & Connecticut) that implemented an income tax in the past sixty years.

Here are his findings: "I took all of the 11 states and looked at their economic metrics prior to their introducing the income tax. I looked at their population relative to the other 39 states. I looked at their employment, their labor force, their gross state product.

Yes, I even went to their state and local tax revenues relative to the other 39 states that didn't have a change. Now they all did it in different years. So we have to look at different times, different places, but I took the economic metrics of each of these states before they put in the income tax. And then I took the last couple of years and looked at those same economic metrics to see how they did. It's straight forward without any real complications. And if you look at these 11 states—I'm going to shock you a little bit—each and every one of those 11 states—not one exception—has declined in each and every metric relative to the rest of the nation. Not one exception. They all have a lower percentage of U.S. population. All have a lower percentage of U.S. labor force, U.S. employment, U.S. gross state product. Also they have a lower percentage of state and local tax revenues—every single one of them. And some of them have a lot less. And when I say a lot less, I mean a lot less."

If the Progressives are still reading they are thinking that you need the tax revenue for schools, police, fire and services for the poor. However, of the eleven recent states invoking an income tax, only three improved public services. Eight states were actually worse in providing public services.

Dr. Laffer then compared the nine states with the highest state income tax (thank-you Jerry Brown) against the nine states that have no earned income tax. Surprise, the no income tax states had better economic metrics for every year in the last 50 years! But let's not forget, these nine states do not have California weather and we do need to pay dearly for such pleasure. Ah yes, Progressives tax good weather.

The battleground lines are drawn. Progressives want more taxes levied on wealth to then be redistributed to individuals of their choosing. The American dream becomes not one of personal achievement but one of managing success to avoid punitive penalty. It becomes one of disincentives - a race to mediocrity and a lower standard of living.