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Arthur Laffer's Medal Of Freedom Also Honors Centuries Of Moral Economics

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Taxes relative to GDP are the highest they have been since records of the data have been kept, according to Organization for Economic Cooperation and Development (OECD) figures that provide comparisons of the 36 top world economies. The fact that the United States is on the 20% bracket with lower taxes is in great part due to Arthur Laffer.

The huge tax pressure around the world is not the result of chance – it is the natural outcome of a culture that has placed its faith in the role of government experts and efforts rather than in the private sector. Bloated bureaucracies that required high taxes also existed in the 16th and 17th centuries. Those who championed lower taxes in those eras used the name *courtiers* to describe the leaders of those bureaucracies who possessed greater access to kings, queens and decision makers.

U.S. President Donald Trump, right, presents the Presidential Medal of Freedom to Economist Arthur Laffer in the Oval Office of the White House in Washington, D.C., U.S., on Wednesday, June 19, 2019. History hasn't exactly put the "Laffer Curve" on a pedestal, but Trump nonetheless bestowed the nation's highest civilian honor on its namesake on Wednesday, the inspiration behind decades of Republican tax proposals. Photographer: Ron Sachs/Pool via Bloomberg

Not all courtiers were superfluous in much the same way not all bureaucrats and public servants play to the “Deep State.” Many do indeed place citizens above their own interests. But in his magnificent small book *Bureaucracy: Servant or Master*, William Niskanen, former chairman of the board of the Cato Institute, showed how the bureaucracy’s tendency is to serve itself, not the taxpayer.

Whenever a leader relies on economists who propose solutions that go against bureaucratic rule – such as proposals to reduce taxes – we can expect opposition from a legion of “respected” experts. This happened to Arthur Laffer, who recently received the Medal of Freedom, the country’s highest honor. President Trump spoke at length during the award ceremony and was correct when he stated that prominent academics derided Laffer’s theories as “insanity,” “totally wacky,” and “completely off the wall.”

Laffer's daring lesson – commonly known as the “Laffer curve,” which in brief states that when taxes rise above a certain level, they reduce the total amount collected – has a long and illustrious pedigree. Ludwig von Mises (1881-1973) the noted Austrian economist, wrote in his most important economic treatise that “every specific tax, as well as a nation's whole tax system, becomes self-defeating above a certain height of the rates.”

Arthur Laffer (far left) with his teammates in the Committee to Unleash Prosperity, from left to right: Steve Forbes, Steve Moore, and Larry Kudlow, now at the White House. The four musketeers of supply side economics

Respected moralists have also explained the same phenomenon and called for low taxes. In a book destined to “make Spain great again,” a noted 17th-century Spanish writer, canon lawyer and chaplain spoke strongly against the damage caused by high taxes. He was Pedro Fernández de Navarrete (1564-1632), who also acted as a secretary for the king. He published a book, *Conservación de Monarquías*, on how to preserve the monarchy. His recommendation? Cut taxes and then follow by cutting spending. The high and numerous taxes were listed as the main causes for poverty, migration and even marriage breakups.

Fernández de Navarrete chastises governments that impose high taxes as being like farmers who in order to harvest the fruit cut and uproot the trees. He anticipated Arthur Laffer when stating that “he who imposes high taxes receives from very few.” As the number of productive taxpayers is reduced, he continues, “the backs of those few who are left to bear the burden grow weaker.” Tax collection begins to fall when high rates make many abandon their farms. The best policy, de Navarrete argued, was to “enrich the subjects, not the treasury.” He quoted a famous dictum by King Theodoric of the Ostrogoths (ruled during 475-526 in one of the most extended Western kingdoms): “The only pleasant land is the one where no one is afraid of tax collectors.”

Another moral defender of low taxes was one of the most influential Jesuits in the history of the social doctrine of the Catholic Church: Matteo Liberatore (1810-1892). His economic theory, nurtured by the views of the best economists of his time, laid the economic foundation for *Rerum Novarum* (1891), regarded as the first major encyclical (papal document) dealing with economics and social issues.

The chapter on taxation in Liberatore's book *Political Economy* is full of valuable lessons and could be endorsed in full by Arthur Laffer. “Taxation is a burden and is even called so; and, being a burden, it must not exceed the strength of those who have to bear it. But most governments forget this, and incline to increase the taxation; so that he who is the sharpest in getting money out of the taxpayers, is reckoned as the best financier. Hence the payment of taxes has come to be generally considered, not as a duty binding in conscience, but as an oppression, from which any one may lawfully escape if he can.” I can only say amen to this Italian Jesuit philosopher.

He knew that the task of proposing tax cuts when so many courtiers lived from them was not easy, since “there are people ready to defend anything; and of these there have been some who said that enormous taxation is not burdensome, because the State gives back with one hand what it takes with the other.”

Liberatore used the authority of Adam Smith to attack taxes on wealth, recognizing, as did Smith, the concept of wealth is always difficult to measure. So-called “wealth taxes” end up

being arbitrary and a cause for unjust inequality. Then he stated the basic principles of taxation: “[T]he first is that taxation generally should be as light as possible.” But he did not make the mistake of thinking that democracies offer a better guarantee of low taxation (and this is borne out by current OECD data): “This, it was thought, would be more easily secured by the institution of representative government; but experience has shown the contrary. Under no absolute government has taxation [in Italy] become so oppressive as under the new representative government. Taxes have so increased and extended, that now it is nothing less than pillage of private property; and the worst of it is that you cannot make any one responsible, because a representative government is, as they say, impersonal. The parliament that makes the laws is an abstraction; the ministry that carries them, resigns, and so ceases to be.”

His next statement seems written for our times: “The increase of taxes has made commodities and house-rent so enormously dearer, that poor people can hardly live, the better off sink into the ranks of the poor, the middle class tends to disappear. Society, unless the Providence of God intervenes, will before long be divided into millionaires and owners of nothing — plutocracy and pauperism.” Liberatore’s second rule was not to tax “those means of subsistence that are of the first necessity, such as flour, vegetables, oil, salt, fuel, the common wine of the country, etc.”

He did not give a “definitive judgment in a question so knotty and so much controverted” as allowing for progressive taxation, but he quoted economists who argued that progressive taxation is “a sort of theft.” Liberatore wrote that “non-progressive taxation appears, when so considered, not as a theft, but an act of distributive justice. Taxation is, as we said, a burden and a compensation. As a burden, it is just that some extra weight should be borne by the stronger shoulders. As a compensation, it ought to increase or decrease in proportion to the advantages gained by the contributors.”

Arthur Laffer carried these ideas into the 20th and 21st century. Several of his closer teammates are still going strong and were present at the award ceremony. “Good economic policy is a team effort” were his first words of thanks. He was grateful to those in his inner team, whom he described as “the best ever”: Larry Kudlow, Steve Moore, Steve Forbes, David Malpass and Kevin Hassett. Laffer also thanked those he regarded as team players, including Steven Mnuchin, and luminaries such as Nobel laureates Bob Mundell and Milton Friedman. I do not have room here to mention the many others he thanked who played roles in and outside the U.S. government.

In case critics should question Laffer’s credentials, President Trump reminded us of them: Yale graduate; Ph.D. in economics from Stanford University; and the youngest-ever tenured professor at the University of Chicago. President Trump praised Laffer for proving “that the most powerful way to grow the economy and raise government revenue was not to increase tax rates but to adopt strong incentives that unleash the power of human freedom and innovate . . . , create jobs and deliver greater opportunity to all Americans.”

Although the maximum tax rates have been reduced in many countries, taxes on average remain extraordinarily high. The victory of those who want to liberate the economic creative spirit is not yet complete. But the work of Arthur Laffer and that of his supply-side team players helped reverse the downward course of the United States and other nations. As James Gwartney, former Chief Economist of the Joint Committee of the U.S. Congress, summarized it: “Supply-side economics provided the political and theoretical foundations for what became a remarkable change in the tax structure of the United States and other countries throughout the world.”