



1ST PAKISTAN PROSPERITY FORUM

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#PakistanProsperityForum

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FIVE PILLARS OF PROSPERITY

Transcription of Lecture by Dr. Arthur B. Laffer



Policy Research Institute of Market Economy has organized its first Pakistan Prosperity Forum on 17th Nov, 2021. The document covers detailed lecture on the ‘Five Pillars to Prosperity” given by the keynote speaker, Dr. Arthur B. Laffer; known as Father of Supply Side Economics and creator of the famous ‘Laffer Curve’, and later, the questions and their detailed answers.

Dr. Arthur B. Laffer

You know when you look at this country, this wonderful country you have, I mean and you look at the poverty. You look at how far you slipped, I mean in terms of performance, I don't mean to point out bad things, but you know my dream for Pakistan is - **Pakistan should be what it could be.**

And I want to just say to you on the start and right in line with what Rizwan was saying **is people deserve the governments they get and the policies they get.** It's your job to change those if you want to change and live the potential that you could be that is really true and if I can just say another one here. Rizwan points to my age. I've been wanting to come here. I think he's been waiting to get the invitation to me on the sort of the off chance that I wouldn't make it to 81 years old. It was next year he was going to come. Know being 81 years old, you have a different perspective on life. When we first met, we were both young Rizwan, I was a little bit older than you, but we were both young. Well now at 81 years I've got to tell you, in all honesty. You know it's a very different perspective I have on life. My perspective now is the short every day that goes by means it's a one day less that I'm going to be here on Earth. And you know, we all are born. We all die, we none of us are born twice. None of us die twice. We're all just born once and die once, and when you get a little bit older you start thinking about the hereafter. And I do just like everyone else who gets to my age, they think about what they have and what you think about? It's not depressing or sad or anything else, but I think about how I'd like to die. And the conclusion I've come to is I would like to die just the way my uncle died - peacefully in his sleep. Not like the three passengers in the car he was driving. Did I pull you, in a little bit and it's very nice to be here with all of you. It really is a pleasure and I hope that my comments today can be helpful and I would like them to be helpful and I want to give you a framework of how to reorganize the structure. But let me just start off with a couple of comments about politicians.

Whenever politicians make decisions, when they are either panicked or drunk, the consequences are rarely attractive. When you look at crises and I'm just going to tell you about crises when you look at crises, that is the one time when free markets are more needed than at any other time, and I want to really instill upon that free markets are not a luxury, they're not something you call on when a good day.

Well, let's have a free market day today. Free markets are most needed when you're in trouble, because they are the way out of trouble and this is the one time when governments most entered the scene is when there's a crisis. And it is a tragic event because they make things usually very much worse. I also want to just warn you on just.

These are overview comments before I start is, when people work for the government, they are employees. And this is especially true of professionals. Now I was in the White House from 19th from 1970 through 1972. I had some wonderful things. I was George Shultz, his right hand person. He made the mistake of hiring me five times in his career. You to think he'd learned? No, not to do it, but he kept making that mistake. Thank goodness! But if you think there you know and I worked there for two years in the Nixon administration under George Schultz, and I learned something - that I never want to work for government ever again and I never have!

And the reason is very simple. When you work for the government, you take a paycheck from that government and you have a responsibility to that government as your employer, and I'm going to speak for economists in the United States. I don't know what it's like here in Pakistan, but I do know what it's like in the US. My colleagues, very famous economists, you know them all by name. I won't list them all by name, but you know all of them that have been working for government. These people, we're robot arguments. They know to be true, in order to Curry favors with their political benefactors. You cannot trust their judgments once they become an employee. The reason I never took a job I never took a job with Reagan, I never took a dive job with Donald Trump, I didn't take a job with any of the governors that I've worked for any of the countries I've gone through. I've done it all

without being paid because, then you can actually say what you believe, you can say what you think is right and you don't have to worry about being fired. Having your pay reduced having your pay increase it is a very, very difficult task because government people, in general tend to work for their employers and try to aggrandize their employers. Here I want to put this to you just out at front as a basis for the talking.

Now what I want to just start with you is - People respond to incentives. They like doing things they find attractive. And they dislike doing things they find unattractive incentives matter and economics is all about incentives. That's what it's about and taxes. And I'm going to specifically relate to taxes.

But it's not just taxes, it's tax, it's regulations it's spending its monetary policy, its regulatory policies, trade. All of these are in a bundle of how incentives are structured and how people respond to those incentives? I've just finished my book which is going to be published shortly, hopefully by March, and it's called "**Taxes Have Consequences**". I wrote this book with Jeannie Sinuefield and we're Brian Tome metric. It's been my life's work and the books entitled Taxes have consequences and it is the history of the US.

Income tax starting with 1913. When we put the income tax in in the United States, right? It's a fascinating history of the politics, the debate all over goes and you will recognize every story.

It's a universal story that goes through all the countries that have it, you know, and it starts off with something very simple like this. We tax speeders on the freeway and the person drives his car too fast in the freeway. We stopped them. We give them a ticket and they have to pay a fine we. Why do we tax speeders? To get them to stop speeding. We tax cigarettes. Why do we tax cigarettes? To get people to stop smoking. All right? In the same breath, why do we tax people who are in income? Why do we tax people who employ other people? Why do we tax companies that make wonderful products at very low cost and have lots and lots of profits? Now the truth is we don't tax income to get people to produce less income, we don't. We tax income. We tax employment. We don't

tax people employ other people to get them to employ less people. We don't tax businesses that make wonderful products at low cost to get them to stop making wonderful businesses wonderful products at low cost. We don't! We tax them to get the revenues to run government, but what I'm going to tell you this right second is very clear.

Do not think that because our purposes are different, the consequences of those taxes are any different than they are for taxing speeders or taxing smokers. When you tax something, we may get less and people do less of it. When you subsidized something, you make that something more attractive, and people do more of it. Taxes have consequences.

You know when you look at it, when you look at the world today and I give a talk in Casablanca not a year and a half two years ago to the Sub Saharan IRS tax collecting groups, they all had the big conference I was the keynote speaker there, I loved it! It was a fun conference and all they wanted me to tell them as how they can collect more revenue through more taxes. How can we get more and more revenue and you know that this was not what I did and they keep asking me what is our role here? And you know, when I beg them to understand is they look at the US? Or they looked at other developed countries and they say you have all these wonderful programs. We would like to have all those programs too. You know, let me just say - that they should be not using the developed countries as role model, they should not! They should be using the developing countries as role models. They should look at the US what it was like when we became rich. Not when we are rich! It's a very different way of behaving when you have a rich country or when you're trying to become a rich country. It's a totally different way of looking at the world. Before we have the income tax in the United States, the government spending, federal government spending in the US was about 3% of the GDP. Today, U.S. government spending, federal government spending is probably 23, 25, 26% of the GDP. Back in 1911, excuse me in 1911, before the income tax, the largest government entity or state or local governments, local governments in the US - state governments were much smaller than local governments and the federal government was smaller than both

of them, either one of them, so it's a very different world. When you look at how we became rich, we did not become rich by doing what we do now. We became rich by doing very different things. The role model should be what we did when we became rich, not what we do now when we are rich. I want to really stress that it's also really very important when you look at countries to understand what your constraints are. You can't do things if you don't have the resources or the abilities to do them. If you look at Pakistan, I don't know what your GDP per capita is, but \$1400 in U.S. dollars something like that or \$1350, somewhere in that range - you have a much lower and you have a lot more constraints on what you can do in this country, understand your constraints and opera. You can't afford doing lots of things that the US does. You just don't have the resources.

If you look at the world here and I want to go through with it, you've got to understand that there are two types of incentives that exist in this world, and I'm going to go through these two types with you odd nauseam and forgive me for being an old professor, but there are two types of incentives. There are positive incentives and there are negative incentives. By way of illustration is, the way I like to explain positive incentives – if you feed a dog. You know where that dog will be at feeding time - It will be right there where you give it the pan of dog food. That dog will be there. That's a positive incentives.

Positive incentives tell people what to do. People do things they like doing. They do things 'cause they can make money doing it. They do things because they're pleasurable. Positive incentives tell people what to do. But negative incentives are the opposite. Now negative incentives, I'll describe to you with the dog. If you beat a dog. You know where the dog won't be? It will not be where you gave it the beat. But you have no idea where the dog will be. It's going to run. But you don't know! Negative incentives tell you what not to, and positive incentives tell you what to do.

Right? The hot stove. Do not put your hand on the hot stove. The stove doesn't care where your hand is, as long as it's not on the hot stove. Negative incentives tell you what not to do and positive incentives tell you what to do. All right? Subsidies! Government payments for things are positive Incentives.

Negative incentives that the government has, are taxes. Taxes are a negative incentive.

All people care about is do not report taxable income. It doesn't tell you how not to report taxable income. You can use evasion, avoidance tax shelters, changing of location, changing of the composition of your income, moving to a different venue, or just going out of business. The system doesn't tell you how to not report taxable income. It tells you do not report taxable income.

So when you look at Government policies always look at it with the overflow. Overview of is this a positive incentive or a negative incentive? And how do people respond. What I can tell you right now, and I'm not going into this in detail. Never, ever, ever mix a positive and a negative system. Never ever put a positive incentive structure inside a negative incentive structure. Don't do it because you'll get awful consequences. For example, if you want to help single mothers, who are struggling to live and keep their children, do not use a tax credit. Collect your taxes and write them a check. **Always use the spending for the positive incentive and make sure you keep the negative incentives to a bare minimum.** I hope you understand this and I could go through in detail how the negative and a positive incentive inside a negative structure always fails to achieve the objectives you want. They never achieve it. There are some mothers with dependent children, who were unmarried or single mothers raising a child who don't report tax returns. If you use a tax credit to help single mothers with a child, you're going to miss that mother. You're not going to miss her if you write a check and you'll save a lot of expenses. Please always remember, and I'm not going to go through this in detail, but never mix incentive structures or you will have very weird and unpleasant consequences and you can see this in every tax structure around the world. It's especially true in the United States. Now when we look at a government set of policies and I want to go through these with you. The outline of what should be done if you go to your macroeconomics textbook. You can see the major segments of macroeconomics are the major kingdoms. What I refer to as the grand kingdoms of macroeconomics. But I'll refer to it here is just the pillars - it's called the **Pillars of Prosperity**. Very simply, all right. The first pillar of prosperity is **taxation**. *All taxes are*

bad. All of them are bad, but some are worse than others. What you want to do in a tax system is you want to collect your tax revenues. Doing the least possible damage to the overall economy. So you can collect the requisite tax revenues to run a good government. You want to do the least damage with that. Now with the limited knowledge we have as human beings in this world, we don't know the supply or the demand elasticities of every single product in the world. We don't have brains big enough or computers large enough to calculate all these by the second, so the first approximation of a clear and good tax system is you want the **lowest possible tax rate on the broadest possible tax base**, so you provide people with the least incentives possible to evade, avoid or otherwise not report taxable income. And by having the broadest base with the least number of deductions, exemptions, credits and all this other nonsense that is in the tax codes, you have the least places to which they can put their income in order to avoid paying taxes.

Pillar No. 1 on Tax Collection: the lowest possible tax rate on the broadest possible tax base, so you can collect the requisite revenues from government doing the least damage conceivable to the overall economy. Now, let me just give you a couple of examples of that in my life. I'm I won't talk about Pakistan 'cause you know so much more than I do. The charade that I'm putting on here today will be quickly visible.

If I talk about Pakistan but I might be able to fool you if I talk about the United States, so I'll talk about that. When we came into office on January 1st, January 1st, 20th, 1981, when the skies opened, the Sun shone forth on the planet. The fields they turn green, the animals multiplied, the trees blossomed and bore fruit, and the children danced in the street, and Ronald Reagan became the president of the United States. Oh, be still my heart (laughs). We had a tax rate that the highest tax rate units were 70%. I won't go through all the others of it. We lowered that tax rate from 70% to 28% is that good enough for you? Is that alright? Not too bad? We lowered the corporate tax rate from 46% to 34%.

We got the capital gains tax rate down to what it was 20%, something like that! We had a flat tax. The piece of legislation I'm going to describe to you in 1986, which was my baby.

This was I loved this one. Forgive me, but we cut the personal income tax rate from 50% to 28%. Imagine that! We raised the lowest tax rate on the poor, the minorities, and the disenfranchised. We raise the tax rate from 12.5% to 15%. In other words, what we did was we went from 11 tax brackets to 2 tax brackets - 28% and 15% lower. That was it. No other tax brackets. We tried to go to 1, but if we weren't quite able to get that, we became very close. We cut the corporate rate in case we missed the patties. You know the businessmen and the fat ones and the rich ones. We cut the corporate rate from 46 to 34%.

I could go on and on, but can you imagine a piece of legislation like that today? In any country? In the United States? Where you raise the lowest tax rate and lower the highest tax rate, and you get rid of all the deductions, exemptions and exclusions which we did. Can you imagine that? No, it wouldn't get one vote in the US Congress today. But let me tell you what happened in 1986. That bill actually did pass. It actually was put into effect and the vote in the Senate - You know, the US Senate has 100 members. The vote in the Senate was very close. The vote in the Senate was 97 to 3. Only three senators voted against this bill. Simon from Illinois, Leven from Michigan and Merkel from Montana, the only three Teddy Kennedy voted for Joe Biden voted for it. You won't believe that. Bill Bradley, Pauling Pink Ivo they all voted for it and why did they vote for it? They all voted for it, and the reason they voted for it because it's the right thing to do. Everyone knows that a low rate, broad based flat tax is better for the country than anything else. The purpose of taxation is to collect the revenues. To be able to run the government. Pillar No. 1: A low rate, broad based flat tax. Are we all together in Pillar No. 1?

Pillar No. 2: Government spending. It's government spending restraint. Now we all know we need government. There's no argument here, but government is like anything

else in life. The right amount is great, **too much and it will hurt you and too little, it won't help you.** You know what you want to look at government is the same way what you want to look as government has lots of things it's supposed to do and it needs resources to do those things. What you want to do when you look at government, is you want to get the money and have the Congress spend it in the most beneficial fashion. And I don't mean just economically the most beneficial fashion. Socially, the most beneficial fashion, what reflects the morals as well as the economics of this society. All right? And you want them to spend it in the most beneficial fashion possible. **When the damage done by the last dollar of taxes collected is less than the benefit done by the last dollar spent.** Stop already! Any spending larger than that is too much. Any spending less than that is too little. There is an optimal size of government. Now the federal government did pretty well in the US for many years. This is comes out of my book – **“Taxes Have Consequences”**

It only collected 3% of GDP. And it still was able to run what was the fastest developing, most prosperous nation and the greatest creation of wealth ever with 3% of GDP? That's what it did. Government spending did not rise in the US, federal government spending did not rise until the income tax took full hold. Alright? so when you look at this, you want to have No. 1; a low rate, broad based flat tax and No. 2; you want spending restraint. You follow me on this please. Government is a very appropriate function. Do not be anti-government. Be anti to big government and be pro too little government to make it the correct size governments like everything else, low rate, broad based flat tax spending restraint, the next pillar of prosperity.

Pillar No. 3: Sound money. There is nothing that can bring your economy to its knees quicker than unsound paper money. When we took office on January 20th, 1981, when God opened up the heavens and allowed my hero Ronald Reagan to be president United States on January 20th, 1981; the prime interest rate in the United States at that time was 21.5%. Mortgages in the United States were going for 18-19% mortgages. Inflation was running 18, 19, 20% in US. I notice a couple of inflation numbers here as well. I'm telling

you about the US, but please remember, I'm trying to allude to what might be relevant for Pakistan as well. All right? we had had Jimmy Carter before we had what I called the four stages. Johnson, Nixon, Ford and Carter. The largest assemblage of bipartisan ignorance ever put on planet Earth. They did when we came in, we reversed the world. Paul Volcker is head of the Fed. Ronald Reagan as President of United States and inflation dropped dramatically the economy boomed. The problem we had is the dollar had been spiraling downward.

In the 1970s, after the accord the Smithsonian Accord, we broke our link with gold. The dollar became an unhinged paper currency and the dollar spiraled down. All right? We stopped it! We brought it down to where all of a sudden the dollar rose and the foreign exchange is the dollar. From late 1978 until 1985, the dollar doubled in value in the foreign exchanges and inflation disappeared from the US economy. Low rate, broad based flat tax, spending restraint and sound money I can't stress to you the need of a stable currency and stable prices for a good, healthy, robust economy?

Pillar No. 4: Regulatory. Minimal regulations, I'll call it minimal regulatory reform. We all know we need regulations. You can't wake up one day, decide to drive on the left hand side of the road. And then the next day, well today I want to drive on the right hand side of the road, by the way, when I came into the airport last night. And I was picked up and big person drove I about died, I said. "You're driving on the wrong side of the road. Get over!" Then someone told me that in Pakistan they drive on the left hand side of the road not the right side. OK, thank you! (laughs) But you need to have regulations. But what you don't want is you don't want those regulations going beyond the specific purposes at hand in creating a lot of unnecessary collateral damage. When you look at regulations in the US, we have gone way beyond the need for regulatory reform and structure. We've gone back to where the collateral damage done by regulations is I would guess that there are some regulations in Pakistan as well. I'm just guessing. I went through customs. It took quite a while to go through customs for but, yeah, I'm just I'm just joking with you,

but there are a lot of those. Low rate, broad based flat tax, spending restraint, sound money, minimal regulations and

Pillar No. 5: Free trade. When I say free trade I mean free trade. You know there are some things we make better than foreigners. And there are some things foreigners make better than we do. We and they would be foolish in the extreme if we don't sell them those products we make more efficiently than they do and they sell us those products they make more efficiently than we do. It's a win win. It's called the **gains from trade**. It's called **comparative advantage**. It's called **David Ricardo**. You shouldn't have distortions in your exchange rate in your trade tariffs, quotas, restrictions on trade, unless there's a really a very important reason, I do not suggest that we should sell nuclear weapons to Kim Jong-un of North Korea police. I'm not suggesting that, but what I'm suggesting is that trade is not a tool or weapon to be used against people or to protect domestic industries. It's not. And when you use protection there, no, I don't know what's happening in Pakistan, but I would guess you have some barriers on trade. I guess you have some tariffs I don't know. Just joking. I would imagine you subsidize some error exports, don't you stop already? Our trade is critical not only to the economy but to prosperity and it's also critical to peace on earth. If you're trading with foreigners, you don't want to blow him up, and if you're trading with foreigners, they don't want to blow you up either. They like the business. All right, I tried to explain to this to the US. Now US has recently become very anti-Chinese as you probably know, I'm a big fan of China. I was the first American to go to China in modern times. I went in October of 1970 and I was prepared to hate them. And I went to China and I fell in love with China. I just love China and I love it. But without China, there is no Walmart. And without Walmart there is no middle class or lower class prosperity in America. Have you ever been into a Walmart? You see these products. I'm a gardener and they have all these different types of shovels for \$19.99 when I want 500 of them please. I mean, they're wonderful. They're high quality. And China needs America. We need them and they need us. All of this trade war stuff is really bad for China, and it's bad

for the US. And believe me when I tell you it's bad for Pakistan, it really is. Now you've got the five pillars of prosperity I'm going to add one little comment in there.

No. 1: low rate, broad based, flat tax. I did that for Jerry Brown. Let me tell you what I did with Jerry Brown. He's a Democrat by the way. In case you know he's the Governor of California for 16 years, very close friend, one of my dearest friends. He was running for the presidency in 1992. And he called me, and he said he had a real problem. There were eight Democrats in the Democratic primary and he was polling No. 8. And he needed a Hail Mary. I said, well, why don't you come on down to San Diego and he came down I got a lovely picture of him with my two youngest children from there and we planned Jerry Brown flat tax. Here's what we did. We got rid of all federal taxes in our plan, all. Everyone, income tax gone, corporate tax gone, payroll taxes gone, excise taxes gone, death tax has gone, capital gains tax has gone, tariffs all gone! The only taxes we didn't get rid of were sin taxes. And the reason we didn't get rid of sin tax is what is their purpose?

Their purpose is not to collect revenues. Their purpose is to alter people's behavior, fines, and fees. The one thing I started off with, all right? These were fines, fees and I jokingly say we Americans don't like drunk people smoking while they shoot each other. We tax, alcohol, tobacco, and firearms. So those I'm just joking with you on that, but we kept the syntaxes and that's about 2 to 2.5% of all tax revenues. And then what we did is we've placed every other tax in the US with two flat rate taxes, one is a flat rate tax on business net sales. That's a few republican. If you're a Democrat, it's called value added. Same thing, right? One flat rate tax and value added just like that low rate, broad based flat tax. No exceptions, no deductions and no exemptions period from the first dollar to the last dollar, you pay a tax the same rate across the board and then another flat tax on this personal net income. We had a couple of deductions in there. They were very small. It's really hard to go against God, so we decided we would keep the religious exemption. Didn't want to lose every vote in America. All Right? We had a couple of others that were very small now, so on the first dollar of income you were into the last dollar. Two flatly taxes. Now we calculated this tax at the static web - no Laffer curve effect, no dynamic,

no growth effect. Right? The number came out static revenue a little less than 12% - 11.78% was what it was on those two to collect the same amount of tax revenue. Now can you imagine, well, Jerry wanted to raise it a little bit higher, so we made it 13% so we wanted to reduce debt and maybe spend a little bit more. That's Jerry Brown. But can you imagine if you had only two taxes in the country? No gas taxes, just two taxes. 13% on all products you buy, and 13% your income. That's it. No other taxes. And none of them you'd have to pay because they're all coming from your companies, so if the company owes you \$100, it gives you \$87.00 and sends in \$13.00. You don't even have to report it. Right? Everything you buy, you buy from a company and they add in the 13 % there - no filing, no tax returns, no nothing! Can you imagine now? It's true if you mow your neighbor's lawn and the neighbor gives you \$10. You got to send in a Dollar thirty OK. Right, But that's a small part. Can you imagine the efficiency of the tax system? Can you imagine what would happen to the US economy on that?

I mean, that's where that's where the tax code came. That's what I did for Jerry Brown. We went from 8th and the race to 2nd in the race. We had that blue eyed fellow from Arkansas. It was 1992, remember Bill Clinton have remembered to build meets always cheat his lower lip sore. You know we had him in the crosshairs. We had just won the primary in Connecticut and we just ruined the primary in Oregon and we're coming into the two big ones. California and New York and Jerry Brown decided he did not want to win the race so we lost those two but we still got the second largest number of delegates in 1990 in a Democratic primary. A liberal left wing Democratic primary with all those people on off perfectly, everyone knows and wants a flat tax. It's not just left wingers or right wingers. It's every winger. Everyone knows that if you make five times as much as I do, you should pay five times as much in taxes as I do you. Sure, that's only fair, and that's what a flat tax does. You know if you look at this whole structure there and and I want to go through. Through it with you there. But these are the principles. Now there's one I didn't mention that I'd like to mention, and I think it's probably very important here. It's a little bit less so in the US, but **privatization**. Governments should not try to out

business people. They don't do it right. They put their cousins in his head of the business rather than the most efficient person. You know, **government is not good at business and business is not good at government**. There are two separate functions that need to be kept separate. The example I'd like to use with you here during the Great Recession, you know the head of Turkey during the Great Recession, he sold off almost all of the enterprises that have been nationalized in Turkey. He sold off Turkish Airlines. He sold off all of these industries during the Great Recession, there was one country that reduced its national indebtedness dramatically – Turkey. They cut the personal income tax rates - the highest rates. They cut the corporate tax rate throughout the Great Recession. Turkey prospered as never before. Have you ever flown on Turkish Airlines? I just thought I'd mention it's a little bit better by reputation than PIA. Just a little bit better, just teasing with, you know it's the best run airlines. It's better than Lufthansa. It's the best one. That's why. There's no reason why Pakistan can't do that too, and why they can't have those think privatization. It's really important. I worked with Lady Thatcher very closely, as some of you know, when she was Prime Minister of Britain, I was the only American involved with her that flew over every couple of months and spent a lot of time there and I was with Sir Keith Joseph. As you know, Britain had nationalized its coal industry. Its railroads had nationalized its steel industry, plus lots of others, and Lady Thatcher, Margaret Thatcher, at the time, Prime Minister Thatcher puts Keith Joseph, now Sir Keith Joseph, in charge of privatization, and he used to always complain “you can't believe how difficult it is, Privatizing. It's so difficult. Wait wait wait, wait colon and the railroads and steel. It's just” I said. You know something. Last weekend in Santiago, Chile, where we had done all the revolution there, we sold 5000 companies, often one weekend. Anyone bid for this \$2.00 to three dollars, \$3 anyone for more. No one more. So next company. Just get rid of it. Let it go private. Don't worry about getting the most money out of it. Don't worry about the union contracts. Get rid of that business. It's not what government should be doing. These are the where places where you can go. This is there and privatization here.

If I can talk to you now a little bit about social policies. You know, and I've got to talk to you seriously about social policies, our hearts all humanity feels for the poor, the minorities, the disenfranchised, the undereducated, all of us feel that same way. If any of you have kids, you know exactly what I mean. My little baby girl goes daddy Oh my God I would jump in. What can I do to help you know we all have the feelings that it's not always the right thing to do. John F Kennedy put it beautifully and I'm going to put it for you here on social and I'm going to go through the rest of this talk today with you on social issues. John F Kennedy said "the best form of welfare, is still a good high paying job". And there is no alternative to economic growth. That's the only way they're going to get out of poverty. And I'm going to say it bluntly. If you pay people to be poor. If you pay people not to work, they won't work and they'll stay poor. What you have to do is create an environment for economic growth. **The dream in this world of ours is not to make the rich poor. The dream is to make the poor richer.** The dream is to lift the bottom, not to pull down the top. John F Kennedy again said and I'm a Kennedy Democrat from the beginning. John F Kennedy put it this way. He said, "No American is ever made better off by pulling a fellow American down. And we're all made better off, if any one of us is made better off" and then the next line he used which Rizwan quoted here, the next line we used in our campaign in 1980, "A rising tide raises all boats". There is no alternative to economic growth and prosperity period. That's the rising tide. I'm going to say this to you and forgive me. Benjamin Hooks was head of the NACP, National Association for the Advancement of Colored People, which is an old main old timey name, but Benjamin Hooks put it this way in his speech he said, you know honestly, in America, blacks are hired last. And fired first. The only way we're ever going to get jobs and be able to keep those jobs is if they're so darn many jobs around that we have to be employed. What I'm going to say here is the premium, the first of all first is **economic growth** to lift a country's poor out of poverty. It's not welfare payments. You know when you look at the thing here is, you're just plain don't. I want to pay people not to work. You don't. I'm going to give

you an example of Philadelphia. I think I use the example with you yesterday. It's a beautiful example in code in LA, in Philadelphia, a single mother with a child. Right?

If that single mother earns \$29,000. Alright, I went through and I calculated how much of that \$29,000 does she get to keep in their payroll taxes and other deductions for this that the other blah blah blah and I got the total amount she earned from earning her living at \$29,000 or your income, ok? You with me? I then went through because that's a very low income in the United States. I then went through and calculated what the value was of all the social welfare benefits that this single mother earning \$29,000 was eligible to receive. There's something like 15 programs. It was food stamps. She got the child care credits. She got free trap bus take. You know there were all these benefits that she was eligible for and I went and calculated the dollar value of all those benefits you follow me here. I added the two together, how much she got from her income and how much she got in social welfare benefits. And that was her total spending power, earning \$29,000 in income. I then said, let's imagine this woman with a child is just so ambitious, she's so. You can't keep her down. Every night she comes home she loves her baby, she tries feed them and everything and then she stuck. She's all night long to get a better job and she works really hard and she has all the gumption and she finally through perseverance and hard work gets a job paying \$58,000. She goes from 29,000 to 58,000, she's doubled her income. So I went and calculated once again at \$58,000. She has all sorts of different taxes, higher taxes than she otherwise would have had, and comes down there, and I calculated how much she earned after tax from \$58,000 income. You follow me? I then went back through and looked at all the social welfare benefits she was eligible for making \$58,000, and I calculate that of course the rule in the United States. The more you make, the less you get. So all of these benefits a lot of these benefits disappeared from there, and I took the total value of all the benefits. This is the real world. This isn't some hypothetical world. This is what it is today in Philadelphia and everywhere else. I just use this as an example and I added the two together what she got after tax for \$58,000 which

she got from social welfare benefits, added them up together and it was the exact same number she got at \$29,000.

That was 100% effective tax rates on the inner city. You are imprisoning these people in welfare and poverty by paying them to be poor and then when they do work you take the money away from them. It's a ceiling. It's a **poverty trap**. That's not the way you want to go. Now I wrote a little something back in 1974. I lived in the South side of Chicago. I taught at the University of Chicago. Some of you may know the area. I know couple of you do where where's my Chicago guy? Not really right there right there (points out) I lived in South side Chicago. In fact, the story is that when I moved to Southern California, my old neighborhood was no longer integrated. I was the only white family in the place and I wrote something called Enterprise zones. How do you solve an inner city poverty problem like we have in US and here's what I tried to do. Instead of making welfare payments, which would take away from them when they earn something, I said, let's take taxes away right now. The same dollar value. Let's just do so. I said, let's make it! If you have a person whose principal residence is in the enterprise zone, and you have a company that has its offices facility in the enterprise zone, there will be no payroll tax, either employee or employer payroll tax. For that person who works in that area who also lives in that area, no payroll tax. If you think you're losing a lot of revenues, "Mr tax people" you're not! There's no one paying taxes in those areas. You're not losing any revenues. No payroll tax for the employer employee. No. 2; No income tax up to \$50,000 year income either contributions by the employer or contributions by the employee. No income tax. Again, they have to be residing there. You have to be working there. All right? And then No. 3; a thorough review of building codes, regulations, restrictions in your claims to make sure that they're not anti-economic growth.

You know you can't believe how bad the city and county government is in Chicago. If you look at the building codes in Chicago, there are 175 volumes. They're all this thick, they've got 800 pages per volume with footnotes and there no one can understand except lawyers and not good lawyers either. Let me tell you, these are these are lawyers who prey on the

poor and the minorities and the disenfranchised. And all of these building codes, I use the example, they're one of my friends in the inner city. They are godparents to my oldest child; are black. They started something called the 'dark shaky', which became very successful. But you know another one started frying chicken. Great fried chicken. And of what happened in the Alderman staffer walked in there and said, "You've got a great story here. She's wonderful fried chicken. I can see it's just great" But let me just tell you. I mean I hate to tell you this, but in volume 78 of the county code page 364 footnote 97, on that page, there is a regulation that says the bathroom has to be at least 22 feet from the kitchen in any restaurant. I measured it in your bathroom was only 19 feet. It's not 22 feet. Just after a payoff. So the guy that closed down this is what happened.

A thorough review could bring in regulations and restrictions to make sure they're not anti-economic growth. And lastly, get rid of the **teen age minimum wage**. These kids don't go preps, don't go to prep school like I did. They don't go to Yale University like I did. They didn't go to Stanford Business School like I did. They don't go to the PhD program at Stanford like I did until I finally got a PhD, and then I could earn above the minimum wage. These kids learn the requisite skills to earn above the minimum wage on their first job, and they aren't worth \$15.00 an hour. They just plain aren't.

So they go in there, try to get the job, and they're not skilled and they don't get the job after being unemployed for a year or two, they become unemployable. After being unemployable for a couple years, I don't know why they become hostile. And then you have to protect yourself from them. I just wanted to remind you of the one that happened in Ferguson, with a young boy named Brown, I don't remember this story was world famous where the cop shot the boy 18. It was just a tragic, tragic story of the poverty trap of the inner cities. Get rid of the welfare payments that cut off and make it so that job growth can come in there without being stopped and let them come back into the mainstream. It's really, really important here in this. I want to go through with you. **The theory of redistribution** and then I'll open it for questions. And this is math and I forgive me for being math, but I'll try to describe it to the way I describe it to non-mathematicians.

Government transfers: Your Government does transfers every day of the week, twice on Sunday. They take from one group and they give it to another group, you with me? These are called transfer payments. The definition of a transfer payment is when you take from someone who has a little bit more. And you give to someone who has a little bit less, that's the definition of a transfer payment. There are lots of criteria; you take it from steel workers and you give it to farmers and subsidy that. They're just tons of these transfer payments, but the generic transfer payment is you take from somebody as a little bit more and you give to someone who is a little bit less. You are with me?

Please.... Now by taking from someone who has a little bit more, you reduce that person's incentives to produce. And that person will produce a little bit less. Please, just it's just math people! It's not Republican. It's not democratic. It's not liberal. It's not conservative. It's not left wing. It's not right wing. It's called Economics. It's called Math.

When you take from someone, who has a little bit more, you reduce that person's incentives to produce, and that producer will produce a little bit less.

By giving to someone who has a little bit less, you provide that person with an alternative source of income other than working. And that person will produce a little bit less. This is a theorem. This is math. Whenever you redistribute income, whenever you redistribute income I don't give a darn who you are, you reduce the total income produced. Let me just put it in a little bit simpler terms, if you tax people who work and you pay people who don't work. Do I need to say the next sentence to you? You're going to get less people working, period. I don't care if you're working for Joe Biden or Donald Trump, or anyone in between. That's the theorem. **Redistribution of income** always causes a drop in total income, always!

Now the lemma from this theorem I'm going to describe, I'm not going to prove it and describe the 11th dilemma is the *more you redistribute, the greater will be the drop in total income*. That's the lemma! The more you redistribute, the greater will be the drop in total income and the limit function of this theorem is equally as beautiful as anything I've seen

on Earth. If you were able to reach Nirvana, Bernie Sanders crying, he's so happy. Elizabeth Warren dancing on the stage. I'm using Americans, but I'm sure there are some local politicians who may fit this bill. If we were able to achieve total equality but everyone came out exactly the same. There will be no income whatsoever. Now let me describe it to you. Technically, in order to get everyone to come out exactly the same. So Bernie Sanders is happy. What you have to do is you have to tax everyone who makes above the average income. 100% of the excess.

What you also have to do is help you everyone who makes below the average income, you have to subsidize them up to the average income. That's the only way you can assure that everyone will come out exactly the same with me. Right now, if you actually did that, if you actually taxed everyone made above the average income, 100% of the excess, and if you actually subsidise everyone below the average income up to the average income, I will stipulate today Counselor, everyone will be exactly the same at zero income in the system. All right? This is math.

Now that's what the Socialists want is grand equality. *Equality is not an objective that you should try to have. What you should try to do is eliminate poverty, but not pull down the top.* All right, I'm just going through this with you 'cause it's so important and I want you to understand it in their private lives, socialists are no different than all the rest of us. In their private lives, they go for the money, too, I, I'll tell. Can I tell my one last story? and then I'll just I wanted just to I got all excited about this theorem and I love my theorem there and you know it works for everyone and so I sat there and I took my pillow case off my bed in Nashville and I went down to the bank and I got all these \$20 bills. And I stuffed the pillowcase full of \$20 bills. So I had a pillowcase full of \$20 bills and then I asked myself the question where is the most Fabian socialist state? What's the most Fabian socialist state in America? And I came to the conclusion that has to be Massachusetts. Has to be. And then I asked myself the question, what city in Massachusetts is the most Fabian Socialist City in Massachusetts? Has to be Cambridge. And then I asked myself the question, what institution in Cambridge, Massachusetts, is the singular most socialist

institution. In Cambridge Massachusetts well - Harvard University, hello... And then I asked myself the question, what department at Harvard University is the most Fabian Socialist department. Sociology obviously has to be the sociology department at Harvard University in Cambridge, Massachusetts, US. So I got on a little plane at BNA Airport and I flew on that plane all the way to Boston. And we got there in Boston.

I then took an Uber over to Cambridge. Right? And then got off at Harvard and walked over to the sociology department. I found these single, most momentous moment when Fabian socialist juices were flowing the most in the sociology department of Harvard University, Cambridge, Massachusetts, USA. It was a rally for Bernie Sanders and Elizabeth Warren on the green in front of it. It's a beautiful day and they were shouting and yelling all their slogans and down with the rich tax, the rich in your wealth taxes.

I'm realizing you know they're going crazy in this free college free, even though they were just wound up and the audience was going crazy and there was a slight breeze that day, so I took a little wooden chair. I went up the upwind of the breeze, and I stood in that little chair. And when they finished clapping and screaming. "Hey Bunny" And we're all just frothing. I opened up my pillow case and I flipped all those \$20 bills into the air and they floated over the crowd. Within 30 seconds there wasn't a \$20 bill to be found. Even socialists respond to incentives. They may not talk the game, but they play the game.

And what we have to do is to get a system here, that you need to really come back. All of you need to be the founding members, because if you don't do it, who will? If it's not done in Pakistan where you're missing tremendous opportunities, we look at all those babies born this year and they have no hope. Did you want that for your children, for your grandchildren, for your great grandchild? Or do you want to have to leave? Right? You know it's your problem. It's not going to be solved by the World Bank. If you've got too much debt with the World Bank to fall on it, to hell with them! I mean, **don't let it don't let them dictate your country, it's yours and you need to bring this prosperity.**

They tell you to devalue your currency. They tell you to spend more and they tell you to raise taxes and regulate everything and by goodness, worry about global warming, you know. And it's ruining your country. You're enslaved to them and every one, "how we pay him back. Oh my God, the fiscal deficit"

Well, it's your country. You going to do it and I'm going to stop there and just throw it open.

But again, I'm really honored to be here with all of you. I've not enjoyed a visit like this in eons, and I want to tell you I'm so proud of my baby, little student boy here. There's one Rawji and all of you thank you very much for having me here. Thank you.

And I think I've got a little bit of time for some questions, so I've got about another 20 minutes till we have to break it. The reason I've been so long winded is you know our speaker that was supposed to be in the middle cancelled, so they asked me if I could talk longer.

QUESTION & ANSWER SESSION

Question: Sir, I'm Mahvish and I'm a manager in multinational, which is "Summit Technology Solutions" and I write in national and international newspapers about finance and debt issues. So my question, Is it possible to pull out a bankrupt country, just like Pakistan with only reforms in the tax section.

Dr. Laffer: Yeah, yes, let me tell you several things here. These people who have lend you money. Have been loan sharks. The IMF has done all they can. I believe to make your country less profitable, less prosperous and less well, and then you owe them the money. So then you have to obey what they say. They're commanding you there. We had a big problem in the United States and I can take you back to the US history. It was 1837, long time ago, we had borrowed all this money from Britain and from Holland they had lend us all this money to build all the canals in the United States. Once when the last canal was finished. There was a cut throat competition between all the canal companies. The prices fell sharply and all the canals went bankrupt. Now the governments of each state had guaranteed all of these loans to Britain and to Holland. Half the states in the United States about every state defaulted on its interest payments and half the states defaulted on the principle. And Rothschild and Britain stood up and gave a famous speech, as did all the other lenders. "America will never see another penny from Europe" and he was right for about a year and a half, two years until the next new investment came in. And you know what I would do is I'd look at the IMF debts. I'd look at the World Bank debts and I would look at them very much from a Pakistani point of view, not from a "Oh my God. I'm guilty", you know you must be mono maniacal in your focus on bringing Pakistan into the developed world prosperity otherwise, you'll lose another generation, another generation and another one, you can't afford it. So when you look at these places, you make a decision. What is the right decision to do with regards the IMF, the people who made you the loans did not make them because it was good, profitable or good loans.

They didn't. They made it because they're a bureaucratic team at the IMF or the World Bank making loans to Pakistan and hoped loading it over Pakistan. So I would make a clear situation there. Let me tell you if you default on those loans, they won't lend you the money anymore and you'll have to do it yourself, which is wonderful. You might be able to live on other people. This is your problem. It's not the World Bank's problem. It's not the IMF problem. They could give a darn. They don't live here, it's your problem and you've got to solve it for yourself.

It's no amount of money coming from China or the US or wherever it is that's going to bail you out. **You need to go back to the Five Pillars of Prosperity** to even have any hopes of redeeming prosperity in this country. And I hate to tell you that. But it's the truth. These are your constraints. You've got a GDP of \$1400 per person. You need to start at the base. You look at the companies that the government runs. The government runs your schools. The government wins your roads. The government runs your electric company. The government runs this ones that one. How are they doing for you? Privatize them. Put them in people's hands, get go and do it the way people did when they became rich. Don't do it the way they are when they are rich please. Does that make sense to you? Does that answer your question? Thank you!

Next question, yes, Sir, yes.

Question: Tony Blair used this term. "The state became a vested interest" so in Pakistan the state is a vested interest. I mean it's the top employees in the state get about 150 times the minimum wage. In U.S this is not the case. I mean in US the Supreme Court judges get about 20 times the minimum. So did you encounter that and how do we fight that the state becoming vested interest?

Dr. Laffer: OK. The states, it's your country, it's your government. They work for you. Not you for them. You are the boss not them. And you've got to reverse the roles, they serve you. The government is there for the people, by the people and of the people. And that's

what you've got to understand. You need them to do what's best for the people, not so it's best for government. If the government goes bankrupt, that's not you going bankrupt. That's the government going bankrupt. That people will do very well, if our government went bankrupt in many cases. You follow what I'm saying?

“I do but in the Pakistani context, you sound like a communist revolutionary”

Dr. Laffer: My God. Let me let me prove to you I'm not a communist, alright? Understand, let me. Please do that. I'm not alright. I want to prove it. The biggest reform I would do in any country is how you handle government employees and how you handle politicians.

All right, we have two companies, company A and company B. Two identical companies, company A's officers and directors have very high salaries, they own no stock, and they have no stock options. Company B's, officers and directors have low salaries. They own a lot of stock and they have a lot of stock options. Which one of those two companies would you invest in?

The one where the incentives of the officers and directors are aligned with the incentives of the shareholders. That's the one you'd invest in. Right, the problem with government, and it's very understandable. It's the problem with every child that any one of you has ever raised. They're spending someone else's money. It's fun spending other people's money. And you don't bear the consequences of bad decisions either. OK, the problem is governments don't bear consequences of bad decision. Do you remember that movie by Jimmy Stewart? He used to be in our social set in Beverly Hills. He was Mr. Smith goes to Washington, that movie was wonderful movie. He's filled imbued with the social justice and she goes to Washington DC to reform everything and he he gets there and he works really hard and the interest rates come down and inflation comes down, the unemployment rate goes down, the stock market goes up, the enemies of America pushed offshore. The children dance in the streets and the fields and the animals, they multiply. What happens to that congressman salary? Nothing! Now imagine his evil twin comes to Washington. He now comes in though the interest rates go way up. Inflation

goes way up the unemployment rate goes way up. The stock market crashes. Children were dying in the streets and the enemies of America are coming up on our shores. What happens to that congressman salary? They don't bear the consequences of their own actions now how do you solve this? The two companies? You put politicians on Commission. I'm not joking. You put him on Commission. If they do a good job, they get paid more than if they do a bad job. I don't mind politicians making a lot of money as long as I do too. So what I would do and let me just do a hypothetical. If you hit 3% GDP growth. They get their pay. Hit 4% growth double their pay. Hit 5% growth. You triple their pay, 2% growth and no pay 1% growth - They have to pay us their money back. **You need to make politicians accountable in a financial sense.** Believe me when I tell you when the person goes into politics and gets elected, they're going to make a lot of money. They all do. I've never heard of a politician dying. I've never heard of it. Now, I'm sure that's not true in Pakistan, but it's really true in the US. I just joking. I know its true impact. Now the question is how did they get rich? I want him to get rich by doing a good job rather than by stealing. And that's why you need to put in school teachers who teach better than other school teachers paid more. You need school administrators who do a great job administering the teach students and the two teams do well. They need to be bonused big time for their performance. **You need merit pay throughout the entire system.** I hope that answers your question there, even if I do sound like a communist to you, it is a revolution.

We are all captured by these people. Right? And they captured us. We've got to break free from that being captured, and I can tell you it can be done. I've been involved in it many times where it's worked and it's up to you to do it. You know, and people deserve the governments they get, Sir.

Question: Thank you, my name is Abdullah Yusuf. I would like to first of all thank you Arthur for an excellent lifetime experience that you have shared with us. Very, very

valuable for us. Now, one of the things that we have as a very, very basic and important issue from our economy's point of view. It's actually the revenues on one side and expenditure on the other side because we run a fiscal deficit every year and which is increasing all the time. Which is obviously not sustainable going forward, so the answer has to be that we have to substantially focus on revenue mobilization; increase in revenue. Now for that, we have the problem, basic problem, is cash economy, non-documented economy and people are evading, avoiding taxes etc. So you are not able to collect the revenues that the potential is there to collect. According to one last survey, there's a gap of about 70%. Now, for this I feel, because you said in America you decided to finish off various taxes and just reduce them and will load the rates etc. and increase the taxpayer base. That is absolutely right. I agree. But now to increase the taxpayer base with this cash economy, how are you going to actually manage that? And that's a question that is really a very, very critical Issue for us.

The second part of the expenditure side on that side we have, you know, the government, for instance. Is the important expenditure apart from #1 item we have in our expenditure side is the actual interest charges that we have to pay on our total debt which you really you know will not be able to do anything unless you really reduce your losses that we are getting. Now on this expenditure side on the government expenditure basically one of the austerity you know there was a committee form for this purpose by the government, and that committee recommended that we have 42 ministries and we recommend that it should be reduced to 21. Make it half and that will cut so much of this expenditure. That proposal then went to the Prime Minister. And he said, yes, I agree with this. But then what is going to happen to these 21 ministers who are there at the moment political reason, political consideration.

So you may like to give us your thoughts on your experience in these type of problems?

Thank you.

Dr. Laffer: I believe in a tax system and I think it follows that all parties in the society agree with. Tax system should not be in... Let me put it softly. Of course, tax systems need to be enforced and people have to pay their taxes, but what you want to do is have the tax system broadly agreed to by all members of society. Rich people have to think the taxes are fair. Poor people have to think that taxes are fair. They have to think the tax system is a conglomerate. It's not one group taking away from the other group and causing class warfare. The one thing is every rich person in the United States and I don't want to talk about Pakistan, 'cause I really don't know what I'm talking about here. But in the United States, every rich person knows they have to pay more in taxes. Everyone they know it and they then poor people do. But when we get up to 94% tax rates, they don't think that's fair. And when they don't think it's fair, they can hire lawyers, accountants, deferred income specialists, favor grabbers, lobbyists and all this stuff and they can beat the government down. And that's just what they have done throughout our entire history when we had high tax rates when we lowered tax rates, the rich paid much more in taxes.

When we raise tax rates, the rich got hurt and they sheltered all their income, but that's what happens in there. So when you look at how you collect this money, you want to have at the lowest rate on the broadest base, and make it so that people understand that their taxes are going to support government activities that they believe in. It's got to be a compliance, a democracy, where one group is not fighting another. It's all of us in this tub together. Now when you go to the government agencies. There's one way of handling politics. It's just don't do it. You know people should be head of government agencies 'cause they're competent, and because the government agencies helped the people. If the government agencies are headed by incompetent people and they don't help the electric. That's why you want to make it merit pay for politicians. If politicians are like CEOs of corporations, CEOs of corporations do not want to keep on losers. They don't. They like to get rid of losers. You want to make politicians want to run it like a business. And so it's really there to serve the people, not to serve the employees. Now we have a very funny thing in the United States, not in the federal government, but in state and local

governments in the US, we have two different models. That's true. We have right to work States and we have forced Union states.

The forced Union states the government runs for the employees for the government employees and the right to work states the employees serve the people. Right? And which one of those states perform better? The right to work states where government employees are there solely to serve the people, not to protect their jobs? And they behave very differently in the Union states, the unions take control of government and it becomes a government run by the employees of the government, not by their service to the people. And it's a really interesting different model, but that's the way I would go on the spending issues and on the tax issues, but voluntary compliances are really important. You can't make one part of your society an enemy and the other part... you can't do that. It's all of you in the tub together. I gave you the quote from Kennedy and it's so important. "No American has ever made better off by pulling the following American down". We're all in this stuff, rich people, poor people, fat people, and skinny people. Tall people, short people, you know we're all in this together with partners. And you can't have one fight in the other. You've got to make the policies there, and it's very hard to do that, but we've done it at times with Reagan. What happened to tax revenues when Reagan spill went through? So the ceiling, what happened to tax revenues in the 1920s when we top dropped the highest tax rate from 77% to 25%, it was called the Roaring 20s.

The biggest boom the US ever seen, the rich, paid much more in taxes, and the economy was the most prosperous. If they paid much lower rates. What happened in 1932 when they raised the highest tax rate from 25% to 63%, it was called the **Great Depression** and it lasted for 20 years. I mean, these are the ways of looking of how to make a partnership. And that's what I'm trying to instill is that all Pakistan is in this tub together, rich and poor like we all want to be prosperous. And it's not one stealing from the other. It's all of you working to make a more prosperous country. And that's what's really needed.

Rizwan Rawji: A very good example when Putin became the president just after the year 2000 and the first thing Putin did, and he had a very smart Minister of Finance; is that he put in a 13% flat tax. The result was that over a period of three years of installing the 30% tax rate, the total revenues collected by the government, tripled, they tripled in dollars.

Dr. Laffer: Let me tell you, yeah, this is my tax plan for Jerry Brown. That's exactly my tax plan for Jerry Brown, Richard Vetter of Ohio State University, a friend of mine, who was a consultant for Putin go figure, he took the plan over there, put it in and that's exactly what happened. This was the one I did for Jerry Brown at a low rate broad based. These people stop sheltering their income. They stopped hiring consultants. They stop doing all of this stuff. And they pay their damn taxes. They know they have to pay taxes and they do it. And that's what you want. You want the economy so prosperous that everyone quits their government job.

Question: I'm Pervaiz Tahir from the older Cambridge. Milton Friedman needed a helicopter and we were able to do without it. Remember that?. But I think we missed out on the universal basic income fellows and the negative income tax.

Dr. Laffer: We did. We did miss out on that. I don't like the universal basic income at all.

I don't think that people should be giving money for not working by the government just because they're there. I just don't and we did not do the basic income of Milton Friedman. We also had a very different model in Milton Friedman during the 1980s. Now he and I were both on the president's economic Policy Advisory Board called prefab. There were eleven of us on that, and Milton Friedman and I agreed on almost all issues, but there are a couple of things we didn't.

We had Paul Volcker as head of the Fed.

During the 1980 to 1988 period, the money supply grew really rapidly. The reason it grew rapidly was not because they printed too much money is because the demand for money

increased dramatically. Interest rates came down, the economy boomed. The demand for money pulled the money supply out, not the other way around, and so we had falling inflation, strong dollar and lots of money coming into circulation, Milton and I had many discussions with the President on this, always on the opposite side, but the President fortunately came in with us. I'm just joking, but you know you really want **sound money** and sound money is its value, not its quality. If you made a good money won't people hold more of it? Will they? If you, if you guaranteed the value of the dollar? People all over the world would hold that money. Interest rates would fall sharply. There'd be no inflation. That's exactly what you want out of monetary policy, and that's exactly what we brought you with Ronald Reagan. We cut tax rates dramatically. We created the biggest boom, from January 1st, not just think of this January 1st, 1983, when the tax cuts took effect to June 30th, 1984. How many months is that? Is that 18 months? 18 months. A year and half during that year and a half period the US economy grew by 12%. That's at an 8% per annum compound rate, we grew at Chinese growth rates. Because of tax cuts and sound money and deregulation. You can do the same thing here, you really can, you can do even more, you start off at a lower base it's much easier to grow from one than it is from 1000. Right, you've really got the chance and you know the esoteric ones are putting a person name in. I mean, when we did the 13% flat tax for Putin, it worked just as well as it would have worked for Jerry Brown It doesn't care if you're a communist or capitalist. If you're old or young, male or female, brown or white, it doesn't matter. If you have a low rate, broad based flat tax it works and the revenues pouring. Just the way they did there. That's why economics is math. It's not touchy feely. Types of sociology. It's math. You want people to work, make work profitable. You want people to sit home and not work. Make non-work profitable. Give double unemployment benefits. You'll get everyone not working.

Last one word I'll do.

Question: It's an honor to be here to hear you speak. I've been hearing about you since my LLC days. So welcome to Pakistan. I wanted to ask you I'm a baby of the Thatcher era and I fully believe in everything she said, which obviously generated from yourself, in the country like Pakistan though following and implementing your first pillar of tax, which is the broadest based possible and the lowest number. How do we implement that in a very poor country where the vast majority of your population is extremely poor? So the suggestion that you should do a flat rate, for example of 13% across the broad base, how do you implement that in a poor country?

Dr. Laffer: Let me ask you how many of the poor people are hired by poor people? Basically the people who do the hiring in Pakistan are rich people. Aren't they? They are businesses. I mean, so what you want to do is create the jobs. What you want to do is make it profitable for business people tired, poor Pakistani so they get jobs and get income. And you gotta start with lowering the top rates all the way down, getting rid of the complications and all this stuff. You know you get pay or what? Let's do a 13% yeah, pay your 13% and go about your business. When your tax rates are 50%. You spend 50% of your time trying to figure out how to get around the taxes. And 50% of your time trying to do your business. When you drop the rates to 10%, you spend 10% of your time trying to figure out your taxes and 90% of your time trying to do your business. What you want business people to do is worry about business, not about taxes. So you want a lower broad based flat tax so they don't need to hire lawyers and accountants and you know all these silly people who've done nothing but waste money.

Question: Is that because you're referring just to corporate tax?

Dr. Laffer: There, but what about drug about corporate and personal?

Question: What about income tax?

Dr. Laffer: I got flat tax and income tax. Everyone pays 10% of their income, right?

Question: So then how do you apply that to the poor people?

Dr. Laffer: They do just the way you do it to everyone else if they makes \$100 you'll pay your \$10. But you know everyone should pay their taxes. Fair and square. Everyone should have a stake in the country. You sure did. If you make \$10 in the tax rates, 10%, you owe the government \$1. If you make \$10 million and you paid 10% Umm. 10,000 every time I go to bathroom. But yeah, I mean everyone pays the same, right? It's all fair, now you chase him down and kick him if they don't know. Of course you don't do that. But you have everyone pay the same tax. It's your responsibility for being a Pakistani. Its fare, isn't it? If you make 10 times as much as I do, shouldn't you pay 10 times as much in taxes? I mean, isn't that fair? Sounds fair to me. I don't know any other way of talking about fair. Everyone pays their fair share. The rich people believe that 10% or 15% is fair? And 90% - It's not fair? They're stealing my money. And then they become the enemies. And you don't want the rich people to be your enemies. You want the rich people to love Pakistan and employ people and make better products. And we want the poor people to be able to get their first job, save a little bit so they make a little bit and they become rich too. It's all together and I just don't know how to tell you, you're on the same tub you're not the enemy of them and they're not the enemy of you, you know you're all Pakistanis and you want this country to prosper.

Question: My name is Zeeshan. I'm a tax lawyer. I happen to be the President of Karachi Tax Bar Association, I'm leading that institution for now. So I totally agree with you I just said that the higher the tax rate, the more the evasion, more the avoidance. The challenge, unfortunately, is that we have a 17% of VAT, which is sales tax and then 30% out of income tax. So the tax rates goes up to around 45, 47% and which gives you a lot of chance to tinker around. The challenge is that I was representing FPCI during the year 2014 and we were trying to make government understand that the lower the tax rate will bring you more and more taxes. There was this debate where they were collecting a 17%

sales tax and they were getting the net amount of less than 3% and we suggested to them that you bring it to 5% flat with no adjustment and no refinement, so that would give you more and more revenue and it would be a hell of a political slogan that they will be bringing the tax rate from 17 to 5. They didn't listen and we are still suffering. So the question is that the country like Pakistan where the tax base is very low, we intend to rely on the withholding taxes, which is indirect taxes.

How do you get away from that so that people will pay the taxes actually with which they owe? The challenge would be then again to reduce the tax rates and nothing than that, and then the cash economy and everything. I think the challenge lies whether we are sincere with ourselves or not first, and then you need to make the tax laws easy. You don't make the tax laws that difficult that we get money. You need to make the tax laws in such a way that our common person can understand the law and then file his or taxes and it should be efficiently filed. And then the system does not dodge you at present. The system which we filed through is called IRIS. Trust me. If anybody in this room can file his or own tax return by themselves. It's virtually impossible. I mean, I'm sorry. It will take you at least, 2 hours. I mean, if you have all the numbers with you. It will take at least two hours to file your own personal tax return. The solution lies in the lower tax rates and that easy tax code.

Question: I'm Talha, Professor SBP Bahauddin Zakarya University Multan. To me I think Laffer Curve idea was remarkable, which was given by you. But can I ask about the empirical evidence of Laffer Curve in the developing countries? What should developing countries do?

Dr. Laffer: Let me tell you, I'll take you the biggest empirical evidence that I just finished the book as I mentioned, "Taxes Have Consequences" If you look at the relationship every single time they raise tax rates on the rich, two things happened. The rich got lower incomes. And the incomes they did have they sheltered and tax revenues went down.

Every single time they lowered tax rates, the rich made more money and the money they did make, they sheltered less and tax revenues went up for 113 years every single year. It moved perfectly In Sync. Second thing that happen. Every time they raise tax rates in the economy, the economy went into the hole, this is the Smoot Hawley tariff in 1929 and the raising of the rate in 32 from 25 to 63%. Then in 1937 they raised it from 65 to 79%. And then between 1937 which was the 2nd dip in the Great Depression, they went to 1945 where the rate was 94%. You got to keep six cents out of every dollar you earned. Guess what people did. They hired lawyers. They got around it, all right? Then we had a big tax cut and dry after proposed World War Two. From 94% down to 82%. All right? The economy boomed. It's like you've never seen revenues went through the ceiling and then of course they raised the tax rates back up to 91.5 %. We had three recessions, bad economy, terrible and then John F Kennedy took over. He cut the highest rate from 91% to 70%, cut the lowest rate from 20% to 14%. You put in the investment tax credit accelerated depreciation, cut government spending, huge boom in the economy was called the 'Go Go 60s' and we ran surpluses. Then we got the four Stages that I've mentioned to you: Johnson, Nixon, Ford, and Carter.

They raise taxes throughout the whole period. They lowered threshold, so everyone hit the top bracket right away. The economy we did badly, I mean. Very badly, 16 years of hell. And then all of a sudden we had Ronald Reagan popping and then we had George Bush, who he didn't do very well. But then Bill Clinton did a great job. Bill Clinton cut taxes like you wouldn't believe. He cut government spending. The economy boomed under, I voted for Bill Clinton twice, by the way, I've worked for Democrats more than I have for Republicans. Just for the record. So therefore it boomed. And then we got W and Obama. The Bobbsey twins did about as badly as you could do it, possibly. And then we got Donald Trump, which if you notice the economy we took off under Donald Trump, did really well, the budget I paid for the tax cut paid for itself and in gold. And then we got Joe Biden and it looks like the floor has been pulled out.

There's no depth to which we won't sync on all the history there. The last one is the poor did very poorly when you raise taxes on the rich and the revenues went down. OK, and that's the year. I could do every state in the nation, my book, "The Nature and Causes of the Wealth of States" If any of you want to get it, it's a huge volume of 50 states for 100 years in the example; which states you do well? Those have no income tax. I mean, you know what happened to the 11 states that adopted the income tax? Well, they went straight down to the bottom of the heap and they were the famous ones now, New Jersey, Connecticut, Pennsylvania, Ohio, Michigan, Indiana, Illinois. Those are the states that put in the income tax. Look at how horrible they've done. I mean, the evidence is just overwhelming.

Question: OK, I'm Mueen Batlay, I'm director of the Business School of Hamdard University. It's been fascinating listening to Professor Laffer, so I do get that link that you know if you lower taxes and you have uniform taxes over a broader base then you raise tax revenues. But, what troubles me is inequality. And I think this has been documented. The inequality has worsened during many of these periods, so you know. When it was mentioned about, you know, rising tide raises all boats. Then of course you have **trickle-down economics**. You know that's another phrase, so that's the worry that you know, the theory is that everybody will benefit, but then if you look at and this is even in the US. The little that I know I've read about it. A lot of people, they are struggling and you know their lives haven't improved, so how does one tackle this?

Dr. Laffer: I'm glad you asked. I'm glad you asked that because I'd hoped in my talk that my different parts would come together. When you do the theorem and redistribution, you can come to perfect income equality at 0. What we have found is when we have had more equal income in the United States is because you've made the rich, poor, faster than you've made the poor poorer. All of them going right down to 0. And that's what's happened with inequality. Inequality diminished dramatically during the Great Depression

during World War Two. Everyone got poor, it's just the poor got poorer, a little slower than the rich got poor, and that's not what I want to see. The dream has never been equality. **The dream has always been to make the poor richer.** It's not to make the poor equally poor. OK, it's not! The dream is there's nothing wrong with inequality as long as the poor has the chance of becoming richer and have better standard of living. My view of the world. I do not like Ethiopia. I don't want my country to become Ethiopia where everyone is equally poor and diseased and died. That's not what I want as equality. Alright? And I went to the theorem there on redistribution with you. I went to the pillowcase over Bernie Sanders to show you that the Socialists, even they respond to incentives, believe me when I tell you the rich in Russia do very well, the government officials. Believe me they do not live in poverty in China. You know communist governments have inequality of income, like everywhere Kim Jong-un his people even though they're equally poor really in bad shape. To my way of thinking, the dream has to be to make the poor, richer. And what you find is when you tax and make enemies of the rich, the poor really suffer. Now the rich suffer too. Don't get me wrong, if you hate rich people you would love Biden, you would love Roosevelt. You would love World War Two. But I don't. I think rich people are wonderful. I just wish I were one. And when you look at rich people that I mean, what's wrong with Bill Gates? Nothing! What does he brought to America? Even George Soros, as awful as he is personally, he's done a great job in business. And look at Elon Musk. Do you like these things you like these product? The only thing that makes America different from the rest of the world is our richest little group. Look at all the developments they've brought to this world of ours. You want to kill them all. Is that what you're after? If you hate the rich, you don't want a low rate, broad based flat tax. You don't want sound money, you don't want spending restraint. You don't want minimal regulations and you don't want free trade. Do you want Mark you want Russian policies? You want Chinese policies? That's what you want. And I'm sorry I'm just not in that category. I love it when these people develop new technologies that make all of us richer. I mean, I love it and. I love rich people. And poor people I want to love more by making them rich. You know

these politicians who profess to love the poor. You've heard them "well, well, well, well, well, well. I love the poor woman member" They love the poor so much. That they want to make everyone poor. That's not what I want. And if you want that you've got the wrong speaker today. My dream is to make everyone is my dream is that I tried to get this correctly for Pakistan but let me just say it for Pakistan. **You know, Pakistan should be. What it could be?** What could you when, If I were Bobby Kennedy today and waking up and I see what's going on in Pakistan today and I ask why? And I imagine what who could happen to in Pakistan. I ask, why not? Why not the best for you? Why not prosperity for all your kids and your grandkids, what's what's wrong with that?

You think Paul Krugman can give you that? Do you think Janet Yellen can? Georgie Akerlof he was my classmate at Yale. They were all my classmates. They're all espoused, they've never worked in an area where they've gotten paid. No college professor knows their customer. They get paid by making stupid ideas that everyone clamors over and they all fail and they get promoted. And they're protected by being in tax exempt organizations. In the US, universities are tax exempt. These guys have no, they got tenured, their tax exempt. They get fixed pay, which is huge. And they tell you how you should run the country. And you listen to them. And you follow them and you go, yes, he's a professor. Come on! Please help me on this. You, you've got to break free of it. No university should be tax exempt. It shouldn't be. There's no reason for it. They charge enough tuition, believe me. They shouldn't be, and the professor should be made to produce something good. Yeah, I don't know.

I'm sorry I'm maybe reflecting a little bit on my personal but these people have never worked in the capitalist system in their lives and they lecture you on it. How can that happen? And here you've got some IRS people, people who know taxes. You know what I'm talking about? Bill, can I do one last one and then quit? You know, Warren Buffet, that Frenchman living in Omaha? Warren Buffett. Let me give you his one story and I'm just going to tell you the story. It's true and he thank God he displays his tax return. Warren Buffett in 2011, wrote a letter to the New York Times. He said in the letter that "I pay, I

pay, I forget what he said. \$6.8 million in taxes. Which sounds like a lot of money. Alright, but it is a share of my income. It's a much smaller share of my income than anyone else in my office. I pay less in taxes as a share of my income than anyone else in my office". There are 22 people in his office and he said "my share of taxes of my income is 17.4%".

Now I'm a math whiz, so you ready for this? I took his tax bill, which was 6.95 whatever it was and I divided it by 0.174. And I got his taxable income as being a little less than \$40 million. You with me? That's a lot of money. But then I know that he gives a lot of money away and he's able to deduct from his adjusted gross income, 30% of his adjusted gross income he can deduct, so I was able to divide that by 0.7 to 40 million and I got his adjusted gross income came out to 62 million. That's a lot of money. OK you with me. Y'all follow me here. This is a true story and I wrote in the Wall Street Journal so you can go back and get it anytime you want to. I said 62 millions of dollars, a lot of dollars. But then I said, what is income? Now I'm an economist. I'm a boring, dull University of Chicago economist and we have a very clear definition for what income is, not what the lawyers think. It's not what the IRS thinks. This is what income is. Income is what you spend in a year. What you give away in a year? And the increase in your wealth during that year. Think about it for a little bit what you spend. What you give away? And the increase in your wealth. So I went back to Warren Buffett's 2010 year. Now Warren Buffett is noted for being frugal. He doesn't spend any. He's a miser! Alright. He drives a 10 year old car. It has a broken window and he eats hamburgers at lunch. After McDonald's, he stays at home. He doesn't travel, he doesn't like French wines, or any that doesn't have girlfriends or any of that stuff, so I'm going to assume, that his spending was zero. It was more than that, but it's really low. OK, then I took a Warren Buffett what he gave away. Now what I did was I went to the Bill and Melinda Gates Foundation website where they report these numbers and in that year 2010, he gave away 1.75 billion to the Bill and Melinda Gates Foundation. OK, he did, now interesting, what he said in the conditions. He said the Bill and Melinda have to operate the fund. Number 2, they have to spend the money within three years, and if the tax loss changes, I want my money back right away. That was in

his conditions on the gift, all right. So he gave 1.75 to Bill and Melinda Gates Foundation. And then he has two sons who also have 501 C (3) He gave a lot of money to them, but they don't have public. He has a daughter he gave to her 501 C (3) 2 lots of money there. His wife has a separate 501 C3 He gave to her foundation as well, so I rounded the number up. I think it's a lot more than this, but I rounded it up to 2 billion. So he gave away 2 billion that year. He spent nothing, gave away 2 billion right? I then went back to Forbes magazine. And I looked at the value of his wealth. Now fortunately, with Bill with Warren Buffett, he owns one thing. You know that Berkshire Hathaway stock, which by the way is an insurance company, is a tax shelter puppy. You know all of that all right. And I looked at Berkshire Hathaway, had the value of his assets at the beginning of the year. And the value of his assets at the end of the year and during the year 2010 his wealth went up from 40 billion in Berkshire Hathaway stock to 50 billion. So when I looked at his wealth, his wealth was no spending. He gave away 2 billion and his wealth went up by 10 billion. My way of thinking his income that year was \$12 billion and he paid \$6.9 million in taxes. Which put his tax bill at something like 0.003% of his income. All perfectly legally, all perfectly fine. I thank God that Warren Buffett had the decency to report these numbers.

Now what do you think would happen to Warren Buffett if I reduced his tax rate to 13%? And he had to pay it on his total income. Yeah, he'd take 1.3 and he'd make 12. No, he'd make a lot more than 12. He'd be out hustling. You know the thing is that how do you get Warren Buffett to pay? He's listed as the 47,000 richest. Excuse me, highest income men in America. You know he's number one. Right? And all the others you look at all the people in the Fortune 500 are the richest profit and they all do the same thing. What you want to do is get them not to worry about hiding their income. You want them to get the worry about paying taxes and getting on with making more. Yeah, that's exactly what will happen here and the charities he's doing. What are the charities he's doing? Is it his son running the charity? Oh well, that's probably the sun was hired on a big search of all the competent people to run a charity, and it just so happened that the charity found that was

the best was his sons. Oh, and the other one was his sons to oh and the other one was his daughters and the other one was his wife. Of course they all got sinecures for the rest of their lives at their tax deductible. And he went from 62 million in adjusted gross income to 40 million in taxable income to 6.9 million in taxes. And then, he says, raise taxes. He wants the government to raise taxes on everything he doesn't pay taxes on. That's the truth. But that's the truth of all of them. If they have a low rate flat tax, they won't worry about this junk, they'll just pay their taxes and get on with their business. And create prosperity for Pakistan and allow all those babies that were born last year to have hope. Because if you don't do it who will? I'm through election.

Thanks!