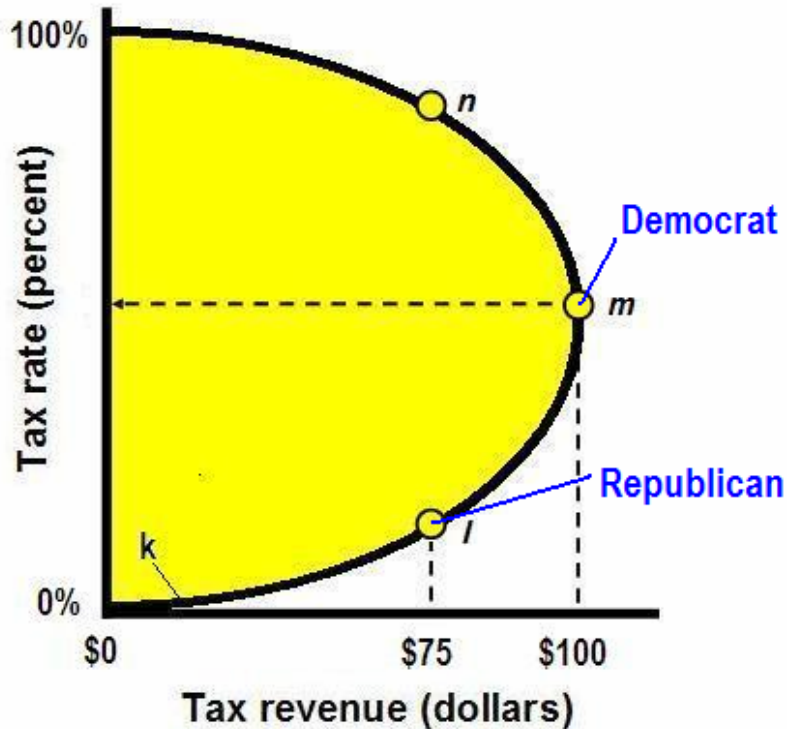


The Difference Between Republicans and Democrats As Illustrated by the Laffer Curve and Rahn Curve

The Laffer Curve
Relationship Between Tax Rate and Tax Revenue



The Laffer Curve (LC)- shows relationship between overall tax rate and tax revenues

Logic of the LC:

At 100% tax rate, there is no business activity, tax revenue is \$0, and no public (government) services can be provided

At 0% tax rate there is maximized business activity, tax revenue is \$0, and no public services can be provided

Therefore, at some *m* tax rate between 0% and 100%, tax revenues are maximized at \$100

In general:

Democrats (socialists) want to be at point *m*

maximized tax revenues

maximized government size,

maximum public services provided

government-decided “fair” optimum economy size

Republicans (capitalists) want to be at some point *l* or even *k*

minimized tax revenues

minimized government size

minimum public services provided

market-decided “free” maximum economy size

So the Democrat-Republican debate becomes, do we want:

maximum government size, point *m*, with larger amount of public services, or maximum economy size, point *l*, with smaller amount of public services

Both Democrats and Republicans want to avoid any point *n* above and left of point *m*

Note that the above is in static, current, terms

At current point *m*:

current tax revenues and public services are maximized

economic growth is smaller

LC slowly shifts right

future tax revenues and public services are minimized

At current point *l*:

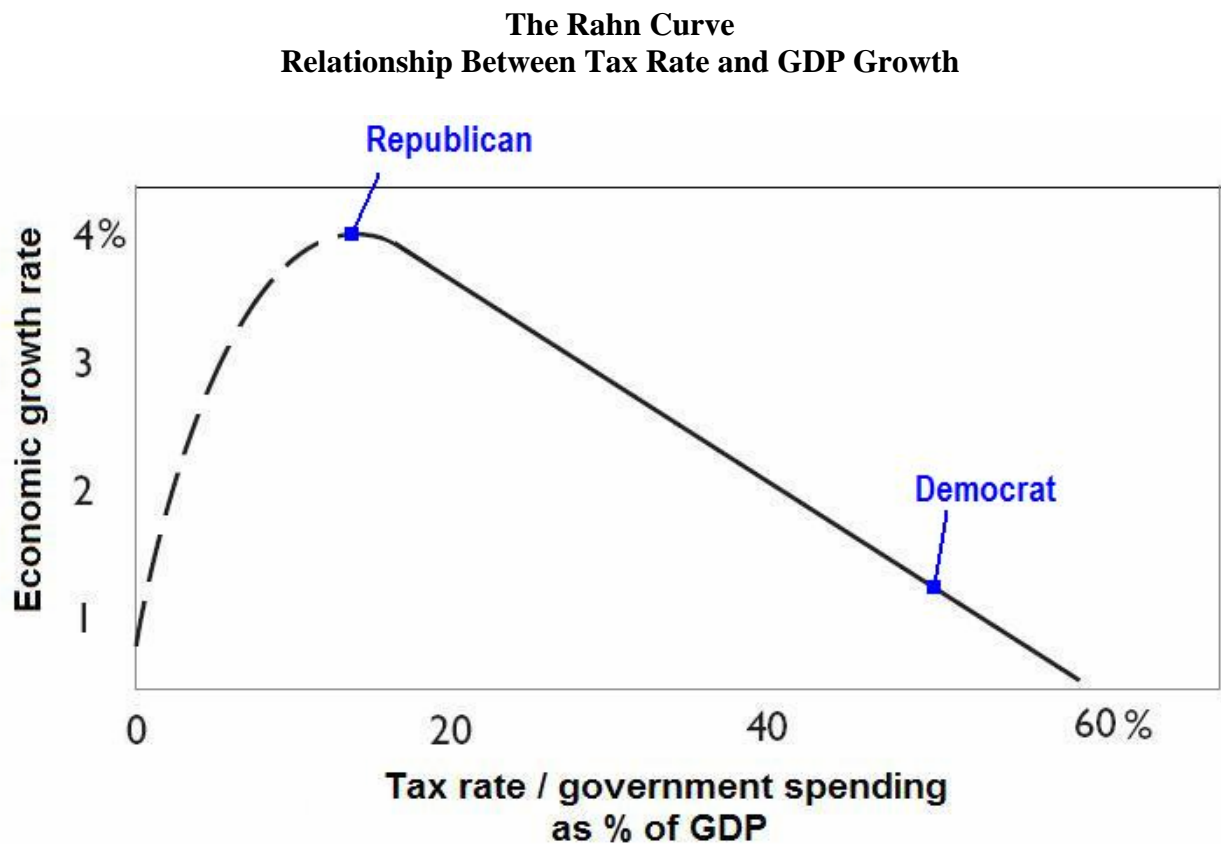
current tax revenues and public services are minimized

economic growth is larger

LC rapidly shifts right

future tax revenues and public services are maximized

Note that zero taxes/ government spending actually would result in almost zero GDP growth, as illustrated by the Rahn Curve:



Logic of the Rahn Curve: if there is zero taxes/ government spending all public services including the following would cease:

monetary system

infrastructure (e.g. roads) development and maintenance

contract enforcement

protection against fraud

protection against monopolies and mafias

property rights protection

protection against crime in general

rule of law in general

Therefore not only would GDP growth become almost zero, but almost all economic activity would cease, except for some subsistence barter

This Rahn Curve example shows a 15% overall tax/ spend rate that yields a maximum 4% GDP growth rate, which is about point *l* on the above Laffer Curve example