

JACK KEMP
ORAL HISTORY PROJECT

Interview with
Dr. ARTHUR LAFFER

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Interviewer
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Jack Kemp Foundation
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Kondracke: This is a Jack Kemp Oral History Project interview with Dr. Arthur Laffer. It's taking place on June 14, 2011 in Nashville, Tennessee, and I'm Morton Kondracke.

Dr. Laffer, when you think about Jack Kemp, what immediately comes to mind?

Laffer: Just a great person, a fun person, a football player, even though I'm not a fan of football. I just think of a great friend.

Kondracke: So where do you think he fits in history, in the history of the last thirty years?

Laffer: I think he was very essential for getting the tax bills through. I mean, we think of Jack Kemp in the tax context, and I think he was essential in getting that through and getting [Ronald] Reagan's tax cuts into place.

Kondracke: One of the obituaries of Jack Kemp said that he was perhaps the most influential politician of the twentieth century who was not president. Do you think he comes anywhere near that?

Laffer: He was very influential. I don't know if he was most. That really ranks him relative to all the other people, you know, Douglas MacArthur, I don't know, there a few others that you might want to put in there, Bob Taft and a few others. But Jack was really influential. Let's put it that way.

Kondracke: When did you first hear about him?

Laffer: Jude Wanniski told me about this freshman congressman coming from Buffalo who was a football player, and that he was open to our ideas, to growth, and was very pro-growth, and I've got to get there and meet him and talk to him. He's fallen under the sway of Norman Ture and Steve Entin and Craig Roberts. Maybe not Craig at the time, but whatever. We had to get together with him and get him to the pro-growth policies, not that he wasn't pro-growth; he was.

Kondracke: Jude supposedly met him in 1976. They had that day-long session. Jude came down to see him and started out at breakfast, and it apparently ended up late in the night. So was it 1976?

Laffer: Oh, it had to be much earlier than that. What was Jack's first year, '72?

Kondracke: Seventy.

Laffer: Okay, it was probably '72. I met Jack with Jude, so Jude knew him long before that day-long session in '76. We spent time. I mean, Jack had this bill which I think was called—and correct me if I'm wrong on this—the Kemp Capital Accumulation Act. It was sort of an old-line right-wing bill which accelerated the depreciation investment tax credits, all of that sort of stuff, and really what we wanted to do was switch it over to a pro-growth policy for all factors. It wasn't really critical that you have investment to get growth. All you need is people working and the process to go on.

So he swung from the Kemp Capital Accumulation Act to the across-the-board tax rate reduction. Jack was wavering on this. He didn't know whether to stay with the one or go with the other. I can remember what I thought was the coup de grace, if you will, of swinging him over, because the [John F.] Kennedy tax cuts which were the 30 percent across-the-board, they weren't exactly 30 percent, by the way, but they were pretty much 30 percent across the board. Jack wasn't sure if he wanted to do that or stay with the other. As you

know, Jack's middle name is France [French], so the way we kidded him was the second JFK. He loved that imagery.

Jack was a very multifaceted person. He was smarter than hell, and he really was smart and very analytic. He loved that sort of stuff, but he also was very social. He was very symbolic, as well. So he loved the JFK image. [laughs]

Kondracke: Do you remember the circumstances when you put the JFK comparison to him?

Laffer: I remember being in his office, but I could well be wrong. You're a young man, Morton, but as an old man, I sometimes misremember things. But I remember being in his office and talking about JFK, too, and that he liked that image a lot. But Jack Kennedy was bigger than life, as you know, for everyone back then. I mean, he was truly a national hero, and the pro-growth policies of Kennedy were legend.

Jack wanted to have those same types of—and Jack and me, too, were never Republicans or Democrats, liberals or conservatives, left wingers or right wingers. It's always the economics that mattered, and when you think across-the-board tax rate reductions, what it does

is it really gives increased incentives for labor, for capital, for land, for all the resources in the system, not just the investment.

Now, you may like investment more than you like workers, but the key here is to get people working, and when you cut tax rates across the board, you cut them on capital and you cut them on labor, you cut them on all factors of production, which is far preferable, to me, than the investment tax credit accelerated depreciation. Those things are sort of hokey to me, and they really distort the production process.

Kondracke: How often would you say you talked to him over the years?

Laffer: Oh, gosh, in those days I was in Washington probably once a week. We had that little One Washington Circle, I think it was called. Worked in my hotel room or Jude's. We had the group meeting every weekend. It was all the time. I mean literally for years we had those for three or four years, five years.

Kondracke: So who all was there every weekend?

Laffer: Well, we had guests who came in from time to time, but Jack, Jude, and I were always there, but Richard Rahn, Craig Roberts sometimes. There were a bunch of other people there.

Kondracke: Every weekend, what time of day?

Laffer: I don't know if it was every weekend, maybe weekday, but it was afternoon. I like to think it was a football game type of scenario on Sundays, but, gosh, I'd have to go back to my records and check when we had the reservations there. I could do that. But it was all the time.

Kondracke: And phone calls?

Laffer: Well, I talked to Jude probably three, four times a day, and Jude talked to Jack a lot. I'm not one to talk a lot to people, but Jude talked to Jack all the time.

Kondracke: I never knew Jude, unfortunately, so tell me about Jude Wanniski.

Laffer: Very unusual person. Highly energized. Truly a revolutionary in the type of sense that I usually don't like. This guy's shaking the tub all the time, getting everything going, often in an aggressive, hostile fashion, although that progressively got worse and worse over the years. But Jude really wanted to foment a revolution. He just needed the model, and that's where I came in.

I was at the OMB [Office of Management and Budget]. I was the first chief economist there in 1970 to '72, and I had a huge raspberry. I don't know if you've heard about it with the 1065 GNP forecast back then. Oh, my god, they pinned it on me, and I was on the cover of magazines. They made me look pretty silly. Jude then befriended me. I wasn't allowed to speak to the press. [laughs] Well, just fun stories, but I wasn't allowed to speak—

Kondracke: Who got mad at you?

Laffer: The 1065 was ridiculed by the profession, and it was pinned on me that I'd done the 1065 forecast, which, by the way, I didn't.

Kondracke: What is a 1065?

Laffer: The GNP forecast for 1971 or maybe '72, and that I was the chief economist for the OMB. George Shultz had gotten it, and Herb Stein was furious because I'd stolen his model and his number. I wanted to give it back to him as badly as I could. [laughs]

So I guess there was one time, I can't remember who it was, I could find it out, but a reporter asked me my boss, what's he like. George Shultz is a really smart and wonderful man, professor at the University of Chicago, he brought me here and all that sort of stuff. "What do you do at the OMB?"

I said, "What I really do, I'm the chief economist there, and what I do is I try to coordinate and get the economics through." Because the OMB is the central nervous system for the thing. We'd run seminars every week and we'd go through all the numbers and all the stuff. A lot of professors and a lot of Ph.D.'s in there and all-but-dissertation people, as well. So we sit down, and he said, "Well, you've done this model, Dr. Laffer."

I said, "Well, yeah, I did. It's a small model. I made it simple so these people could understand.

Next day, "George Shultz is a very smart man, and I made the model for him because I made it simple enough so even he could understand." Well, you can imagine. It was [Peter] Slevin. Do you

remember the guy Slevin? Well, he was a reporter for the *Washington Post*.

The lid was put on me. I wasn't allowed to talk to the press, and for good reason. Then this reporter kept calling me and calling me and calling me, and I'd never answer.

Finally, one day he was in my office there. This was Jude Wanniski. Then we became friends. He swore he'd never do it. He was with the *National Observer*, and he did the paper on trade. He mentioned, "You promised you wouldn't." But then I looked at it. It was nice references. We became very close. Then Jack came into that group then.

Kondracke: What was Jude and Jack's relationship like? Was it father and son?

Laffer: Oh, no, no, no, no. It was really the revolutionary with the in-place politician, the person in position. Jude wanted Jack to mouth his positions. Jude wanted Jack to be "the weapon," he called it. Jude had all these ideas from me and from all of this stuff, but this was Jude, and he tried to use Jack and have Jack be the weapon to take these ideas into Congress because he had the position to be able to do it. He did a very good job of it, by the way. Jack and Jude together

were deadly. They fought all the time too. I mean, they got really hostile with each other.

Kondracke: What did they fight about?

Laffer: Wedding invitations, an insulting word. "You didn't say the right phrase." "Why didn't you mention—?" [laughs] It was sort of like schoolgirls. "I don't like your dress." They really fought over very silly stuff, I thought.

Kondracke: What about Robert Mundell? Was he in your group?

Laffer: He wasn't involved in any of this then, no. There was no Mundell. Mundell was my very close mentor at the University of Chicago, phenomenal economist and the person I'd worked with when I left Chicago and joined the OMB. I think Mundell had one meeting with George Shultz. Bob isn't the same type of person as that, and it wasn't until much later, I think '74 or something like that, before Mundell really came into the scene with [Robert Leroy] Bob Bartley.

Kondracke: But Jude Wanniski referred to the whole supply-side idea as the Laffer-Mundell Hypothesis.

Laffer: Oh, yes. Bob Mundell was critical to the hypothesis. I thought you were talking about him personally.

Kondracke: I was.

Laffer: His ideas were there all the time. I brought all the ideas of Mundell in those conversations, etc., but Bob Mundell personally didn't join until much later.

Kondracke: What part of the supply-side formula is Mundell and what part is Laffer?

Laffer: Seeing that he's my mentor, who knows? Bob Mundell is great at international trade, wonderful. I had never met him. The reason I joined the faculty at Chicago was because I wanted to be with Mundell. So he had done a piece on growth and the balance of payments that I just loved, and I came there. I did the anti-traditional theory of growth and the balance of payments, which was very similar to Mundell. He headed the trade workshop. I joined the faculty at the University of Chicago in, I think it was, gosh, 1967, just to be with Mundell.

Now, I took my first year as a year's leave of absence at Brookings [Institution], and then I came back to Chicago, where I'd never been before. But all of that was done to be with Mundell. I just think he's the world's best economist. The tax rate reductions that are so important to this, Mundell does have a Keynesian tilt to him. He doesn't believe, as I do, that government spending hurts the economy. He doesn't believe that.

For example, right now he really likes QE2 [quantitative easing by the Federal Reserve] because he says that if it doesn't happen and if they stop buying those bonds, the bond prices would fall, interest rates would go up. That would attract capital from abroad. The dollar would appreciate, commodity prices would fall, and we'd have a double-dip recession, depression and deflation. If you've gone through Mundell's, it's a different model, a different way than I would do it, although it's clearly logically correct. I'm much more along the [James] MacKinnon line that the expansion of the monetary base is really global inflation coming, and we're having sort of the 1970s all over again. But they're all driven from the same model, just different ways of looking at the consequences.

Kondracke: But the idea of cutting taxes across the board, especially for individual taxes, is that Laffer or is that Mundell?

Laffer: That's Kennedy. That really is Kennedy. The tax rate reductions Mundell has always been in favor of. So have I. Mundell's much older, so he's got it clearly way ahead of me. But the actual plan was the Kennedy plan, and that was done for specific reasons. You can do all the quotes out of Kennedy. I got a whole list of fifty things that Jack used all the time. I had all the Kennedy quotes that he did for all of his taxes. I brought those in. They fit perfectly. If you didn't map it along Kennedy, it would be very hard to use those quotes.

In fact, you may remember how Walter Heller went at us, "Oh yes, Kennedy said that, that's true, but this is different. Back then, then it would work, but now it won't." All that garbage. That's why we tried to keep it as close to that line to make sure that they had a very hard time pulling us away from Kennedy. That's why I thought it was so cool that it is JFK2. I mean it really is. It really is cool.

Kondracke: So which of you economists first came up with the idea of matching Kennedy?

Laffer: I think that was my idea. I mean, I've been a Kennedy person forever. I don't know if it was or not. We did across-the-board tax

cuts which were the Kennedy tax cuts. I've always loved those, and I think it was I who brought that in in that little circle there. Now, obviously it was Walter [W.] Heller and lots of others who did Kennedy stuff, so that was long before my day.

The one difference I would guess with Mundell, and let me just do it, is does government spending create jobs and output and employment or doesn't it? I had a conversation with Austan [D.] Goolsbee. He called a few months ago and we were talking about this. Let me just put it this way, Morton. It's so hard to see this in a 325-million-person economy with credit default swaps and monetary base and money multipliers and philosophy and Chinese capital. You get so dizzy. You try to do your T-accounts, but you can't keep them straight. So the way I always like to think of these things is if it's good economics, it works in a two-person world just as well as in a 325-million-person world. You with me on that?

Now, imagine you have a two-person world, two farms. That's the whole world. There's nothing else except those two farms. If one of those farmers gets unemployment benefits, who do you think pays for them? I'm not going over your head on this one, am I?

[Kondracke laughs.] Just teasing you. Government spending is taxation, and cutting government spending is cutting taxes and will

increase output, employment, and production. It's the exact antithesis of what the Keynesians believe.

Now, Bob Mundell would not agree with me on that statement. There I'm much more Milton Friedman, although Milton Friedman found tax rate reductions without spending reductions irritating to him. But let me just say it. There are three things that matter: how much you spend and how much you tax. The level of government really is important. How you spend what you spend. If you use the monies to create highways and production and output and employment into really positive things, it's very different than if you pay people not to work. Very different. So the level of spending and taxes matters, the composition of spending matters, and the composition of taxation matters. What you want to do is have the lowest rate flat tax you possibly can so you distort the decisions as little as possible.

So what Kemp-Roth really was was a way of realigning tax rates without addressing spending directly. So that's where Mundell was really wonderful in this stuff. That's what we did with Kemp-Roth, but it wasn't aimed at cutting spending per se. Now, our arguments were back then that by redirecting the tax codes such that you had more even disincentives or incentives across the board, you'll get an increase in output, employment, and production. That, in turn, will reduce spending because you'll have less welfare, all that stuff. You'll

have more revenues coming in because of economic growth and all that stuff. So that was our real purpose.

It was rarely believed, at least not by me, it was never believed that tax rate reductions by themselves could be looked at as you could in a micro example. Ultimately, government spending is taxation, but what you can do is by rearranging that, you can get more output per unit factor input. Do you follow me on that? So the three things: total spending taxes, how you spend, and how you tax. The last one is what we really focused on in Kemp-Roth was how you do your taxes.

Kondracke: Let me depart from that and go to the famous December 1974 dinner that you had at the Two Continents Hotel with Don Rumsfeld, Dick Cheney, Jude Wanniski. What were you trying to get into their heads?

Laffer: Well, I wasn't. Don and I had dinner probably once a week, just the two of us, and every fourth dinner we invite someone else to join us. We would go over to the—I can't remember the places, all in Georgetown. There was this one place we thought was run by the mafia because no one was ever in there; just the two of us were the only two.

Don had come over from NATO, and [Gerald] Gerry Ford had just taken office. Don used me as a sounding board at that time. So this time we invited Dick, who was his deputy and had been my classmate at Yale [University]. We had Jude come in as well. Do you remember the Whip Inflation Now? This was what it was, the "WIN" buttons and all that. This was the 5 percent across-the-board surcharge. Just in the normal course of our conversation, I didn't think there was anything special on it, I said, "Look it. With a 5 percent tax surcharge you may get 4 percent more revenue, you may get 3 percent more, you may even lose revenues, but I'll guarantee you you won't get 5 percent more in revenues as you're estimating." Then I did that little curve on the napkin, which I guess is at Hoover [Institution]. I saw it.

Kondracke: Yes. The question here is, you at various times have said that you didn't remember exactly what happened there.

Laffer: You're an old fellow too. Come on. It wasn't a significant event for me. Doing the curve on a piece of paper was just straightforward, just like you and I talking. Will I remember this conversation two years from now in detail? No. And I didn't

remember it in detail back then either. It wasn't like, oh my god, I just did something brilliant. [laughs]

Kondracke: What happened to the napkin?

Laffer: I guess Jude picked it up. I'd written it to Don from me because I signed it, and I guess Jude picked it up. When Jude passed away, he gave it to the Hoover, and it's out there now because I saw a picture of it. I haven't seen it, but it's exactly my writing. It's just the way I do it.

But do you see what I'm talking about on that? That was just a way of illustrating how raising tax rates, you won't get the full amount in revenues. You might get more revenues; you might not. It depends on where on that curve you are, and that's what I did. Morton, it's what I always did with my students.

Kondracke: So there was no agenda. You weren't trying to get the Ford administration to do something or other.

Laffer: No. I was a consultant to Don and to Dick throughout these years when he was chief of staff. In fact, some funny stories on that

someday you might—when '76 came around, I went up to them and told them I had to quit.

They said, "Why, Art?"

I said, "Well, you know, just honestly, I'm not going to back Ford. I'm going to back Ronald Reagan in the primary, and I just have to quit. I'm sorry, but I just can't go along."

They said, "Well, Art, we never thought your political sense was worth a hill of beans, but we love your economics, so would you please stay on? We'd love to keep you," which was really lovely.

Kondracke: Stay on as what?

Laffer: Just their advisor coming to meet with. I guess I met with Don every week. I had dinner with him. And Dick I met with a lot. Just on these issues. Like that discussion is exactly one of them. Exchange rates, what's happening with inflation, just a sounding board to be there just over dinner, not in a TV studio, not in some sort of place that's recorded. Just a couple old friends sitting there chatting.

Kondracke: Now, I've read that there was something in the way of tax cuts that you were recommending that was rejected by the Treasury Department. Is that correct in this timeframe?

Laffer: Let me count the number of times that's happened.

Kondracke: But that's specifically during Ford, because [William E.] Bill Simon was the Treasury secretary. Bill Simon was a supply-sider or not??

Laffer: Jude loved those labels. Are you a Christian or are you a Jew or are you a Muslim? You've got to be in one, two, three. Bill Simon was an extraordinarily competent man, a very complicated individual as well, and he was not constrained by the hobgoblin of a model like I am. So there would be times that Bill Simon would be wonderful. For example, on government spending I have never seen anyone better than Bill Simon. He's just way up there as great. On taxes he was really good stuff, too, but then he does the fifty-five mile-an-hour stuff. Give me a break. Where does that come from man on the moon? So, very few people really fit. I thought Bill Simon was a fine person. A little scary. He'd fling apples at secretaries. Someday when we talk I'll tell you real stories if you want real stories. [laughs]

Kondracke: So the conversion of Kemp to the John F. Kennedy model occurs in what context again?

Laffer: I think it was '72 or something like that, maybe '73, somewhere in there, in the context of a piece of legislation he's going to propose.

Kondracke: Bruce Bartlett remembers it. Bruce Bartlett was then his chief economic advisor, and in 1977 Bruce remembers that Kemp stuck his head into Bruce's cubbyhole office and said, "Why don't we just duplicate the Kennedy tax cuts."

Laffer: It was much earlier than that. That may have been what Jack said to Bruce at that time, but it was done much earlier.

Kondracke: But wasn't he, at that time, sponsoring and continuing to sponsor the Job Creation Act?

Laffer: I don't remember when the legislation was done, but the stuff we did with him was not the Job Creation Act, and that was much earlier than '76. By '76, the campaign was already well on its way. We had the Kemp bill for how long before the '76 convention? I remember us going to talk to the Reagan people. I mean, that was when [Richard] Schweiker came in and all that stuff. I mean,

goodness gracious, we'd had the Kemp bill for three years before that, two years.

Kondracke: Not Kemp-Roth you hadn't.

Laffer: Roth was really late in the game. We couldn't get Roth for a long, long time.

In fact, just a little story, Mort, if you want a story on Roth. We could not find a Senate co-sponsor. Now, this was all Jude and Jack. I'm not the one who's looking for a Senate co-sponsor. We couldn't find one. Jack was very big in the House and doing all these speeches and everything, but you needed to have a bill, you needed to have a senator in there. Finally [William] Bill Roth agreed on the condition that we phase it in over three years, so it'd be ten, ten, ten. All right? And that's what they presented me with that, would that be okay? Would that still keep the spirit of the bill? And I thought it would, never thinking it had a chance of ever being passed. Now we have a Senate co-sponsor. But Jack had been doing that bill for a lot longer, two years, three years, something like that.

Kondracke: Supposedly Jack Kemp urged Ronald Reagan at the '76 convention to adopt an across-the-board 30 percent tax cut. Do you know anything about that?

Laffer: Sure. I was really involved in it. I was with Reagan.

Kondracke: This is before 1980 now.

Laffer: I know. I know. I was with Reagan in '76, involved there, and Jude was the intermediary talking to [Martin] Marty Anderson. I was involved in that as well, of trying to get that to happen.

There are two versions of this story. There's the Jude version and there's the Marty Anderson version. They're not that far off, but they're far enough off. Marty Anderson believed it was obvious that Reagan wanted to do this, and Jack and Jude did not get that, so they didn't swing their votes for Reagan at that time. I don't remember exactly what the differences were, but I was of the view at that time that Reagan was not willing to put his thumbprint on it and say, "I will support Kemp-Roth," which is what I think Jude really wanted him to say. Therefore, Jack withheld his delegate votes, if I remember correctly, and that's when Reagan went to Schweiker to get him as his running mate, to get the extra ten that he needed to push him over

the edge, and it never happened. But Reagan was never against Kemp-Roth, ever.

Kondracke: Did Kemp put a proposal to Reagan in '76 that if he adopted Kemp-Roth that he would throw New York delegates to—

Laffer: That is what Jude took to Marty Anderson, was that exact phrase. You're going to have to go back to some of the—I don't recall Reagan and Kemp ever meeting one-on-one in that discussion. I can take you back a little earlier on that one-on-one discussion, but—

Kondracke: Go ahead.

Laffer: Well, let me do this one. From the way I remember it was Jude wanted a formal acceptance, and that they weren't going to get, but, "Oh, we love it." It just wasn't precise enough for Jude, and so Jack did not swing the New York delegation to Ronald Reagan, although that's—

Kondracke: Although Kemp, himself, was for Reagan.

Laffer: Of course. We all were. We all were. None of us was a Ford person.

Kondracke: But is that in the Jack Kemp character that he would actually want to do a trade like that?

Laffer: No. That's a Jude character.

Kondracke: Machiavellian.

Laffer: No, that's Jude. [laughs] And when Jude got himself installed as the middleman, Jude ran it for—it's not Machiavellian. Jude is an operative, and Jude was the guy stirring the pot. So when Jude represented Jack, that's what happened. And, by the way, Jude represented Jack a lot, and Jack never denied Jude. Jack would espouse positions that Jude had that I thought were a little way out there.

Kondracke: Like?

Laffer: I can't remember what they were, but there a bunch of them. That Jack would go along with Jude's view of the world even though it

was not central. He and Jude had this relationship, and it was a love-hate. They fought a lot, but they stuck together. The two of them realized the importance of the other to their combined success. And I think they were both correct on that. I mean, I loved the way Jude and Jack worked together. I just loved the sense of all the stuff they did, not that I agreed with everything, but what they did was 98 percent, I thought, was wonderful. Enterprise zones. I wrote enterprise zones in '76, '75, whatever it was, way back when, maybe earlier, even. The across-the-board tax cuts, sound money, gold, all those were mine, Mundell's. They took all of those policies across-the-board and were able to lock them in and put it through. Jude was able to get Jack to operate, and Jack found it very much to his advantage.

Kondracke: Is the channel here you guys are the idea people and Jude is the operative who takes it to Jack, and then works it back, and then takes it from Jack and tries to get it put into effect as through Marty Anderson, for example?

Laffer: Yes. That was one, but there're lots of other ways. In the year '72, when I told you I got together with Jude, and that's when Jude finally—I broke down and I had a meeting with him. Then, oh,

my god, he reported me to the *National Observer*, and I was afraid I was going to get fired and all that stuff.

What I did with Jude is I spent lots and lots of time with Jude going through all the class material that I taught, all the supply-side economics, the two-factor, two-output world model, the whole thing. I mean, literally spent hundreds—I don't know. It'd be much more than a class. So Jude really had all of that material in hand, I mean all the theorems, the incidence and the burden theorems, the revenue stuff, all of that. Jude really did have that.

You go look at the way the world works, and you see that man's mind. And Jude is brilliant and detailed and focused and driven, I mean [non-English phrase] from above. He has this spirit coming out, [demonstrates] to his brain. He didn't stop. He drooled. Every moment of every day was focused on this. He was truly a revolutionary in the way that maybe only someone like [Barack] Obama is. I recognize the same traits in Obama that Jude had.

We'd talk four times a day, five times a day. We'd meet every week for hours, just the two of us going through, "I don't understand." And it wasn't dilettantish like all these other people. Jude wanted the stuff all the way across. What he did on the Great Depression no one else had done. I like to think that that came from me, the original ideas and all that stuff, because no one ever wrote about the tax rate

increases in the Great Depression. I kept telling Jude about that and about the Bank Holiday Act of 1930. None of that stuff was written.

You read the *Monetary History of the United States*, you read any of the stuff that Ben [S.] Bernanke does, they don't know the Great Depression from nothing. They don't understand it at all. The highest rates were raised from 25 to 63 percent on January 1, 1932, then from 63 to 79 percent on January 1, '36, and then on up to 83 percent. Hello. When you go through there and what happened, all of this stuff they've got on the Great Depression and monetary policy is wrong. It really was a Smoot Hawley—I don't know of anyone, Bruce Bartlett especially in his recent thing in this, they don't understand a tariff.

Kondracke: We'll get to that.

Laffer: Okay, but this is the stuff to Jude. Jude had that model in his soul, and I'd like to think that I helped plant that model in his soul. So he could go to these meetings and he could do them. He didn't need to go back and check.

Kondracke: Back to the '76 convention. So as I understand it now, what's happening is that Jude is talking to Marty Anderson and trying

to convince him to convince Reagan to go for an across-the-board tax cut.

Laffer: And Marty thought that Reagan was convinced. I don't know what the specific was that Jude wanted, but, you know, it's like that guy who wants the no tax. You've got to sign it in blood on the back of your hand or something.

Kondracke: Grover Norquist.

Laffer: There was some technical detail that stopped that transaction from actually occurring.

Kondracke: Do you know anything about what Jack and Jude discussed about the delegates?

Laffer: Sure. I was involved in all those discussions. Do remember it's not my turf, so I don't remember a lot of the stuff because it's just not my economics area, but I was involved with the Reagan people in that time with [Jeffrey] Jeff Bell and Marty Anderson and the whole group there, and I'd been with Reagan the whole time during that, as

well as with Jack and Jude. So I was the only one, I think, who was in both camps fully and totally.

Kondracke: So why didn't Reagan do it?

Laffer: I think Reagan thought he did do it. There was something specific about that day. Remember, now, you're in a convention. You've got Marty meeting with Jude with three thousand people around screaming and all that noise and all this stuff. I don't know why that transaction did not close. I believe that Reagan was clear on he supported Kemp-Roth, and I believe Jack was clear that that was all he needed to do to bring the rest of that New York delegation through. I don't know why the transaction didn't actually close.

Kondracke: So, between 1976 and 1980 there are occasions when Reagan said on the radio and other places, favorable things about Kemp-Roth and the idea of across-the-board tax cuts, but there were other occasions when he seemed to be diverting from the supply-side agenda. How do you explain that?

Laffer: He's a human. [laughs] Both of them are human. It's like you asked me is Bill Simon a supply-sider. Well, there're days he was,

days he wasn't, issues he was, issues he wasn't. Reagan is not like I am. He's not running on a model.

Now, I would have lunch with Reagan through the '76 to '80 period at the Beverly Wilshire [Hotel], just the two of us, and he'd bring in transcripts of things with paperclips and go through them with me, just ask me, "What does he mean? How can he say that?" Through that whole period he was going. But Ronald Reagan is not a Ph.D. economist. That's not even fair to say, because most Ph.D. economists don't stay consistent either. Ronald Reagan was very intuitive and very clear on that level. That he would see a different argument from time to time and support it or go against or vice versa shouldn't surprise anyone. I don't know of anyone who's consistent. You want to know the real problem with Reagan?

Kondracke: What?

Laffer: The tax bill. We passed it in 1981. You tell me what that tax bill said, Morton. Did we cut tax rates across the board? No, we did not. In fact, what we did is we extended the brackets out. The highest tax rate in the United States did not go down on earned income. What happened was on unearned income we had the Democrat from Michigan, [William] Brodhead. Brodhead Amendment,

which dropped the 70 to 50, but the 50 wasn't cut. Reagan asked did we promise tax rate reductions or tax reduction. This was after the election in the Oval Office. There were twelve of us in there. He had [Richard] Wirthlin and [Michael] Deaver on both sides of him, and they came to the conclusion that he had never promised tax *rate* reduction. He promised *tax* reduction. And so with that in mind, the biggest disappointment of my life was instead of cutting all the tax rates down, they extended the brackets out to get a 30 percent reduction. You follow me?

Kondracke: I thought they cut the top tax rate from 70 to 50.

Laffer: No, that was the Brodhead Amendment, which eliminated the distinction between earned and unearned income. But the 70 percent did not apply to earned income; never did. All right? It applied only to unearned income. That was eliminated. So the 70 went down to 50, but the highest marginal tax rate on earned income was not changed from [Richard M.] Nixon to 1969, but no one remembers that.

Kondracke: Even by the '81 tax bill?

Laffer: By the '81 tax bill did not lower the 50 percent. The 50 percent rate, the highest marginal earned income tax rate, did not change by the '81 tax bill. Now, by the '86 tax bill it did. There we got it down to 28 percent. Do you see what I'm saying? The distinction. Dropping rates by 30 percent is one thing. Extending brackets out is a different thing, keeping the highest rate still at 50 percent, and that's what happened. I knew we had talked about tax rate reduction, but that's not what Wirthlin and Deaver said in that meeting.

Then he talked about the Brodhead Amendment. He said, "There's this congressman from Michigan, Democrat, a kid from Ohio, boy from Ohio, who has proposed an amendment to our tax bill that would eliminate the distinction between earned and unearned income. I sort of like the idea. What do you guys think?" And we all liked it very much. He said, "Well, then I'm going to go along with it."

And [Charles E.] Charlie Walker said [mimics southern accent], "I can make money on that." You remember Charlie Walker.

Kondracke: This discussion is taking place when?

Laffer: This is 1981. The bill was ready to be sent to the House. We had the co-sponsors. We had a good friend of mine as a co-sponsor

Democrat on the spending bill, a guy named Phil Gramm, who was a professor of economics, and I knew he was a great guy. And then we had [Bob] Latta. That was the spending bill. Then we had another great friend of mine who is also a Ph.D. economist, took [George] Mahon's old seat, a guy named Kent Hance, and he was with [Barber] Conable, and that was the tax rate bill.

So we had two bills, the spending bill and the tax rate bill. The tax rate bill, if I remember correctly, we won in the Senate ninety-one. We got, I think it was eighty-nine votes in the Senate. We swung them all over. But the tax rate bill was not what I believed it was, which would take the 50 percent rate down to 35. That's what it should have been had it been a tax rate reduction. But it wasn't that, Morton, and no one remembers that today. You guys could sit and rewrite history. It wasn't Kemp-Roth. It was not. You follow me on this?

Kondracke: Yes.

Laffer? Has anyone else ever told you that?

Kondracke: No, actually not.

Laffer: I didn't think they would.

Kondracke: I devoutly believed that somehow the '81 tax bill reduced the top rate from 70 to 50.

Laffer: It did, but that's just by an amendment to it. That was not going to happen had it not been for Brodhead. That 70 would have stayed 70 and never been cut. But the 50 did stay 50. It never was cut.

Kondracke: Now, let's go back. We're going back now to the runup to the—

Laffer: Let me just do one last one in here. The 60 percent exclusion, which had been the Steiger-Hansen, if you remember, of '78, that one applied to the 70 percent rate. So with the 60 percent exclusion, what you were taxing was 40 percent at the highest unearned income tax rate, so the capital gains tax rate was 28 percent from '78 to '81.

Once '81 passed, the bill passed, and the 70 dropped to 50, you then had the 28 percent capital gains rate drop to 20 percent. But that's *only* because of Brodhead's amendment, that Reagan said, "I think we

can go along with that.” He would not have cut the capital gains tax rate either, and he didn’t cut the highest rate either.

Kondracke: Let’s go back. We’re running up to the 1980 election, and you and Jude had this plan to make Jack Kemp vice president, right?

Laffer: Jude did.

Kondracke: Okay. Tell me about that.

Laffer: I followed him. This is where Jude is an operative. This is not my turf, Morton. Just so you know, whether Jack was vice president or not, I knew how to do the math and models and the economics.

I had a little dinner party at my house in Palos Verdes, and I don’t remember what year, ’78, probably, maybe ’79, in there, a little dinner party. Jack was coming out to California. My godfather was a man named Justin Dart, who was head of Reagan’s kitchen cabinet, and the love of my life. Two men I’ve loved, my father and Justin Dart, both exact same age, exact same personality, exact same business. We had a little dinner party at my house, which would include the [Holmes] Tuttles, the [John] Scharffenbergers, the Darts,

Jack Kemp, myself, and Ronald Reagan and Nancy. Nancy was there. It had to be about '79.

This was the plan. I had a little guesthouse out in the back, and Jack was going to go out with Reagan, the two of them sit there in the guesthouse. He was just going to say, "Look it, Ron, I just want to tell you I love you dearly. As you know, I was a staffer in your office when you were governor. You're my hero. You're the greatest politician there is. And I've come to the conclusion is that you and I running separately, we'll be able to acquire more delegates than you could alone with my support. And I promise you on the book that when it comes to convention time, I'll throw my delegates to you, and you'll be able to get the nomination in 1980."

Kondracke: With no quid pro quo?

Laffer: No quid pro quo. That was the agenda. "You're my hero. This is not me going against you. This is me working as your partner separately to do this." And it sure made sense to me, it made sense to Jude, and it made sense to Jack. We all talked about it in great detail. Jack agreed, Jude thought it was great, and I had the dinner party all set up.

So I manipulated the thing, and Ron and Jack went down to the guesthouse. They were there for the longest time. I was dying. I've got to find out what happened. They come back and I said, "Jack, how did it go? What happened there?"

He said, "Oh, Art, I pledged my support to him totally and said I'd never run against whatsoever and he's my hero."

"Oh, my god, you just lost the vice presidency. You just lost the vice presidency."

Kondracke: And what did he say?

Laffer: He loved Ronald Reagan. So did I. If I'd been in his shoes, would I have run against Ronald Reagan? I don't think so.

Kondracke: Did he report in detail what happened in the guesthouse?

Laffer: Oh, I think he did. I don't remember it now, but, "I went there and we talked. Oh, my god, he said, 'Jack, you're so important to me. I've got to have your help.'" [laughs] Whatever Reagan could do. Reagan was good at that stuff.

Wonderful, wonderful man, Ronald Reagan. Did you ever get to know him, Morton? He'd be over at the house for dinner, just

wonderful. We'd have those lunches once a month at the Beverly Wilshire. Just terrific. In substance, in humor, in grace, in dignity, just such a fine, fine man. He'd come with those books with all the paperclips on them. He'd have this thing about, "Art, this is what Walter Heller said," blah, blah, "How the hell does that make sense?"

"Well, here's the framework he's coming from."

"Oh, I see. That's doesn't make sense."

"No, it doesn't make sense to me either, but this is why he said that, and here's the way I would look at it."

We'd go through this all the time. We'd have pepper-eating contests and we'd have joke sessions. He was just such a fine man. Jack, too, by the way, in the same sense.

Kondracke: So let's go back to the beginning of this plot. Where and when and how did it get hatched that Jack was going to do this?

Laffer: I think that was Jude. Jude hatched all of these plans, at least I don't think it was Jack either. I think it was all Jude.

Kondracke: So did Jack rehearse what he was going to say to Reagan?

Laffer: If he did, he didn't do it in front of me. We talked about it. It was pretty simple. "I love you dearly. You're the greatest in the world. I totally support you, obviously, but I think the two of us running separately will get more delegates than you alone with my support." It's not rocket surgery. How do you like that rocket surgery metaphor?

Kondracke: I got it. [laughs]

Laffer: But do you follow me on that?

Kondracke: Yes.

Laffer: Reagan obviously did not want that to be the answer. He did not want Jack to run.

Kondracke: I heard that somewhere the plan leaked.

Laffer: Jude leaked everything.

Kondracke: And Jack got mad. Do you remember that?

Laffer: Jack got mad all the time at Jude and vice versa. That's nothing new. [laughs] Those two fought all the time and they made up all the time. Jude and I never had conflicts. Never. And I don't remember ever having conflicts with Jack back in these days either. I just didn't. But they did.

Kondracke: So before Jack went into the guesthouse with Reagan, was it already public, what he was going to do?

Laffer: Oh, no, no, no. If it was public, it was public to someone—

Kondracke: Because I thought that Jude had somehow leaked it somewhere.

Laffer: Jude may have said it somewhere in something, but I don't remember it being public. He may have written it to someone or done a newsletter on it, or something like that.

Kondracke: Did you ever tell Reagan that Jack should be his vice president?

Laffer: That's not something I would tell the president, but he knew my relationship with Jack very, very well. I don't remember specifically. I never would go to him with something like that. I'm an economist, Morton, and I never wandered outside of my turf.

Kondracke: So Jack that day did not say, "Okay, here's what I'm going to say," and sort of rehearse it?

Laffer: He may have said that to me. He may have said that. I don't think he needed to rehearse that one line. Maybe he did. But he understood the line totally and he agreed to it and he was going to do it. He was all excited, too, so was Jude, so was I. When he was down there and they were talking, I just waiting for him to come back. And they came back.

Kondracke: How long were they in there for?

Laffer: Oh, a long time.

Kondracke: An hour?

Laffer: Oh, it seemed like four or five years to me. I don't know how long it was, but it was quite a while. I have no idea if it was an hour or not. In those days, fifteen minutes could seem a long time when you—

Kondracke: So after he comes out and he says, "I couldn't do it,"—

Laffer: No, he didn't say that.

Kondracke: Okay. What did he say?

Laffer: He said, "I agreed to support him all the way. I'm on your team." He didn't say, "I couldn't do it." He said, "I went with him all the way." [laughs]

Kondracke: What did you say?

Laffer: "Oh, no! You just lost the vice presidency."

Kondracke: And what did Jude say?

Laffer: I don't know. He wasn't there. Jude never came to these occasions. He wasn't very welcome at these parties. He's not very social, to say the least.

Kondracke: Why was he not social?

Laffer: He would act in a very unsocial way.

Kondracke: Would he try to proselytize anybody?

Laffer: Oh, he could curse someone out. He could say something vulgar. He could get drunk and spill something. I mean, there was no end to the amount of ways that Jude could embarrass you. One time he said that, "Milton Friedman's may be a midget, but his shadow is cast across all Western societies and Israel." And then we should throw Bill Simon papers down the steps of the Treasury and then him afterwards. Oh, and then I have to go meet with Bill Simon and Milton because they're two very good friends of mine. They know my relationship with Jude. That's Jude. Milton would be *furious* with someone doing that. It was totally inappropriate. And Jude did it all the time, inappropriate stuff, all the time.

Kondracke: So after the dinner and after Jack says that he's all in for Reagan, did you call Jude to report?

Laffer: Oh, sure. I talked to Jude three or four times—not to report it.

Kondracke: The plot didn't work.

Laffer: Well, three or four times a day I probably talked to Jude.

Kondracke: But you don't remember what he said?

Laffer: No. Jude, I'm sure, was just as disappointed as I was. I wanted to see Jack as the running mate.

Kondracke: So Kemp gets to become the policy director of the campaign. He was appointed the policy director.

Laffer: I don't know what that means.

Kondracke: I was going to ask you the question because Marty Anderson had another policy role. The question is, did Jack end up

actually making any policy with Reagan or was he just a spokesperson?

Laffer: No, he did not. There was the original group, the Reagan Executive Advisory Committee, which were eleven of us in Justin Dart's office. That had Holmes Tuttle, Jack Rather, Bill French Smith, Bill Wilson, the guy who became ambassador to Austria, a really wonderful guy there, Earl Jorgensen. There were a bunch of those. There were eleven of us in that office there in the beginning, and I was the youngest by thirty years because I was Justin's baby. He took me everywhere. Then that morphed into the group there in the campaign that was finally joined by George Herbert Walker Bush, who came in and joined us. By that time, the group was forty-five people, something like that.

Kondracke: This is after Bush is nominated vice president?

Laffer: Yes. Well, when Bush drops out of the presidential race, yes.

Kondracke: I was talking about in the primaries leading up to the 1980 nomination, there was in '79, '80 some sort of a policy committee.

Laffer: I don't remember that. I don't remember Jack's role in that. Jack was very important in campaigning for the president and went around all over the place giving speeches for him. I know he did that. It was almost all on pro-growth stuff and tax cuts and that, but I don't remember Jack in any of those meetings.

Kondracke: There was meeting at an airport hotel in Los Angeles near LAX of some sort of policy committee in December of '79 or January of 1980 as the campaign was going to be launched where, supposedly, Jack convinced Reagan to endorse Kemp-Roth. Were you there?

Laffer: Well, I don't know if I was or not there. I remember a bunch of these meetings together with the policy people. I don't remember specifically. I think he was always on it. As I told you, he never disagreed with it in '76 either. I don't know why that transaction didn't take place. By '80, Reagan was fully on this thing. He really was. Now, obviously, he wasn't really fully because, as I told you, when he was elected, he then chose not to use Kemp-Roth. He used something very close, but it wasn't Kemp-Roth.

The Beverly Hills Hotel, I can remember that meeting. There were ten of us. Jack was in that one. Jack was in a bunch of others

that I was with him, but there were a bunch he wasn't there with [Michael] Deaver and [Mark] Hannaford, Jus[tin] Dart and Reagan. Those, Jack was never in the social groups that we had at the Picfair [Village in Los Angeles] and some of these other dinners that we had, our social group there. Jack was never involved in any of those discussions.

Kondracke: Do you have any idea what Reagan thought about Jack Kemp?

Laffer: I think Reagan liked Jack Kemp a lot. I think that liking diminished dramatically by the second term. They removed Jack from the president's second Economic Policy Advisory Board. He only served the first four years, and then when the new board was set up after the '84 election, Jack was no longer on that board.

Kondracke: Why?

Laffer: I think he was removed because of—I don't know. I think he talked too much at the meetings and they didn't like it.

Kondracke: He did talk a lot.

Laffer: Yes, but so do a lot of us. I wouldn't have gotten— [laughs]

Kondracke: So what did you think when Reagan picked Bush as vice president, who, after all, had campaigned on voodoo economics? Did that strike you as being—

Laffer: When Bush joined the Reagan Executive Advisory Committee, which was the original eleven in Justin's office and then morphed on, he sat next to me at the lunch, the first one he came. He said, "You know, Art."

I said, "Stop right there." I said, "Look, let me tell you I'm so glad you're here. I can't begin to tell you. I'm a fourth-generation Yale. I know you're a fifth generation. Thank god we finally have civilized people in this group of California cowboys. Thank god you're here. You remember the Council on Foreign Relations? I've been very involved with that too," and all that sort of. "I thank god."

He said, "Oh, my lord, and to think that you were the one I went after." [laughter] It was a fun conversation.

It was a battle. They were fighting. George Bush wanted to beat Reagan. He didn't respect Reagan at that time. He didn't think highly of him. Let me put it this way. On Jack and Reagan in the

shared vision, very few people realized the intellectual strength that either of those men actually had. They just didn't get it, and they still don't. Jack, because he's sort of goofy and does his arm around you and, "Har, har, har," and punches you and says sort of corny things and does biblical quotes and all, you think he doesn't know much, but he really does. And the thing that's cool is Reagan in the same breath had that same—it was really easy to underestimate both of those men. It really was.

Being in my position, being able to work with them as much as I did, you could really see the depth of it. Jack Kemp had me go through theorems with him and stuff. Now, Jude did too, by the way, but I'd go through and prove the theorems with him, go through, learn the symmetry theorem, David Ricardo, "gains from trade," all that stuff, the [Jagdish] Bagwati theorem.

These people today don't have a clue, Morton. I mean, this Obama guy thinks it's cool to be energy-independent. That's about the stupidest thing I've ever heard in my life. What I did with enterprise zones is how do you make a free trade zone in the inner city. That's my neighborhood in South Side Chicago where I taught, and I wrote that up in '73, '72, '74, something like that. That was these guys got it. Jack Kemp really got it. Reagan really got it. Reagan never met a black in his life. I'm obviously joking on that, but

he never hung with the homeboys. Now, Jack did because Jack was in football. But those two people—I tried that policy with fifty Democrats, including Jerry Brown. They wouldn't go for it. The guy that went for it, Jack Kemp saw it. Ronald Reagan saw it clearly.

Now, we didn't get it passed, but if you remember in the '72 convention in Detroit, I think it was, I did the whole platform there that had the cut across-the-board, the capital gains tax, the enterprise zones, the monetary policy, all of that stuff there. That's how you create growth. Jack was onto that like white on rice.

Kondracke: Well, why did Reagan not adopt Kemp-Roth if he had—

Laffer: I think he did.

Kondracke: But you said that the bill, as written by the White House, was not Kemp-Roth.

Laffer: It wasn't.

Kondracke: Why?

Laffer: I don't know. I remember sitting there in the Oval Office. There wasn't an issue to me at all. All of a sudden, this discussion comes up. It's right after the campaign. We're in there, I don't know, January 22nd. I was sitting there, eleven of us or fifteen of us or whatever the number was sitting there, and he then asked the question, "What did I promise? I want to make sure we deliver on our campaign promises. What did we actually promise on the tax cuts? Did I promise tax rate reductions?"

"No, Mr. president, you never did. I've gone and checked all the transcripts. No, you didn't. You promised tax cuts."

Kondracke: Who said that?

Laffer: I don't know whether it was Wirthlin or Deaver. They were sitting there like two wolf dogs on each side. I always had problems with these people.

He said, "Well, if I didn't, what will we do?"

Then, all of a sudden, we don't cut all the rates down; we extend the brackets out. I'd never even heard of such an option. Never heard of it. Now, the nice thing about that was the Brodhead Amendment, but that was a fluke. Let me tell you, if Brodhead had not made that amendment, we would not have eliminated the

distinction between earned and unearned income. It would not have happened. That was not Reagan's idea.

Kondracke: So what did Kemp think when Reagan produces a bill that is not Kemp-Roth?

Laffer: I don't remember exactly what it was. I do know what my feelings were. I was terribly worried in the next two years about Reagan. You go back and read some of my pieces on that, I thought it was fifty-fifty that he'd collapse on the third year of the tax cut, maybe even higher than that. If you remember, he was shortly in office and [John] Hinckley shot him, and Reagan changed dramatically. Here is this man who is grander than life, who sees eternity, I mean has an infinite horizon of what's good for the U.S., all this stuff. All of a sudden, he becomes very mortal, very worried about today, tomorrow, and all this stuff. Just not the man I knew at all. He became part of the problem rather than part of the solution.

It wasn't until really mid '82 that he all of a sudden swung back to being Ronald Reagan. The most beautiful thing in the world was that '82 moment in August when he turned down [Robert J.] Bob Dole. We had the four anti-Reagans, which was Dole, [James] Baker, [Richard] Darman, and Bush. [laughs] We called them the anti-

Reagans. The only ones I had were the speechwriters, and, god, were they with me and I with them. And Reagan loved them.

Kondracke: Your job at that point was you were on the president's Economic Advisory Board.

Laffer: Yes, that's it.

Kondracke: Were you in the White House?

Laffer: No. I came in once every three weeks or so and spent time with the president, but no. Two reasons, one is my wife had left, so I was raising four children alone and I couldn't do any. But number two is, whenever you take a job for a person, you become his employee, not his advisor. And you never want to go to work for a president ever, ever, ever, because I guarantee you you'll be cast aside. And so I was able to do there and with that. So that's what I did with Reagan.

Kondracke: Besides the speechwriters, who in the Reagan administration were your allies?

Laffer: None until afterwards. Everyone is advising the president to give up on the third year of the tax cut. It didn't work. You know what actually happened? Let me take you through what actually happened. We had the tax bill. Now, let's pretend it's a tax rate reduction. It's not. We had a 5 percent cut in October of 1981. We had a 10 percent cut on July 1, 1982, and a 10 percent cut on July 1, 1983. It was 5, 10, 10. Now, the reason it wasn't the 30 percent cut, it was 25. It really wasn't even 25 because the 10 was off the 95, and the other ten was off the 85. So it was much less than 25.

There is no such thing as a midyear tax cut, Morton. When you report your income for the year, you report your income and you pay it against one tax table. So instead of being a 5 percent cut on October 1, 1981, they prorated it over the whole year. So, instead of being 5 percent for a quarter of a year, it was 1.25 percent for the whole year. Do you follow me?

So, on January 1, 1982 you had the full 5 percent from '81. It went from 1.25 to 5, that portion did, and then you had half of the 10 percent. So you had a 10 percent cut across the board on January 1, 1982. On January 1, 1983 you had the 5 percent from '81, you had the 10 percent from '82, and you had half the 10 percent from '83, so you had a 20 percent across-the-board cut. The tax cuts did not begin until January 1, 1983. Do you follow me in this?

It's amazing how tax cuts don't work until they take effect, and then they work like mad. We created the deepest recession depression in U.S. history because of his compromise with Congress. I talked with him on the phone. He could tell I wasn't happy. He said, "What's the matter? You're not going to go against us now?"

"No, I'm very pleased you got it, sir, but why did you phase it in?"

"Well, Art, come on, these guys don't like deficits. They've got problems there," and dah, dah, dah, dah.

I said, "But, sir, you can't do it."

"Arthur, you just stick to the economics. Let me do the politics."

I said, "No, but how much would you shop at a store a week before that store has its big discount sale, sir?"

And he goes, "Oh, my god, Art. How bad's it going to be?"

Go back and look at my *Barron's* piece I wrote in December of '81 where I go why '81 and '82 are going to be the worst recession depression years, and how the recovery's going to start on January 1, '83. I couldn't even convince Jack and Jude of those things. They didn't believe supply-side in the sense of shifting income. Do you follow me on all this? This is exactly how that happened there. Then with Reagan being shot and being so bad, he was not the same. Every

one of these bastards were working on him. All the anti-Reagans were.

Kondracke: In fact, over the course of his eight years, he raised taxes about half as much as he cut them overall, right?

Laffer: Not marginal rates. I know you guys all love taxes and you like talking in those terms, but marginal rates he didn't. The only marginal rate he raised was after he lowered it, was capital gains, and I wish he hadn't done that, but he did. He took it from 20 to 20, and then back up to 28. But he cut the highest rate in America from 70 percent to 28 percent. God bless him.

He may not have realized it, but you guys may talk about all your taxes, but the corporate rate was as low as possible when he left. The capital gains tax was the only one that popped back up a little bit. But I think he did a great job on rates. It's all rates that matter, not taxes. Taxes is a Keynesian concept of spending power and trickle down and all that. Tax rates is the marginal rate of substitution between labor and leisure, and it's a totally different concept.

Kondracke: So the top marginal rate went from what to what?

Laffer: Seventy to 28 if you take an unearned income. If you take an earned income, it went from 50 to 28 during Reagan's whole time. If you're thinking of capital gains, it went from 28 to 28, with a bit down to 20. Corporate rate went down to its low too.

Kondracke: That ultimately produced the growth that he got reelected on.

Laffer: That's my story and I'm sticking to it, Morton. I'm not going to move today. I'm not going to become a Keynesian for you. I'm just joking with you.

Kondracke: What about David Stockman? Was he ever a supply-sider, or did he get converted, or what happened to David Stockman, OBM director?

Laffer: You ask these questions. These are the questions that Jude would always ask, and he'd always pin, "You're a supply-sider. You're not—" David Stockman was an opportunistic slime ball. He had worked for [Daniel Patrick] Pat Moynihan, as you know. He'd worked for, what's the guy's name from Illinois, the Republican? [John B.] Anderson. He was his chief of staff. Then he briefed Reagan on how

to defeat Anderson. He wrote that piece with Jack on Armageddon, if you remember. You remember that. Then he was the guy who made damn sure it happened.

The only thing that pleased me about his [William] Greider stuff was I was over in Europe when it happened, and I got a call from the press. He said no one in this administration believed this crap of cutting tax rates; it was all just to help our friends and help the fat cats, rich people, and all the cronies and friends.

Kondracke: This is what he said to William Greider.

Laffer: Yes, in the *Atlantic Monthly* piece. He said, "There're only two people that believe this crap, that's Ronald Reagan and Art Laffer, but other than that, none of us believed it." I thank the lord that he put me into that category. [laughs] But that was David Stockman. And, you know, he's not changed. I'm very disappointed in him. He's a very smart young man, he's got so much potential talent, and yet he chooses to go for the dark side. You know, Jude really hated him.

He does this thing, and George Shultz goes in to see the president. He says, "Ron, you've got to fire him."

Kondracke: George Shultz, the Secretary of State.

Laffer: Not then. I don't think he was Secretary of State then. I think George Shultz was still just—

Kondracke: This is known because [Alexander] Haig was gone in '82.

Laffer: Okay. When did Greider's piece come out?

Kondracke: I don't remember.

Laffer: It was right away. It wasn't that long. I don't remember the date. It was right in there. I don't think George was Secretary of State yet. I think he was still chairman of the president's Economic Policy Advisory Board, but I could be wrong on the dates on that stuff.

He goes in there and he says, "You've got to fire him. You've got to get rid of him right away. Just cut bait on him."

"But George, where will he get a job?" This is so typically Reagan, very concerned about the person. And Jack shared that type of view with Reagan as well. Jack was always concerned about the individual.

Kondracke: What can you remember specifically in that category?

Laffer: Oh, I have seen Jack go out of his way to help people who were down and out or who didn't see things clearly. Jack was always this generous person.

And they had another trait, as long as we're talking about all sorts of traits. They were all fascinated by themselves. Can you guess how many hours a day Ronald Reagan spent in front of a mirror to be able to be dressed like that, or Jack? There was a similarity in the two. [laughs]

I remember walking with Jack down Michigan Avenue. Now, remember he was an usher at my wedding. I remember walking down Michigan Avenue, and there's the mirror there at Marshall Field & Company. Jack would be walking along and look over. You could see your reflection there. But they all do that, but Jack and Ronald Reagan, these guys really were fascinated by themselves.

Kondracke: So it's a streak of egomania?

Laffer: I don't think it's necessarily egomania, but there is a narcissism in there. There is a sense, perhaps, Morton, and maybe you'll see this better because you've been dealing with these people a

long time as well, they tend to get their positive approbation from the audience rather than from their soul.

You look at Ronald Reagan and his history and who he was. He was the biggest tax-increasing governor California's ever had, put in the first criminal furlough program in probably U.S. history, big social spender at that time, chaired the Equal Rights Amendment, removed all the anti-abortion statutes in the state of California. Who could guess that that man could become the greatest president ever?

Now, the way he did it was by the time he was locked into that, he had believed that he had believed it all of his life, and yet the two models are exactly the opposite. But he believed he had always been a tax cut, pro-growth spending controller there. I mean, when I used to tease him about it, he would tell me, he said, "You know, Art, I guess I wasn't a very good governor, now, was I?"

I said, "Well, sir, those are your words. I think you're great."

He said, "No, no. I wasn't, but at least I'm better than those other damn governors. At least I learned from my mistakes and didn't make them again."

It's really unfair of me to say this, but I'm going to say it. There's a sense of reflecting on the last guy, sort of a cushion president. He reflected the last guy who sat behind him. That's not

true, but there was a—if Milton would get with Reagan for a while and work on him, Reagan would move.

Kondracke: Kemp?

Laffer: Same thing. Kemp was always open to other people's ideas. "Tell me what your view is. Explain it to me." Now, if it were something silly, Kemp would be able to—but if it were, "Oh, that makes sense." Then he'd come back to me and we'd talk about it.

I'll use Reagan examples because Kemp would always come back to me and talk to me about, "That's what they said there. I gave a speech, and this guy said this about that." Then we'd go through the other one there and get him to see the thing there. Then the next time he had that answer there. He learned the incidence theorem, the burden, and all that stuff.

With Reagan I can remember one with Marty Feldstein. Marty Feldstein said, "You know, Mr. president, we really should get rid of the third year of the tax cuts."

"Oh, really?"

"Yes. See, because if we don't do the tax cuts, we'll have a smaller deficit, and with a smaller deficit we'll absorb less private capital into buying the deficit. That private capital will be freed now to

be able to go into private investments, output, private employment, and which will increase output and productions. You see that?"

He said, you know, the president, "Art, help me."

What did I say? I said, "Well, sir, let me just shorten those partial derivatives up into one clump. If we raise taxes on people who work, we're going to get more people working. Is that what Marty's saying? It is, of course, what he's saying. But if you go through all the logic of partial derivatives, you can come to a misconception, because that's why the T-accounts are so important. That's why you look at a two-person world." And you know, Jack would have those, and then we'd go back through.

The incidence and the burden theorem is the most important theorem of all. It's that by cutting tax rates on the rich you actually make the poor better off. That's so hard for people to see. You actually make the rich probably worse off. Rich people get less benefits in Bermuda because there's so damn many rich people with so few poor people that all the poor people are hired as servants and they're making lots and lots of money.

Kondracke: Let me switch to a different area on monetary policy. Did you and Jack both try to convince Reagan to return to the gold standard?

Laffer: That was never a problem with Reagan.

Kondracke: Well, why didn't he do it?

Laffer: It's very hard. Jim Baker wanted to do it. Jim Baker called me in. We talked about it. I wrote a piece called "Reinstatement of the Dollar: The Blueprint." But you can't just have a president go back to gold. You've got to get the whole structure, the organization of the world. You really have to do a whole huge thing. And if you'll remember, almost all the people that took us off gold were Republicans. It was George Shultz. It was all that group. So there was a huge resistance group.

I was George Schultz's right-hand person. George was the one who really wanted to go off to Camp David. I was involved with Paul Volcker. I was in the Volcker group at that time in '71. Paul and I were both pro-gold. But, nonetheless, Camp David, they got rid of gold. So the president cannot do everything he wants.

Baker did tell me he wanted to because he loved Reagan so much. I spent time in his office there at Treasury. He wanted to go back to gold if he could possibly do it. It never made it.

Kondracke: In order for the United States to go back to gold, everybody had to go back to gold.

Laffer: Yes. Not technically, but yes. You can't have one nation. With Paul Volcker coming in '79 and doing a price rule, which he did, it was even better than the gold standard. Paul Volcker did the price rule, and if you go back, I did a piece in the *Wall Street Journal*, I think it was '83 or something, "The Reinstatement of the Price Rule," where Paul Volcker went through all the how he's used the price level there and bought and sold bonds and stabilized the dollar. It was amazing. Volcker on monetary policy is second to none. He didn't like Jack.

Kondracke: He didn't? Why?

Laffer: I don't think so. There was a Washington sense that Jack was just a dummy and that Reagan was sort of a dummy. The athlete, actor type of imagery, I don't know what it is with these people, but they can't see an intellectual in anyone who's an actor or an athlete. And I think it's still true.

Kondracke: Moving ahead, what role did you take in the '86 tax reform process?

Laffer: I wrote a piece called "The Complete Flat Tax" in '83, '82, which was the complete one which I did for Jerry Brown, which was the basis, I believe, for Kemp-Kasten and for Bradley-Gephardt. I worked with both groups then. At that time Bill Bradley was much more reasonable than he later became, and Dick Gephardt was too. I really found it very easy to work with them and with Bill and with Jack and with Bob [Kasten]. I did that piece, "The Reinstatement of the Dollar," if you go back and read that piece. Any of these I'll send to you if you want. It was the complete flat tax. I don't mean "Reinstatement." That was the gold one. "The Complete Flat Tax" was how to get it there.

What it is is broadening the base and lowering rates, and that's just what Kemp-Kasten was. That's just what Bradley-Gephardt was. It was the best deal ever. [Bob] Packwood, I worked with him a lot and Moynihan. I loved Moynihan. I thought he was terrific. Late at night with their bottle of bourbon, I guess it was, "Ah, hell, let's just do it." And they did it, and it worked. Best tax bill ever.

Kondracke: Why?

Laffer: Getting the rates down. What you want is the lowest possible rate on the broadest possible base. So you provide people with the least incentives to evade, avoid, or otherwise not report taxable income to move, go out of business, whatever, and you give them the least places to which they can escape.

Two mistakes we made on the '86 Act, neither of which was fatal. One was really unfair, though, was not grandfathering the real estate provisions. They should have been grandfathered. The other one was raising the capital gains tax. But getting the rate down to 20 percent was wonderful.

Kondracke: So how much credit do you give to Kemp for the '86 tax?

Laffer: A lot. Jude always called him "the weapon," and, you know, you can't have an ax without a handle or without a head. And Jude was just beautiful with that. I mean, you needed Jack. Jack, at what he did, he was spectacular. He may not have developed the tax bills himself, he sure as hell was smart enough and capable enough to really understand it and help in the provision of it. And he could take them through and debate them against the [Paul] Krugmans, against

the [Larry] Summers, as well as against other congress people. Jack was very competent in that.

The only time I saw Jack not competent was when he was the veep with Bob Dole and he debated [Alfred] Al Gore [Jr.]. He was really sloppy and embarrassing in that. Remember that vice presidential debate? That was the only time I've ever seen Jack unprepared, and I don't know why he was unprepared, because Jack never was that way. But if you remember that one, I had to get out of my couch and go behind the couch and look up over the couch so I could hide. He just wasn't prepared.

Kondracke: Were you involved in that campaign at all as an advisor to Kemp?

Laffer: No. I did not support them. I supported [William J.] Bill Clinton. I thought Bill Clinton was a great president.

Kondracke: Why?

Laffer: Pushed NAFTA through Congress against Congress and his own unions; reappointed Reagan's Fed chairman twice; got rid of the retirement test on Social Security; he signed into law welfare reform.

You actually have to look for a job to get welfare. Signed into law the biggest capital gains tax cut in our nation's history, but most of all, Bill Clinton cut government spending as a share of GDP by 3.5 percentage points, more than the next four best presidents combined.

Bob Dole, I've never seen him see a tax increase he didn't like. He did go along with us, but did I feel comfortable with Bob Dole? Zero. I remember New Hampshire when for Mrs. [Nackey S.] Loeb in '80 I did the front-page article on Bob Dole.

Kondracke: *Manchester Union Leader.*

Laffer: Yes. She asked me if I'd do it, and I did.

Kondracke: This is what year?

Laffer: Eighty-eight. Bill had died and Mrs. Loeb was running the piece. This was George Bush running, and I did the piece on how Dole's never seen a tax increase he doesn't like. That's when he said, "Good news is a busful of supply-siders went over the cliff and all of them died. The bad news is Art Laffer's seat was empty." [laughter]

Kondracke: Speaking of '88, did you support Kemp? Kemp ran for president in '88 against Dole and Bush and Jack [Pat] Robertson.

Laffer: No, I did not.

Kondracke: Why not?

Laffer: Because the president asked me to support Bush. What would you do? In '86, '87, he called me into his office. He said, "Art, he's been a great vice president."

"Yes, he has."

He said, "I'd like it very much if you would support George."

I had to agree with him. I didn't like George Herbert Walker Bush for the choice in '80, I didn't, but damned if he wasn't a great vice president throughout the whole eight years of Reagan.

Supportive all the way.

I then went to Lee Atwater and told him what the president told me, and that I was going to follow the president's advice. I mean, what do you do?

Kondracke: And what did Jack say?

Laffer: I told Jack.

Kondracke: Tell me about that conversation.

Laffer: I don't remember that conversation specifically. I'm sure Jack wasn't happy. I told Pete DuPont. I told them all that the president had asked me to do that. Lee Atwater. Lee Atwater then had me go up to New Hampshire. Bush had then called me in. We talked. That's when he promised me personally that he'd never raise taxes. [laughs] There you go. He named me the lead delegate from California. So I was there, and then when he did the speech, "And they will come back to me and ask me for revenue, and the answers I will tell them, read my lips, no new taxes." Sam Donaldson had the cameras on me. I was smiling from ear to ear to ear to ear.

That's why I didn't support Jack then, although I thought Jack did a good job on bringing Dole over. I really do. I didn't expect that on the Dole-Kemp ticket. I didn't support them either. I supported Clinton.

Kondracke: When Bush was up for reelection, you supported Clinton because of the '90 tax increases?

Laffer: Yes. I've never seen anything more vile, crass, or vulgar in my life.

Kondracke: Why so?

Laffer: He promised. He promised me personally in his office he wouldn't. "Art, I promise." He told me. He said, "Number one, they did work. I was wrong. They really did. Now, I'm not a professional economist or anything, but damn, this economy's great."

Kondracke: This is 1988 he's telling you this?

Laffer: Yes. He's telling me this, he and Lee. Lee's very much our side.

Then he says, "Number two, I aspire to being popular like Reagan. Reagan's like god. I mean, you can't run against him. He's the most popular political figure, and I aspire to that type of political popularity. So I personally promise you I will never, ever raise taxes," in that room. "Now can I ask you for some help? I had a real problem with Reagan in New Hampshire. Would you go up there and help me with Mrs. Loeb and all the other ones up there? I'd like you to go with John Sununu."

I said, "Of course I would."

And so I did. I went and spent three days up there with Sununu, just the two of us going around to all the people. I went and saw Mrs. Loeb. I asked her if she would support Bush, and she said, "Arthur, not a chance. I think you're a fool for doing what you're doing."

I then explained to her how the president asked me to, and, "What would you do?"

But she said, "I got a deal for you. We aren't going to come out for Bush. We are not, under any circumstances. I won't. But I'll throw away our endorsement with Pete DuPont, and the second thing I'll do for you is I'll give you the front page of the paper the day Bob Dole announces."

I said, "You got it." I loved her. Did you know her at all?

Kondracke: I didn't.

You say that Bill Clinton was a great president, yet he raised the top rate from 31 percent to 36 and a half or 37, which all the Republicans said was going to crater the economy, and they all voted against it. So when he did that, what did you do?

Laffer: I would have voted against that too, but to be so monomaniacal, to put Jude's phrase in there, as to think that there's

only one thing that determines the whole economy, it's a mistake. That was a mistake, period, but it wasn't like Reagan's tax cuts undoing. It wasn't like the end of the world. This guy pushed NAFTA through, he put Reagan's Fed chairman in there, we're dropping the long rate from 9.1 percent to ultimately 5 percent, the welfare reform, getting rid of the retirement tests. Looking at it in the context of what he did, he was a great president.

That was a huge mistake in his part, and it was more than just a huge mistake. He didn't get one single Republican in the House voting for it. He didn't get one single Republican in the Senate voting for it. In fact, he had a lot of Democrats voting against it too. It passed in the Senate by the tiebreaking vote by Darth Vader himself, Al Gore. I'm just joking, because Al Gore's a good guy, but it did.

Then the lord came out of the fields and [demonstrates] attacked. In the election of '94, not one single Republican running for reelection in the House lost. Not one single Republican running for reelection in the Senate lost. Not one. Not one single Republican running for the governorship. That includes two under federal indictments, all right? We take the House. We take the Senate. We take the state legislature. We take all that stuff because of that stupid guy's bill, and that created the perfect environment with Bill Clinton

and that new Congress, Newt Gingrich and the whole group, to be the best thing ever. I thought it was the greatest era.

Now, Bill Clinton hates me personally, but that's not my problem; that's his. He was a great president. A disgusting human, as I say to everyone. I mean, god. But my view was, Morton, that if he hadn't been elected president, he still would have been a disgusting human. We'd have just lost all of his benefits as being a great president.

Kondracke: As a matter of intellectual history, or economic history, during the seventies when things were in such terrible shape under Jimmy Carter, the theory was that Keynesianism died. Even Keynesians were saying Keynesianism had died. It's back. Why did it not die in spite of the fact that—

Laffer: These one-liners. These one-liners are just a killer. Keynesian was never born. Have you ever heard of a poor person spending himself into prosperity? It's dumb-dumb economics. It really is. The idea that government spending creates jobs, the idea that the government is a single-entry accounting system, if you bail someone out of trouble, you're putting someone else into trouble. That's why I was against TARP, all of that stuff.

Here you talk about Jack. See, this is the problem with Jack and this was the problem with Reagan too. There were none of those programs, the housing bill, the agricultural bill, the add-ons, the Larry Summers 600 bucks per capita one, the Fanny Mae, Freddie Mac, the AIG, the Bear Stearns TARP. They're all wrong. The reason we have such a deep recession depression is because of those bills, not in spite of them, and yet Jack and Steve Forbes and the others were very much in favor of TARP. Bob whatchamacallit came back from the campaign trail, "I want to vote for—."

Kondracke: McCain.

Laffer: Yes, McCain voted for it. Here's where you get the differences between what really is a supply-sider and what is someone who's learned a lot about it but doesn't really have it in his bones. Do you follow me? Are you a supply-sider? Probably not.

Kondracke: I'm an agnostic. And we'll get to that. There's one other area of history that I need to go over. The time that Jack was HUD [Department of Housing and Urban Development] secretary, how much contact did you have with him then?

Laffer: Fair amount. It was a very uncomfortable time with Jack. He was having a lot of problems with Wendell Gunn and Mary Bush. He wanted to put a 1 percent tax on all pension funds to fund something in housing. You know, he was slipping off the ranch and stuff like that.

The Jack I loved, loved, loved was the '74, '75, '76, '77 Jack. That was the man who had not become part of the Establishment yet. Even the man who was in those Reagan meetings in the eighties was the Jack Kemp I just adored and loved. He got himself fired from that probably because he talked too much, but that's the Jack. By the time he got to HUD, I was unimpressed. I did think he did do a good job with Bob Dole. I thought he brought Bob Dole over. Then Jude went way off the ranch and just became really weird.

Kondracke: How so?

Laffer: I don't know. Supporting Aldo Moro with [Louis] Farrakhan. What? He did one which was just awful, Morton, and this is a guy I loved more than life itself. We went up to Camp David when Bush was elected, invited up there. Bush and Sununu had twenty of us, fifteen of us, ten of us.

Kondracke: This is H.W. Bush.

Laffer: Yes, H.W. Came back down, and all of a sudden I found these quotes about me from all over *The Wall Street Journal*. And they weren't my quotes. They weren't things I believed in at all. I called up. "What the hell?"

The reporter said, "Well, Jude Wanniski said that's what you said." [laughs]

I said, "Jude, what the hell are you doing that for? You know I didn't say that nor do I support it."

He said, "I know, Art, you didn't, but I couldn't get it in the press if I used my name." [laughs]

This was where the Machiavellian Jude started. He's standing out there with the Jeff Bell posters. Now, I'm a big Jeff Bell supporter, but Jude started going really off the ranch there. And Jack drifted into a different person as well.

Kondracke: Because he became Establishment?

Laffer: Maybe just age. I don't know what. He did propose a 1 percent tax on all pension funds to fund housing. He supported a lot of the housing stuff that went on there. I don't know what other problems he had there, but it just all of a sudden became a different—

Kondracke: You were not as intimate with him then?

Laffer: I wasn't nearly as intimate with Jude or Jack towards the end. My era with Jude and Jack probably didn't end, but my '86 race in the Senate that I had, Jack refused to endorse me.

Kondracke: How come?

Laffer: I have no idea.

Kondracke: You asked him?

Laffer: Of course.

Kondracke: And he said?

Laffer: No.

Kondracke: Did he support an opponent of yours?

Laffer: No, I don't think so, but he wouldn't support me.

Kondracke: What were your disagreements at that point?

Laffer: None. It was a different Jack.

Kondracke: Because he was leading up to his own presidential run.

Laffer: I followed him on the trail going why he should not be president. [laughs] Talk about what goes around comes around.

Then he called me over to his house afterwards, after the presidential race where he did not win, and I went and made sure that—I didn't think he should be president. Then we came and we had a rapprochement, but that was the first real split with Jack. He was an usher at my wedding, for christsake.

Kondracke: When were you married?

Laffer: Eighty-two.

Kondracke: So between '82 and '86 you became estranged.

Laffer: No, I didn't think so. We became estranged after he didn't endorse me. That's for sure.

Kondracke: How did he take his not getting elected or not winning the nomination, his defeat in '88?

Laffer: I don't think he was pleased with that, but I was not going to support him come hell or high water.

Kondracke: Well, because you were loyal to Reagan.

Laffer: Well, that too. That too.

Kondracke: You wouldn't have supported him in any event?

Laffer: After what he did in '86, would you? That was a David Stockman type of one, I thought. Look it, it cost him nothing to support me in '86. I wasn't going to win anyway. And everyone would have understood it totally and completely, and he didn't. That is a component of the personality there, too, and that's the component that I talk about reflecting in other people's eyes, that he did envision himself as being—I don't know what it was. But Reagan had that, too,

a little bit. They were very similar people, even in their personal loyalties, etc., because if you look at Reagan's view with Deaver and some of the other ones, loyalty was not the long suit. [laughs]

Kondracke: That's very curious, if you think you're going to run for president two years hence, that you wouldn't want to have at least an ally.

Laffer: Maybe he thought the other candidates would be better allies for him. They weren't. But then he did call me and apologize totally for it.

Kondracke: When?

Laffer: Early '89, after the election, after he lost. He called me. I went over to the house. It was a rapprochement. He apologized totally for everything, and he wanted to become friends again. We did become friends again, but with that history, it never became the same as it was.

Kondracke: Did he ever seem depressed as a result of his defeat?

Laffer: I don't remember him ever being depressed. I remember Reagan being depressed, but I don't remember Jack ever being depressed. Disappointed, but I don't remember Jack being depressed. When his brother died, it bothered him a lot. I knew Tom real well. I know Jack was very, very upset by that. He really was. Tom's death, I think, was unexpected for anyone, but I don't remember Jack ever being mopey. That's not his or my personality. The only time I remember Reagan that way was when he got shot, and that was really a seriously long down period. He wasn't the same man, and then he came right back up in mid '82.

Kondracke: This may not actually be part of the oral history, but this is for getting my head straight, okay?

Laffer: Here we are, going to straighten it right out.

Kondracke: I've talked with Bruce Bartlett, who makes what seems to me a fairly persuasive case that supply-side was absolutely right for the period when you had very high inflation, very high tax rates, and high unemployment. The rate was, at that point, 70, right?

Laffer: On unearned income, yes.

Kondracke: But that it is not necessarily the right policy for a period when you had disinflation, high unemployment, very high, very high deficits. So that there may be a case for—you, yourself, say that there was a timing issue of when government spending is a good idea.

Laffer: Let's just do taxes. Let's just not worry about all that stuff. Government spending is taxation. That doesn't mean you don't do it. It means that you look at the cost and you see what the cost is and you see what the benefits are, and if the benefits exceed the cost, you do it. If they don't, you don't. But don't pretend that you can take resources from the economy and give them to people based on some characteristic other than work effort. They think I'm free. That's stupid. That's bad accounting and bad economics. To think that that happens.

Now, are there times when you should raise tax rates? Yes, of course there are. Are there times when you should cut them? Uh-huh. Are there times when you should increase government spending? Yes. What you just do is look at the incentive structure.

Let's take World War II. This is a beautiful example there. What should you do in a war? Well, when you look at the time pattern of production, what you want to do is maximize production during the

war so you win so you don't get killed. All right? So you want to distort the timing of production in favor of production during the wartime, and you're willing to suffer lower later on for that. What you do then is you finance the war with deficits. And why do you do it that way? Because you give workers and producers the bonds, which gives them the right to tax people in the future for their work during the war.

So what you do is by having deficit financing, you then have lower production after the war than you otherwise would have had, but you have higher during the war, which may have allowed you because the marginal value of an additional unit of production is so much higher at that time when the Nazis are attacking than it is later after you defeat them. That is clear, solid supply-side economics.

Kondracke: Well, what about during a deep recession?

Laffer: You never increase spending. That is when you cut spending and cut taxes.

Kondracke: But you want to put people to work, and so why is it not sensible to build roads and build bridges?

Laffer: Let me put it this way. If you knew the economy was going to do this, what you'd want to do is do the government spending that you're going to do anyway during those bad times. That is very true. If you've got a bridge that is very economically sound from the standpoint of taxes, you would do it during the bad times that that's the most reasonable time to do it, but you would not do something in addition to that to stimulate employment, period.

Firms, when they make a decision to employ a worker, look at the total cost to the firm for employing that worker. Gross wages paid. If gross wages paid are higher than the marginal value product of the worker, I'll guarantee you they won't hire them. If they're lower, they'll hire them. Downward sloping demand curve. Workers could care less how much it costs a firm to employ them. What they care about is "What do I get for my eight hours? What type of house can I live in? What type of food can I eat? What type of stuff can I buy from abroad? What kind of stuff can I leave for my grandkids? I want to know my net wages received." What they do is they look at the net wages received, and they compare it with what they'll get compensated for by being unemployed. If net wages received exceed the payments I get for being unemployed, I'll work. If they're less, I won't.

The difference in what it costs a firm to employ a worker and what that worker receives net is what we call the tax/expenditure wedge. It works *all* the time. Now what you do is you look at the marginal value of product to society of an additional unit of output over time. There are timing differences. Then you'd cure the wedge to those times to get it so that it works out over the period, but it's really straightforward. It never changes. It's always supply-side economics.

Kondracke: In response to the collapse of '08, '09, what would it have been wise to do?

Laffer: Nothing.

Kondracke: Well, the banks would have failed.

Laffer: So?

Kondracke: Well, the whole economy would have come crashing down.

Laffer: And god would have come down to the earth and hauled all the dead people out and taken them to hell?

Kondracke: We did have a Great Depression.

Laffer: That was because we did the same damn thing then as we did this time. If we had done nothing, it'd have been 2000. Nothing. Wouldn't even seen a blip. But because we did this, we made it really bad. I know you don't believe me on that. I know you don't.

Kondracke: But I'm persuadable.

Laffer: If you go back to my piece I wrote at the time, everyone is against it, but bottom line, what we did is whenever politicians make decisions when they are either panicked or drunk, the consequences are always ugly, Morton. I can tell you about '71 when we did Camp David when they did the Watergate stuff, Whip Inflation Now, Jimmy Carter's energy bill. I watched it all of my life, and I watched these guys [demonstrates] squealing like five-year-olds in the scary movie, grabbing their private parts [demonstrates], and they screw things up big time.

The reason the market collapsed, this person's view, is because [George] W. [Bush] was really unpopular, and when the election was coming, people started seeing what might happen. Stock markets forecast what will be, not what has been, all right? As you get closer and closer to the election of 2008, the market starts seeing a Hillary [Rodham Clinton] or an Obama, a McCain trying to undo W., become more like Hillary and Obama, and their forecasting a shit economy—excuse me—a bad economy.

Once the markets start dropping, what happens to asset values? You're marking the market. All of a sudden, this whole thing implodes on itself. There was nothing wrong with the economy in 2006, 2007. The housing collapse had occurred much before 2008. It was all of a sudden the forecast of the market of what will be with an Obama or a Hillary, with a [Nancy] Pelosi and a [Harry] Reid, and the market was very right.

Kondracke: But would you say that George Bush's economic policy was supply-side?

Laffer: No.

Kondracke: But he cut tax rates.

Laffer: Yes, he did, and he also used the toilet number one. He did cut rates. The first bill had no rate cuts. None. I'd have voted against it as a right-wing Republican in Congress. The second one was 95 percent interest thing, tuition tax credits and baby credits and a little bit of rate reduction. Just a little bit. That's after 9/11. The only parts that were good was dropping it 39.6 to 35, getting lower in the capital gains tax rate and the dividends tax rate, and the estate tax. Those were good.

Kondracke: That's a lot.

Laffer: No, that wasn't a lot. I'm very sorry. I really don't think it was a lot, because he increased spending through the ceiling. And remember that taxation is ultimately spending. What we're talking about here, remember, go back to the very beginning of our conversation, it's the constellation of tax rates that matters, not the level. If we cut all taxes to zero, every tax to zero, but didn't cut spending, what do you think would happen to the economy? Nothing good. What you have to do is the relative tax rates are the key there. W. didn't do much on that, but he sure as heck increased the overall tax burden a lot, and he did it by paying people not to work, by paying

people to have more kids, all the wrong things. If you want to have a kid, that's wonderful, but do it because you want to, not because you get a subsidy for doing it or for a tax for doing it. You want to have a low rate flat tax on everyone, and that's not what W. did, and that's not what he did on the spending either, or invasion of Iraq.

Kondracke: The Democrats, or Keynesians, would say that, look, George Bush lowered tax rates by a lot and he had very slow growth.

Laffer: Those are not really totally true, but let's say that bottom line is there are a lot of things besides tax rates that matter. You want to have a low rate flat tax. You want to have spending restraint. That is the ultimate tax. Remember those three I went through. You want to have spending restraint. You want to have sound money. You want to have limited quantity of money to keep its value high. That's why the gold standard's so good or why Volcker did such a great job that he did. Then you want to have minimal regulation. Everyone knows we need regulations, but you just don't want to go beyond the specific purpose at the end and do the collateral damage. And lastly, you need free trade.

W. was not a good president. Now, did I vote for him? Yes, I did. I voted for Clinton twice. I like Al Gore a lot personally; I just

didn't see Al being pro-growth the first time, and I thought W. would be okay. And then the second time, I mean, Jesus, you couldn't have picked a worse one if you had to. There's nothing good that ever's come out of [John] Kerry. If the Democrats had put up a decent candidate, I'd have gone for him in a heartbeat. Does that make any sense to you?

Kondracke: Yes. Now, theoretically, one of the things about the Laffer Curve is that except for zero and 100, there are no numbers in it. So what is the sweet spot here, and when do we get into the prohibitive zone?

Laffer: The reason why there are no numbers is it can't be used that way. It's a pedagogic device to illustrate a principle. At zero tax you get zero, at 120 percent, so if every time you went to the office and instead of getting a check you got a bill, you would—the tax rates affect output and, in consequence, affect revenues. First place, while there's no numbers there, there's no timeframe there. Revenues over what time period is it? There's no thing there. It's a tax rate total. If you change one rate out of five, what happens? What if you're willing to wait six years for the results?

It's an illustrative device to show people that there are actual consequences to tax rates other than just—it's like pricing. It's pricing situations. So to use it in terms of a numerical example is really inappropriate. Now, when you're doing a model and you're doing econometric estimates, you want to sit there and see over time, you know that the longer you're willing to wait, the more likely it is that a tax cut will increase revenues.

If you build a factory based upon a presumed 10 percent tax rate, and the day you finish the factory and just open the door, and, bam, they put a 90 percent rate on you, you're going to close the factory down? No. But as things wear out, you're not going to replace them. It takes a long time to build a capital stock and it takes a long time to destroy it. The timeframe, the specific taxes in hand, whether they're statutory, whether they're effective tax rates. That's why this thing was just an illustrative.

Before the meetings with Don and those, I did this in class forever. They've always presumed that if you raise tax rates by 10 percent, you're going to get 10 percent more revenues. That's not true. Now, what exactly is true, I'm not sure, but I do know what isn't true. Now they've flipped it over on me now where, "Now you say every tax cut raises revenues." That's not true. All I'm saying is I

started off this game by saying every tax increase is not an increase in revenue, and now they try to—

Kondracke: So you've never said that all tax cuts pay for themselves?

Laffer: Of course not. I understand economics. If you have a tax rate reduction that is not matched by a spending reduction, it will have a lesser effect than a tax rate reduction matched by a spending reduction.

Kondracke: Your classmate, Dick Cheney, seemed to believe that all tax cuts pay for themselves.

Laffer: Well, you've got to talk to Dick about that, but I think Dick is a pretty cool politician. And if that's his sin, I think he's a [unclear]. You look at every Democrat in the world, there's no tax rate increase that doesn't raise revenue. That's why I did the curve, not to prove that every tax rate reduction causes revenues to increase. All I wanted to say was every tax rate increase doesn't raise revenues, and never by the same percentage. Never. I did all of these things back in the beginning of time when I wasn't on the focal point. You see

what I'm saying? Now they've flipped it over. I'm not a tax rate reducer.

Kondracke: You're not a tax rate reducer.

Laffer: No. There's some times you want to raise them, some times you want to cut them. I think that when you have an income tax rate of 91 percent, you may be going a little too high. Am I going way overboard on you?

Kondracke: No.

Laffer: The narrower the tax. A capital gains tax, it's such a narrow tax that you know you want a broad-base tax with a low rate. A narrow tax with a high rate begs for evasion, avoidance, timing changes, all of that stuff. You don't want to do that stuff.

Kondracke: So if you were god or dictator or something like that—

Laffer: What would I do?

Kondracke: What would you do?

Laffer: Jerry Brown's flat tax, which is what I did. I supported Jerry Brown in the primary in 1992. I wrote his tax plan, the 13 percent one. That was my baby, and I thought it was great. He won the primaries. He went from eighth in the race to second in the race. He would have beaten Clinton if it hadn't have been for the fact that he announced Jesse Jackson as a running mate going to New York.

Kondracke: The top marginal rate would be what?

Laffer: Thirteen percent. He eliminated progressive income taxes in America, got rid of all federal taxes, all of them. Payroll taxes; employer; employee; Medicare; Medicaid taxes; capital gains taxes; state taxes; income tax; corporate tax; all federal taxes except for sin taxes, which are there not so much to raise revenues as they are to change behavior. In their stead, had two flat rate taxes, one on business net sales and one on personal and adjusted gross income. He made it so it was not statically revenue-neutral; he made it so it was statically revenue-enhancing. The revenue-neutral rate was about 11.8 percent. He popped it up to 13 percent with very minimal deduction, but you have no individual deductions. You pay that 13

percent on the first dollar you earn and on the last dollar you earn.
Most of these cases you wouldn't even have to file a tax return.

Kondracke: So there is no more progressive income tax.

Laffer: No, it's gone. First serious presidential candidate since 1913 to run against the progressive income tax, Jerry Brown.

Kondracke: So a plumber or a plumber's helper pays the same tax rate as a tycoon.

Laffer: Yes.

Kondracke: And where's the fairness in that?

Laffer: Well, I think if a tycoon makes a hundred times as much as you do, he should pay a hundred times as much in taxes. He shouldn't pay less in taxes than you. He should pay more than a hundred times as much as you.

Kondracke: But a 13 percent bottom rate is a tax increase on the poor.

Laffer: It's really not. No, it's not. It's static revenue-neutral. It would have been a tax increase with Jerry, but if you did 11.8 percent, which was the static revenue-neutral one, it wouldn't have been.

These guys have payroll taxes. You can't believe how regressive a lot of these taxes are in America. It's the income tax that's progressive, but we got rid of all federal taxes: payroll taxes; employer; employee; Medicare, Medicaid taxes; excise taxes; tariffs. All of those were gone.

If you look at the actual tax codes, if you raise the highest marginal rate, you know you collect less revenue from the rich. Everyone knows those numbers who looks at them. That really is true. Why on earth would you ever want to raise a rate if you're going to collect less revenue? What's your logic? And you know very well that the lowest rates are the ones where you get the revenues. These guys down there at the low rates, they don't have lawyers; they don't have accountants; they can't change their timing of their income; they can't change the location of their income; they can't change the composition of their income; they can't change the volume of their income. Rich people can. It's the way the world really does work. As much as you may wish it to be different, it's not. Pretty people are attractive at parties more than ugly people. Even though you may

want to, Mr. Harrison Bergeron, like it differently, it ain't true.

[laughs]

Kondracke: So the essence of what government ought to be doing right now is tax reform, I take it.

Laffer: Yes. It is the *primum premorum* [phonetic].

Kondracke: And it is part of what the deficit commission recommended.

Laffer: They did a lot of stuff I liked. Let me just do one with you that really is important. Let me just do the logic with you. The mortgage deduction. If I borrow \$100,000 at 3 percent and I lend \$100,000 at 3 percent, have I done any economic consequence other than being a conduit for a loan? No. Should I be liable for taxation? The answer is no. What you've just told me with that example, Morton, is that either if all interest income is taxable, then all interest expense must be deductible or neither interest income should not be taxable. One of those two has to be true. You with me?

Now let me give you the second example. I borrow \$100,000 at 3 percent, and I lend \$100,000 at 6 percent. Have I done something

of economic consequence that warrants taxation? Yes. I'm a bank. I'm an insurance company. I'm a savings and loan. I created value-added. I should be liable for taxation. What you've just told me with those two examples is all interest income should be taxable, and all interest expense should be deductible, period.

Did I tell you the purposes to which I put those loans? There is no economic logic for not allowing mortgages to be deductible as long as it's taxable to the people who lend it. Anything other than that will distort the capital structure. I can easily have in my portfolio of investments a mortgage, and I have a mortgage on my house. That's perfectly rational. But, now, if you don't let me deduct the interest here, I'll sell that mortgage off and pay this one off, and I'll distort the capital structure. Do you follow me?

I know it sounds like it's—but all these guys say, "You favor some deductions." No, I'm in favor of economics. The reason you want to eliminate deductions is not because you don't like deductions; it's because you don't like your rational, biased, distorted things. That's why mortgage interest should be deductible and taxable.

Kondracke: Do you have a notion of what percentage of GDP you think the federal government should represent?

Laffer: No, not really. I mean, that's what the political process does.

Kondracke: And shouldn't it be higher, given the fact that we have this aging Baby Boomer population?

Laffer: I don't think so, no. What I said here was what you do is you take a dollar worth of spending, and you take the cost of that per dollar. Now, when I say it's a buck, I'm really not telling you the truth, but here are the taxes to pay for that buck worth of spending. The question is that the damage done by the taxes, do they exceed or are they less than the benefit done by the spending in the political calculation? There's no reason why aging or not aging, or you could make up all sorts of stories you want, but bottom line, it's that calculus.

Now, the truth of the matter is you've got to raise a lot more in dollar in taxes to be able to get a dollar of spending. When I raise tax rates on you, you distort your income, you pay all sorts of tax returns, filers, blah, blah, blah. It takes a lot of time and money to move it from the IRS to the departments and agencies to distribute it. When they distribute it, they usually distribute it to people and make them pay a lot of money to be able to get it. Then they distort their behavior. My guess is a dollar's worth of taxes, you can probably get

twenty to twenty-five cents' worth of spending on average. I think that's about right, but god knows. I did this big paper on that, and it comes out about that range.

So when Laura Tyson says, "Well, a government looks at a buck and says is it worth there? And a private sector looks at the buck." No. To get that buck from the government takes four bucks out of the private sector. To get that buck out of the private sector takes one buck out of the private sector. It's not an even balance, but all of that considered, we need government badly and we need it to be well funded. That's what a political process is all about, isn't it?

Kondracke: So given the fact that we have this enormous debt burden, again, if you were god, what would you do? How do you pay off the debt?

Laffer: Would you like me to give you my write-up of the conversation I had with Austan Goolsbee when he called me and asked me all this?

Kondracke: Yes, I would.

Laffer: I'd be glad to get that for you. You will love it. But the thing that he should do is, number one, admit that the stimulus didn't work.

Everyone knows it. Secondly, say, "That while I supported the stimulus and it didn't work," that's very true, "I wasn't the only one. All these other guys did, too, and I'm no different." Then what you do is you cut government spending as fast as you can right away, instantaneously down. Then what you do is you do the reform of the tax codes, the low-rate flat tax, sound money, free trade, all that stuff. Bang, right away.

I asked Austan, I said, "What did you extend those unemployment benefits for for thirteen months, the ninety-nine-week unemployment? Do you want to maximize the unemployment rate at election time? Is that what you're doing, Austan?"

"My guys tell me it's not that big a deal."

I said, "Well, your guys are wrong on that, but at least you at least recognize that it causes unemployment to go up. I mean, you're not like Pelosi and Reid and Larry Summers, who think that raising their unemployment benefits stimulates the economy."

If you saw my piece in the *Journal* on that, let's raise it to \$150,000 a year. These guys' economy would be so damn stimulated, they'll have to take the \$30,000-a-year jobs back. It's silly. What you do is you go through all that stuff. It's really simple to turn this economy around. When [Timothy J.] Pawlenty says 5 percent growth, we can get 8 and 9 percent growth in this country if you let me run it.

I can get rid of those unfunded liabilities. You give me a long weekend with a sharp pencil and a magnifying glass, you won't even know they're gone. You saw what we did with Social Security under Reagan. No one even talks about it. We extended the age of retirement, we subjected half of the benefits of the income tax, all that stuff.

Kondracke: So have you written a piece that you've got this crisis going on right now over the debt ceiling and all that, and these guys are getting together and they're not able to reach a deal, and so on and so forth. Shouldn't there be the Laffer deal? "Okay, guys, here's what to do."

Laffer: Yes. Let me tell you what my view is on the deal. The Republicans have to understand that 2010 was the preamble. 2012's the end game, and what you have to do is make sure you don't do something that's going to be stupid and get you to be the victim. Don't do a Paul Ryan, as much as I love his budget. Unless you're in charge, don't do a detailed budget. It's stupid, because they'll attack you and make you the problem, not the other way around.

So my view is that they should never actually close down government because of the debt ceiling. Now, you get all you can, and make them embarrassed and do all that stuff, make them come

back, beg you three, four times. The example I used in my piece in the *Journal*, which was that I'm a kid from Cleveland, Ohio, and every year they had Free Beer Night at Cleveland Stadium where the Indians played, and to make sure that people didn't drink too much beer, they locked all the bathrooms. Trying to control government spending with a debt ceiling is sort of like locking the bathrooms to control people from drinking too much beer. It's not a smart way to do it.

But what we have to do is just focus on these people until 2012 comes around. We should pick up seats in the House, we should take the Senate, and we should take the presidency, and then we do the Ryan budget, or whatever the correct one is there. But don't, don't, don't propose specificity when you're not in charge.

Kondracke: What about revenues? Would the right deal increase the percentage of GDP that we now get from government revenues?

Laffer: You can make it higher or lower if you want. I don't know what the right level should be. That's what the political process—but I do know it should be a low-rate flat tax, and I knew you should have spending restraint by having a balanced budget amendment.

Kondracke: So you would not do the Grover Norquist thing, where under no circumstances do you raise the level of revenue that the government collects. He's even against closing tax subsidies.

Laffer: But tax subsidies are the worst. He's not an economist in this sense. There are times when government should be greater than X and sometimes less than X. That's the whole balance here. The volume of taxes and spending, the composition of spending, and the composition of taxes, that's it. Then you get the sound money, free trade, minimal regulations, blah, blah, blah, all that stuff. But that's it. There are times probably during World War II that we probably should have had more spending as a share of GDP than we should during the nineties, but I don't think it has anything to do with time.

You want to know how to solve the problem? Are you ready for this? Can you handle the truth? The problem is really simply supply-side economics, and it's much broader than what I've talked about to you. If you have two companies, A and B, both identical companies, I mean they're identical in every regard, well, one difference. (A), officers and directors have big salaries, they have no stock options, and they own no stock. (B), all the officers and directors have low salaries, they have a lot of stock options, and they own a lot of stock.

Which one would you rather invest in? Boom. The one with the incentives.

Imagine the world today. You have Congressman *Mr. Smith Comes to Washington*, Jimmy Stewart, "Oh, my god, he wants to help America," and he does and he works real hard. He talks everything and works it in and gets the unemployment rate comes down, the rate of inflation comes down, the economy goes to full capacity, we dominate the world, peace enters, the skies shine, the fields are green, the trees blossom and bear fruit, the animals, they multiply, and the children dance in the streets. What happens to that congressman's salary? Nothing.

Now his evil twin comes, and he screws everything [demonstrates], and the unemployment rate goes through the ceiling, the inflation rate goes through the ceiling, people are starving to death, the animals are withering out in the fields, the trees are barren, clouds all over everywhere [demonstrates], and the U.S. loses its influence. What happens to your congressman's salary? Nothing. Real simple. These guys don't have skin in the game.

My one solution would be to put Congress on commission. You give them all a shadow portfolio of 5 million dollars, say, "Let you keep all the capital gains tax free and hold you personally liable for all the capital losses." You and I'd never have to have another conversation

like this. The U.S. would dominate the world for thousands of years. Your children would dance in the streets and your grandchildren would. You cannot have a fixed salary government, period. I can talk to you all day long.

How do I get to Maxine Waters? She could give a damn about anything I've talked to you about today. "Maxine, you're going to get 1 million dollars for serving in Congress if you vote the right way. You're going to get penalized and put into bankruptcy court if you vote the wrong way." She doesn't have to work through her husband; [unclear] anymore. She can do it on her own. Charlie Rangel, all of them. I could go on. What's wrong with that?

Kondracke: Okay. I think we're done.

Laffer: Have you had fun?

Kondracke: I had fun. Have you had fun?

Laffer: I have had fun. I like it. Good. Do you mind if I get a copy of this?

Kondracke: Oh, no, you'll get a copy.

[End of interview]