Creative Statistics - the Laffer Curve and Taxation Incentives

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When the Fraser government introduced its 'reform' of the income tax schedules in 1977, a reform whose major beneficiaries were high income groups, it was claimed that the changes were necessary to restore 'incentives' and the 'will' to work.[1] Over the past four years this justification for such policies has become commonplace and was given a particularly striking formulation via the Laffer Curve (hereafter (LC). The LC is often presented as one, if not the, key component of 'supply-side economics',[2] a *mélange* of doctrines which claims that a restoration of incentives, through changes in the taxation system, is required in order to lift economic growth rates while simultaneously lowering inflation and unemployment rates.

Apart from the 'work incentive' arguments discussed below, the LC analysis identifies a number of areas where tax rates affect production. First it is argued that increased disposable income from lowered taxes increases savings, thereby lowering interest rates and increasing investment (in the economists' meaning of that word). Second, and in the same way, it is argued that lowering nominal corporate income tax rates will increase investment because more funds are available. Third, it is claimed that the lowering or removing of capital gains taxes on shareholdings, when coupled with accelerated depreciation provisions and investment allowances, will lead to increases in investment. All three points illustrate the dependence of supply-side economics on Say's Law since it is assumed that all available funds will be invested.[3]

Supply-side advocates claim that their policies constitute a return to the 'principles' of nineteenth century public finance, exemplified by English governments led by William Gladstone.[4] Their policies entail, amongst other things, a more regressive taxation system, the expressed aim of balancing the federal government's budget and the open proclamation of Say's Law. In their explanation of the current economic crisis, Keynes is the villain of the piece because, in *The General Theory*, he provided a theoretical rationale for abandoning the nineteenth century budgetary principles which were formulated by the classical political economists. In this scenario, state policies are primarily a reflection of particular texts of political economy, an historical analysis which is demonstrably incorrect.[5]

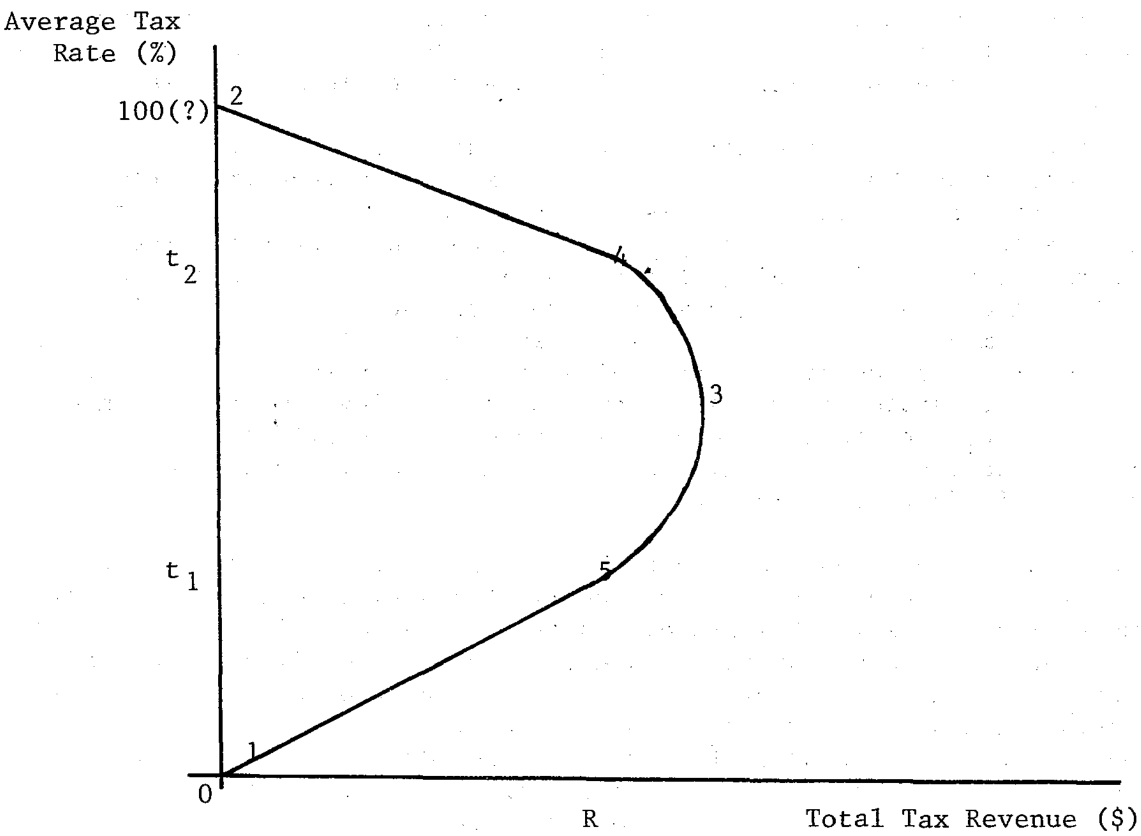
This note focusses on the LC analysis of income taxes. Section I sets out the actual argument and, in assessing its validity, shows it to be highly dubious, both theoretically and statistically. Section II then offers an explanation for the LC argument's current popularity.

I. The Argument and the Evidence

The 'Laffer Curve' takes its name from an argument of Arthur Laffer, currently Professor of Business Economics at the University of Southern California. Laffer's analysis begins by noting that there are two points when total taxation revenue will be zero - when taxation rates are zero and when they are so high that no market production will occur (points 1 and 2, respectively, on Figure 1). Clearly, the identification of these two points is correct, although hardly profound. Laffer then argues that, up to a certain tax rate, total taxation revenue will increase (point 3 on the diagram). Beyond that point, however, which can be called the "prohibitive tax rate", taxation revenue begins to fall, so that there are always two

FIGURE 1

The Laffer Curve



average tax rates associated with the same total revenue (for example, points 4 and 5). The LC is drawn here as if it is perfectly symmetrical. This entails that the prohibitive rate is associated with an average rate of 50 per cent. Although LC advocates often present the diagram in such a fashion, there is no adequate basis for that assertion. Indeed, as will be shown below, the advocates have a good deal of trouble in specifying the prohibitive rate. Furthermore, it is not even clear that the maximum rate should be 100 per cent, since commodity taxes can be levied at a greater rate than that.

Why is total taxation revenue supposed to fall beyond the prohibitive rate? As far as income tax is concerned, the explanation depends on the supposed effects of increasing marginal tax rates. Since there is sometimes confusion over the latter, a brief explanation may be helpful here. Using the new income levels applicable from November 1982, there are three income tax rates in Australia. Below an income level of $4,595 no tax is payable - this is the 'tax free threshold'. From $4,495 to below $19,500 the rate is 30 per cent; from $19,500 to below $35,788, the rate becomes 46 per cent; while for incomes of $35,788 and above, a rate of 60 per cent applies. This does not mean a person receiving an income of $40,000 pays 60 per cent of all their income. That rate is only applicable on the income from $35,788 to $40,000. Below that, the rates of 46 per cent and 30 per cent apply to the respective income levels. And of course no tax is payable up to the threshold. Hence the 30, 46 and 60 per cent rates are referred to as the marginal rates - they apply only at the margin between the various levels.[6]

The LC analysis provides three explanations for why total income tax revenues fall beyond the prohibitive rate:

(i) 'Disincentive' Effect - with high marginal rates acting as a disincentive to work, people substitute leisure for work.

(ii) 'Avoidance' Effect - to escape high marginal rates, people resort to tax avoidance and/or evasion techniques.

(iii) 'Underground' Effect - an 'underground' or 'cash' or 'black' economy emerges as a response to high marginal rates, i.e. situations where economic transactions are carried out for unrecorded cash payments. Hence, the recorded market production diminishes to the extent of the 'underground' production.

Laffer then asserts that countries like Australia are somewhere above point 3, so that a reduction in marginal tax rates would lead to increased production, less resort to avoidance or evasion and a decline in the underground economy. A *reduction* in marginal tax rates, in other words, would lead to an *increase* in total income tax revenue collected. In the analysis which follows, it is important to keep in mind that the LC analysis sees taxation revenue simply as a function of the marginal rates.

If the 'incentive' argument is examined first, it could be noted that in a number of cases this effect might well operate. For example, those people receiving recorded social welfare benefits from the State face extraordinarily high marginal tax rates if they earn any income - sometimes the rate is as high as 100 per cent. Hence, as Porter has argued:

> "The whole structure of effective marginal tax rates facing widows, handicapped persons, students, the sick and the unemployed is such as to encourage them *not* to make an effort to find a job."[7]

But LC advocates do not base their claims on the economic activities of welfare recipients. They argue that the analysis is applicable over the whole economy. The point here is not to find some examples of people who claim tax rates are a disincentive for them working longer hours (i.e. those people who *do* have the choice of doing so), but rather to see whether there is any evidence for such a policy having a significant aggregate effect.

Orthodox economic theory is not of much help here in suggesting a solution.[8] It argues it is possible that a substitution effect will occur (from work to leisure). However, it is also possible that if people are working towards a set (real)income target, then an increase in tax rates will lead them to work longer hours. This is called the *income effect* and the theory cannot say which effect will predominate - the result is ambiguous. It might also be noted that people do not simply work for income *per se* - obtaining power, for example, could be a crucial factor. In this case, again, changes in marginal tax rates could have no effect on hours worked. Resort must then be made to the statistical evidence. Here, the results do not support LC-type claims.[9] Porter recently attempted to estimate two points on a LC for Australia. Yet, while declaring himself predisposed to accept the argument, he was forced to admit there was no "adequate basis" for it.[10] Porter initially obtained a strong inverse statistical relationship (correlation) between increasing tax rates and total income tax revenues during the 1970s. However, it could not be assumed that the only factor affecting revenues during that period was the rates, since other factors, not accounted for in the original calculations, could also have been effective. Moreover, these factors could well have been more important than the changing rates. If that was the case and if no allowance was made for them in the calculations, a spurious correlation would have been recorded between the rates and revenue. Porter acknowledged this problem and then allowed for the effect of increasing numbers of married women in the workforce during the 1970s. Married women, on the whole, receive lower market incomes than men and hence, on lower rates, would pay less tax. Taking account of this particular factor in the calculations eroded the LC claims - it "appears to exclude, in purely statistical terms, any significant effect of tax progression on tax receipts".[11]

A similar problem emerged in Boskin's study of U.S. data. Although sceptical of the time period suggested by various supply-side advocates within which tax revenues would respond to a marginal tax cut, Boskin argued that there was some evidence for LC-type effects in the U.S. While tax rates did not appear to appreciably affect the hours worked by males, the available figures suggested the rates "substantially" affected the hours of working wives and elderly persons.[12] These effects were calculated from data on the relative responsiveness of the particular labour supply[13] to changes in real wage rates. The corollary from this responsiveness was that lowering real wages, by increasing tax rates for example, would drive married women "back to hearth and kitchen".[14] The problem here is that the responsiveness was recorded over time so that other factors could explain the increases in married womens' participation rates in the workforce. One critic suggested that two such factors, which could be just as important as wage rates, were first, changes in 'social attitudes' to working women over the past decade and, second, the development of labour-saving "technologies", which reduced time and effort spent on "household chores". If these were to be relevant factors,[15] then data over the next decade might well reveal a similar relative responsiveness in hours worked by married women as is currently registered for males. It should be noted here that an analysis couched in these terms ignores the important effects of changes in demand for women doing non-domestic work in the post-war period.[16]

Any econometric estimate of the relation between marginal tax rates and total income tax revenue must make some attempt to account for the influence of other factors. If this is not done, the danger clearly exists of a 'spurious correlation' being recorded between the rates and total revenue. Porter's paper showed precisely how a spurious correlation could occur. This point did not worry Michael Beenstock who claimed to have "estimated" a LC for the U.K. The only regression equation he cites as "illustrative" of his approach[17] is extraordinarily crude. Total taxation revenues (aggregating personal income, 'indirect' and corporate tax revenues) were regressed on average tax rates, calculated as a percentage ratio of revenue to GDP. From this, Beenstock concluded that cutting the average tax rate from 40 to 35 per cent would increase GDP by 15 per cent. Given that no attempt was made to account for any other factor than the average tax rate over time, the possibility of a spurious co-relation is immediately apparent. Beenstock also opined that "precise numbers are less important than the qualitative significance of the approach".[18] Given arguments about the extent of 'prohibitive' tax rates, however, it would seem "precise numbers" *are* the crux of the problem. When the other two explanations of the LC (the 'Avoidance' and 'Underground' effects) are also considered, it is clear that factors other than marginal tax rates could have significantly affected the extent of the underground economy and tax avoidance or evasion in Australia.

The size of the underground economy has been the subject of much speculation in recent years, both in Australia and overseas. Estimates, which are not completely fanciful, of its extent range from three to ten per cent of GDP, with a recent OECD study opting for the lower figure.[19] If underground activities are defined as the production of goods and services where one or more parties involved in a transaction attempts to hide its existence from the state, then this economy has three basic components: first, undeclared legal production of the 'cash-in-hand' type, designed to evade taxes, which is prevalent in areas like building and construction especially with the use of contract labour;[20] second, undeclared illegal 'production' in areas such as drugs, gambling and prostitution; third, 'concealed income in kind' ranging from theft 'on the job' to fringe benefits, such as company cars and expense accounts.[21] Some of these transactions, it should be noted, will be recorded in the National Accounts,[22] so that not all are completely 'hidden'.

It should be clear from the list of components that while some parts of the underground economy will be related to tax rates, this is not the case for all those transactions. For example, one feature of the Australian underground economy is the enormous illegal traffic in narcotics. This traffic has increased markedly during the 1970s and much of it, ironically, can be traced to the effects of the U.S. defeat in the Indo-China wars.[23] The extent of the illegal traffic is partly dependent upon the degree of corruption in 'law enforcement' agencies and while corruption is not the only relevant factor, it is an important one.[24] The point here, however, is that this component of the underground economy is a function of the legal system (the prevailing laws) and other factors which have nothing to do with marginal tax rates.

With regard to tax avoidance and/or evasion, it is necessary to remember that the success of such schemes depends not just upon the 'skills' of accountants, but also upon the state of the tax laws, their interpretation by the judiciary and the extent to which the Taxation Office can enforce those laws. Well before the fracas over 'bottom of the harbour' evasion schemes in late 1982, a number of commentators, while acknowledging the difficulties in legislating against tax avoidance, had concluded that the Federal Government was not really "serious" about outlawing many schemes.[25] Moreover, the 'Barwick' High Court, in a series of extremely "legalistic" decisions made it very difficult for the Taxation Office to prosecute various schemes.[26] Even allowing for these two problems, the Taxation Office has been hampered in its attempts to implement the laws. A number of reasons may be important here,[27] but one key factor was the Federal Government's expenditure policies. In its 'zeal' to reduce the number of public servants, the Government cut the number of staff in the Federal Taxation Office. This resulted in inability to both examine avoidance schemes and to collect the associated taxation revenue. As the Federal Commissioner of Taxation explained in his 1980-81 annual *Report*, some $973 million of tax assessed from tax avoidance schemes remained uncollected as of June 1981.[28] Whatever expenditure 'gains' were made by staff cuts were outweighed, to an enormous extent, by the loss of taxation revenue.

All these factors suggest it is quite misleading simply to relate total income tax revenues to changes in marginal tax rates alone. And to argue that lowering marginal tax rates would remove most avoidance of evasion schemes is, on the face of it, extremely naive. At best, their rate of growth would be slowed.[29]

II. The Rump of a Trojan Horse - the LC and Taxation Policies

Despite Laffer's dubious reputation, especially in the area of statistics,[30] the LC has enjoyed a good deal of popularity in conservative circles. In 1979, for instance, Laffer was brought to Australia by the Queensland National Party to support its 20 per cent 'flat rate' income tax campaign, which had been initiated two years before by the Deputy Prime Minister.[31] Although he was unable to specify the 'prohibitive' tax rate for any country,[32] (a not insignificant problem since he claimed that many countries had passed that rate), Laffer found a receptive audience. Shortly after the tour, a series of newspaper advertisements appeared,[33] extolling Laffer and supporting the flat rate with the usual litany of extraordinary claims. It is worth briefly examining two of these to show the style of argument. Both claims concerned the effects of lowering property tax revenues by over $US6 billion with the passing of Proposition 13 during the 1976 Californian 'tax revolt'. The advertisements claimed, first, that government services were not cut back "in any way" following the revenue decline. This is simultaneously untrue (services *were* reduced to some extent in a regressive fashion) and misleading - the state of California transferred its surplus budget revenue to local governments significantly easing their funding problems for the first two years. Without that surplus revenue (not matched in other states and soon depleted anyway) the result would have been quite different.[34] The second claim was that Proposition 13 created more jobs: in the year after Proposition 13 came into effect, 552,000 jobs were created, presumably as the result of increasing work incentives, more loanable funds and so on. This is also grossly misleading since, according to Kuttner's careful account, the number of newly-created jobs was 461,000 and, more importantly, in the year *before* Proposition 13, 634,000 jobs had been 'created'.[35]

The Australian flat rate tax campaign was sparked again by the National Party in 1981 before the proposal was finally rejected by the Federal government.[36] Apparently, though, all was not lost for the Lafferites, since in June of the same year, the Prime Minister claimed that his government had been practising supply-side economics in all but name since 1976 and he singled out the 1977 tax changes as supporting evidence.[37] It was particularly appropriate that Malcolm Fraser made this statement in the U.S.A. since it is there that the LC is thought to have had extraordinary influence. For example, the LC was said to have provided the theoretical basis for both the Kemp-Roth Bill (introduced to the U.S. Congress to cut taxes) and the Reagan Republican administration's own 1981 tax cuts, initially based on Kemp-Roth. 'Supply-siders' were influential in Reagan's administration and apparently included David Stockman, the Director of the Office of Management and Budget (OMB). The OMB is a section of the U.S. federal bureaucracy through which Presidential staff attempt to monitor financially all other sectors of the bureaucracy. (Its closest parallel in Australia would be the federal Department of Finance.) If the statistical support for the LC has no "adequate basis", however, what explains its apparent dominance?

To analyse this, we have to remember the LC argument that the crucial tax rate is the marginal one. That is, people decide 'at the margin' whether they will work or not. This does not mean they will do *no* work if the rate rises, but rather they will lower the hours worked or fail to work more. Of course, in a progressive income tax system, the marginal rate increases with income - this is the meaning of a progressive system. To argue, then, that marginal rates are too high suggests, *prima facie*, that any tax cuts will be arranged so as to benefit high income receivers. In other words, most of the benefits will go to the higher income groups and the LC analysis thus becomes a rationale for increasing inequality in post-tax incomes. Some commentators on supply-side economics had earlier voiced suspicions that it might be "a cynical fig-leaf to cover a policy of redistributing income and wealth in favour of the rich".[38] That has certainly been the effect of the U.S. tax cuts[39] and the cynicism underlying them is now perfectly clear.

In late 1982 an article appeared in the U.S. which created uproar. In it, David Stockman, Reagan's Director of the OMB (mentioned above), acknowledged that the critics were correct. Supply-side theory, *a la* the LC, simply used new language to conceal an old, discredited conservative doctrine: give tax cuts to the top tax brackets, the wealthiest individuals and largest corporations, and the subsequent 'good effects' (expanded production and incomes) would eventually "trickle-down" through the economy to everyone else. As Stockman put it:

> "The hard part of the supply-side tax cut is dropping the top (tax) rate from 70 to 50 per cent - the rest of it is a secondary matter. ... The original argument was that the top bracket was too high, and that's having the most devastating effect on the

> economy. Then, the general argument was that, in order to make this palatable as a political matter, you had to bring down all the brackets. But, I mean (the) Kemp-Roth (tax bill) was always a Trojan horse to bring down the top rate ... It's kind of hard to sell 'trickle-down', so the supply-side formula was the only way to get a tax policy that was really 'trickle-down'. Supply-side is 'trickle-down' theory."[40]

Stockman was extraordinarily candid about whose interests were served by the Reagan tax cuts. In the same fashion he described the way in which the particular cuts - including real estate tax shelters and the 'virtual elimination' of corporate income tax - were decided in 1981:

> "Do you realise the greed that came to the forefront? The hogs were really feeding. The greed level, the level of opportunism, just got out of control."[41]

If an explanation is sought for the 'success' of the LC, neither a satisfactory theory nor sufficiently 'robust' supporting evidence will serve. The success of the LC lies in its impact at the policy level, in the way it has served the interests of high income and wealthy groups in a dramatic fashion. However, it would be unsatisfactory to leave the explanation simply in terms of the LC being 'a front for the rich',[42] for its astonishingly enthusiastic promulgation at the level of *federal* politics in the U.S. was dependent on specific conditions which should be identified.

It has sometimes been argued that the principal condition of existence for the popularity of the LC was the U.S. 'tax revolt', epitomised by the passing of Proposition 13 in California.[43] Yet, from the published accounts of Proposition 13 it is not clear that the LC played any significant role in the campaign, despite having been 'formulated' before 1976. The conditions in which Proposition 13 passed were complex and, in many ways, highly specific to California although the pivotal features were the shifting of property taxes from businesses to homeowners and the arbitrary tax assessment procedures used in an inflationary context. For a series of reasons, it cannot be assumed that the passing of Proposition 13 indicated the dominance of 'supply-side' arguments.[44] Even more importantly, as Kuttner has shown, it is essential not to conflate Proposition 13 with the lobbying, at the federal level, by the representatives of large corporations, "nimble trade associations and well-off investors", to lower their tax payments. Facing the prospect of tax loopholes being reduced and an increased capital gains tax on share transactions in 1977, a sustained lobbying campaign was put into operation (utilizing the 'momentum' of Proposition 13) which included the commissioning of studies by academics to show how lowering capital gains taxes would produce increasing investment.[45] It was in the context of this sustained pressure campaign that the Laffer curve came to be so well-known, having been extensively promoted especially by *The Wall Street Journal*[46] and also on television, so that Laffer became something of a 'media event'.[47] The media's 'distribution' of the LC, and its astonishing popularity among conservatives should thus be located not so much in the particular conditions in which the populist Proposition 13 was passed, but rather in the conditions which saw the success of the powerful corporations and the wealthy - a process which culminated in the tax reform rort of 1981. The nature of U.S. corporate taxation, for example, has been changed in such a dramatic fashion that some economists foresee this revenue source rapidly approaching zero.[48] It is within this context that it is possible to understand the comment, by the economist Robert Solow, that supply-side economics "has no intellectual substance of which to speak. It is an excrescence of right-wing politics, not a source of right-wing politics".[49]

While it is not difficult to write off the LC as the work of a 'snake-oil merchant', who has achieved for economics what Sir Cyril Burt did for psychology,[50] one final point should be made. It is tempting to dismiss out-of-hand a suggestion for changing the taxation base which the supply-side proponents support: this is that the tax system should be based on consumption rather than income. The basis for hostility to such arguments lies in the way indirect taxes can be regressive and it could certainly be expected that the present Australian federal government would change the tax base in that fashion. However, two points should be kept in mind here. First, once all taxes on income are taken into account, the system is already overwhelmingly proportional, not progressive - N.A. Warren's estimates suggest that 75 per cent of income receivers pay approximately the same proportion of their income (34.5 per cent) in total taxation.[51] Second, there are grounds for suspecting that, even if the present scandalous extent of avoidance and evasion[52] were diminished by effective legislation and implementation, a good deal of 'avoision' would still occur. Hence, a number of economists have argued that a new tax base of consumption *and* wealth would be more equitable.[53] Such arguments should be carefully considered and the *possibility* of their implementation closely scrutinized. Certainly they should not be treated as pieces of charlatanry akin to the Laffer Curve.

FOOTNOTES

* I would like to thank a number of referees, Peter Groenewegen, Mike Lawson and Elizabeth Witton for helpful comments. This Note does not attempt to provide a detailed survey of recent Australian taxation changes; some of the latter will be referred to, but only so as to illustrate parts of the argument. The Note is designed primarily as a 'primer' on the LC, with the footnotes providing references for anyone interested in pursuing particular points.

1. P.D. Groenewegen, Australian Taxation Policy: Survey 1965-1980, (Taxation Institute Research and Education Trust), Sydney, 1982, p. 46. For some estimations of the regressive impact of income tax changes since 1976, see "The Budget and the Economy", Australian Economic Review, third quarter, 1979, pp. 11-15; R.V. Horn, Fiscal Welfare Effects of Changes in Australian Income Tax, 1971-73 to 1980-81, S.W.R.G. Reports and Proceedings No. 9, (Social Welfare Research Centre, University of New South Wales), 1981.

2. For clear statements on supply-side economics, see Arthur Laffer, "Supply-Side Economics", Financial Analysts Journal, September-October, 1981; Jude Wanniski, "Taxes, Revenues, and the 'Laffer Curve", The Public Interest, No. 40, Winter, 1978. For criticisms of supply-side arguments, see P. Groenewegen,"Reflections on 'Razor Gangs', Thatcherism and Reaganomics: A Critical Evaluation of the Contemporary Sport of Public Sector Bashing", Journal of Australian Political Economy,No.12/13, June, 1982; H. Magdoff and P. Sweezy, "Supply-Side Economics", Monthly Review, March, 1981; R. Heilbroner, "The Demand for the Supply-Side", The National Times, 4-10.10.81; and the articles by S. Weintraub and S. Rousseas in The Journal of Post Keynesian Economics, Winter, 1981/2.

3. Such arguments are not pursued here but the points about lowering effective tax rates on capital gains and corporate incomes are particularly important. Useful information is provided in P. Groenewegen, Public Finance in Australia, (Prentice-Hall, Sydney, 1979, Chapters 5-6; R. Kuttner, The Revolt of the Haves, (Simon and Schuster), New York, 1981, Part III.

4. R. Keleher and W. Orzeckowski, "Classical Origins of Supply-Side Economics", Economic Impact, No. 36, 1981. With the failure of supply-side tax cuts to balance the U.S. Budget, supply-side advocates are now claiming their system can only work with the return to a gold standard - the return to antediluvian economic policies is now virtually complete.

5. See J.D. Tomlinson, "The 'economics of politics' and public expenditure: a critique", Economy and Society, 10 (4), November, 1981.

6. For clear explanations of income tax rates in inflationary conditions, see Groenewegen, Public Finance, op cit., Chapter 5; N. Norman, Tax Growth in Australia: Why, How and So What?,CEDA Information Paper No. IP.6, 1981, Chapter 3.

7. Michael Porter, "Taxation, Incentives and Productivity", in J. Wilkes (ed.), The Politics of Taxation, (Hodder and Stoughton), Sydney, 1980, p. 190.

8. Standard 'macroeconomic' analysis also depicts an inverse relationship between increases in marginal tax rates and levels of economic activity. In this case, tax rate changes are assumed to have their effects through changes in the level of aggregate demand so that potential supply is unchanged. However, supply-side advocates claim a second effect will operate through 'incentives' on supply.

9. Groenewegen, Australian Taxation, op cit., p. 48; Norman, op cit., p. 27; P. Wilenski, "Tax Myths and the Tax Revolt", Journal of Australian Political Economy, July, 1980, pp. 74-5; L. Thurow, "Economics 1977", Daedelus, Vol. 106, Fall, 1977, pp. 83-5. It is quite possible that a cut in a selective excise tax could increase the revenue collected from that tax. Such a result would depend on a number of specific conditions such as elasticities of demand and supply, market types and the time period considered. In any case, this possible result is of no help to the LC argument which claims this result for all taxes, not simply a selective excise.

10. Porter, op cit., pp. 195-201.

11. Ibid, p. 198. The lower market incomes of married women are the effect of lower wage rates, the concentration of women in a limited range of occupations and the extent of part-time work - K. Alford, "Women and the Australian Labour Market: Recent Changes and Trends: An Overview", in National Status of Women Committee, Women and Taxation, (United Nations Association of Australia), Sydney, 1982. This publication contains a number of very useful articles examining the effects on women of changes in tax policies over the past few years.

12. Michael Boskin, "Some Issues in 'Supply-Side' Economics", Carnegie-Rochester Conference Series on Public Policy, Spring, 1981, p. 215.

13. Indicated by changes in the workforce participation rate.

14. A.C. Harberger, "Comments on Papers by Boskin and by Piggott and Whalley", Carnegie-Rochester Conference, op cit., p. 221.

15. Ibid, pp. 221-2. In terms of orthodox economic analysis, the changes in married women's participation rates would be represented not as a movement along a "very inelastic" supply schedule, but rather as a series of right-ward shifts in a "relatively inelastic" schedule (ibid).

16. Cf. Alford, op cit.

17. M. Beenstock, "Taxation and Incentives in the U.K.", Lloyd's Bank Review, October, 1979, p. 11.

18. Ibid, p. 13.

19. Derek Blades, "The Hidden Economy and the National Accounts", Organisation for Economic Co-operation and Development, Occasional Studies, June, 1982.

20. Cf. the articles by C. Jay in Australian Financial Review, 2-4.11.1982.

21. A recent Australian study of the extent of such benefits, showing their concentration among high income receivers, points out they should be considered as government expenditure in the same manner as 'overt' welfare expenditure - A. Jamrozik, M. Hoey and M. Leeds, Employment Benefits: Private or Public Welfare?, SWRC Reports and Proceedings, Paper No. 15, 1981.

22. Blades, op cit.

23. See Alfred McCoy's two books, The Policies of Heroin in Southeast Asia, (Harper and Row), New York, 1972; Drug Traffic: Narcotics and Organized Crime in Australia, (Harper and Row), Sydney, 1980, especially Chapters 5-8.

24. See ibid and, for a more sensationalized account, Bob Bottom, The Godfather in Australia, (Reed), Sydney, 1979.

25. For example, C. Emerson, "What the Big Tax Fiddle is Costing You". The National Times, 7-13.3.82; Groenewegen, Australian Taxation Policy, op cit., pp. 48-9.

26. David Marr, Barwick, (Allen and Unwin), Sydney, 1980, Chapter 18; G. Lehman, : "Tax: Can the Ghost of Section 260 Ride Again?", The National Times, 6-12.2.82.

27. During 1982 a good deal of publicity was given to claims that the Taxation Office was reluctant to pursue criminals involved in tax avoidance schemes because tax investigators might find themselves fitted with a pair of "concrete boots" - see Royal Commission on the Activities of the Federal Ship Painters and Dockers Union, Interim Report No. 1, (Australian Government Publishing Service), Canberra, 1982, Chapter 3. Initially, less publicity was given to the Federal government's refusal to institute an open and thorough enquiry into the Nugan-Hand bank which counted tax avoidance and evasion among its many activities. It has been suggested that the reason for this refusal was Nugan-Hand's close association with the CIA and its possible role in attempts by U.S. intelligence agencies to 'de-stabilize' the Whitlam government. For a resume of this saga, see M. Wilkinson and B. Toohey, "Nugan-Hand: Spies, Guns, Drugs Fall is continuing - Commonwealth-New South Wales Joint Task Force on Drug Trafficking, Report. Volume 2: Nugan-Hand (Part 1), Australian Government Publishing Service, Canberra, 1982.

28. Sixtieth Report of the Commissioner of Taxation, 1980-81, Commonwealth Parliamentary Paper No. 100/1981, p. 12. This is a classic example of decreasing government expenditure leading to increasing inefficiency.

29. Groenewegen, Australian Taxation Policy, op cit., p. 49.

30. D. Blum, "The Laffer Cruve: A Social History", New Republic, Vol. 179, 19.8.1978, pp. 24-5; R. Milliken, "The maverick who could be a key economic advisor if Reagan wins the U.S. campaign", The National Times, 19-25.10.1980.

31. Groenewegen, Public Finance, op cit., p. 100.

32. P. Groenewegen, "Problems and Prospects of Public Sector Growth in Australia from the 1980s Onward", paper delivered to the 50th ANZAAS Congress, Adelaide, May, 1980, p. 3n.

33. For example, "20% flat tax", Australian Financial Review, 3.8.1979, p. 21.

34. See Kuttner, op cit., Part 1.

35. Ibid, p. 242.

36. For the arguments over a 'flat tax', see R.J. Tanner and D.J. Collins, The Argument in Favour of the Flat Rate of Tax for Incomes, (The Taxation Institute Research and Education Trust), Sydney, 1981.

37. B. Hughes, "Six Years of Accidental Adventures in Pursuit of the Incentive to Work", Australian Economic Review, 2nd Quarter, 1982. Cf. ibid and references in Note 1 for the 1977 tax changes and their possible effects.

38. Magdoff and Sweezy, op cit., p. 7. See also the very clear analysis by K.P. Jameson, "Supply-Side Economics: For Rich and Poor", Challenge, September/October, 1981.

39. H.S. Reuss, "Inequality, Here We Come", Challenge, September/October, 1981, pp. 51-2. It has been estimated that those people on incomes of less than $US30,000 will have their income tax cuts cancelled out by increases in Social Security taxes - Gregg Easterbrook, "The Myth of Oppressive Corporate Taxes", The Atlantic Monthly, June, 1982, p.63.

40. W. Greider, "The Education of David Stockman", The Atlantic, Vol. 248, (6), December, 1981, pp. 46-7. This article (most of which was reprinted in The National Times, 3-9.1.82 and 10-16.1.82) caused a furore in the financial press. Most attention was given to Stockman's candid admissions which included the acknowledgement that the OMB had 'rigged' computer projections of the effects of tax cuts and massive increases in military expenditure on the federal budget deficit. While the various admissions are important, the publicity has ignored the other strength of Greider's article; it provides a readable, detailed account of the way in which policies were made in the Reagan administratiion's first year. It reveals the massive confusion and power of 'vested interests' (especially the Pentagon and large corporations) in the final policy decisions. With governments today attempting to limit critical information available to the public, (cf. John Wood, "You don't kneed to know: a look at the Razor Gang Cuts", The Australian Quarterly, Autumn, 1982), the article is quite useful. As one journalist put it: "In all the furore over the Stockman interview, no-one is accusing the man of lying. His crime is one of candour. And in the business of national politics, that is a serious crime indeed." G. Korporaal, "Stockman confession - political suicide?", Australian Financial Review, 16.11.1981.

41. Grieder, op cit., p. 51.

42. Cf. J.K. Galbraith who has savaged the 'new conservatism' as a front for the selfishness of the rich - "How to Get Ahead", The National Times, 22.9.1979; "The Revolt of the Rich", ibid, 20-25.1.1980.

43. 'Predicted' by James O'Connor in The Fiscal Crisis of the State, (St. Martin's Press), New York, 1973, pp. 226-233.

44. See Kuttner, op cit., Parts I and II.

45. Ibid, Chapter 14.

46. Ibid, pp. 240-2; P. Blustein, "How Supply-Side Economics was Sold", Australian Financial Review, 21.10.1981; Blum, op cit.

47. R. Haupt, "Conservatism sweeps the United States", ibid, 5.7.1978.

48. Easterbrook, op cit.; S. Sheffrin, "What Have We done to the Corporate Tax System?", Challenge, May/June, 1982. The same trend of declining effective corporate tax rates (as opposed to the nominal rate) has been observed in Australia - although not to the same extent as in the U.S. - so that the effective company tax rate is below the nominal rate. For example, in the bauxite, alumina and aluminium industries, while the nominal tax rate is 46 per cent, it has been estimated the effective tax rate was 35.8 per cent between 1973-9 - Senate Standing Committee on Natural Resources, The Development of the Bauxite, Alumina and Aluminium Industries, (Australian Government Publishing Service), Canberra, p. 28. The accelerated depreciation allowances announced in 1982 by the federal government will promote this trend.

49. R.M. Solow, "Arthur Okun's Last Work", The Public Interest, Fall, 1981, p. 93.

50. O. Gillie, "Sir Cyril Burt and the Great IQ Fraud", New Statesman, 24.11.1978.

51. N.A. Warren, "Australian Tax Incidence in 1975-76, Some Preliminary Results", Australian Economic Review, 3rd Quarter, 1979.

52. Emerson, op cit., estimates avoidance and evasion currently cost \$5,000 m. per annum.

53. R. Mathews, "The Structure of Taxation", in Wilkes, The Politics of Taxation, op cit.; P. Groenewegen, "Towards an Equitable Tax System", and "Tax Reform", Australian Financial Review, 17-18.6.1982.