



## ***The End of Prosperity – How Higher Taxes Will Doom the Economy – If We Let It Happen***

Arthur B. Laffer, Ph.D., Stephen Moore, and Peter J. Tanous

A book review by Margaret W. Purvine

I've just finished reading *The End of Prosperity*. It was published in 2008, just before the economy really tanked. Regardless, it is still pertinent, even prophetic, and should be a must read for anyone trying to make sense of the current economic mess.

Lest you think this is a partisan screed, let me allay your fears. The authors offer plenty of blame and spread it around liberally across party lines. Their deep concern is not any particular political persuasion, but rather the economy and where our current path is leading us. And that is where they focus.

Even if you are a fervent believer in the current economic policies, I still urge you to read this book, if only for its excellent description of history and how we got to this point. Add to that the extremely clear instruction on the basic tenets of economics and the well researched, bluntly presented data and you have the basis for understanding our current mess. We need to clear away the fog so we can see our way to better economic decisions, personally and politically.

Let me share a couple of quotes. The first is a section from the chapter on California. Historically, as goes California, so goes the rest of the country. To me, this is a cautionary tale.

*“When you treat businesses and entrepreneurs that dare to make a profit as if they are enemies of the state and cash machines for government programs, bad things happen. Businesses leave. A state without businesses doesn't have new jobs, and a state without taxpayers doesn't collect revenues to maintain public services. This in a nutshell explains the great reverse gold rush out of California, and why in recent years it has been accelerating. Our prognosis is a dreary one: California is in a death spiral – or should we call it a “debt spiral” – with high taxes driving out wealth producers, which reduces jobs and property values, which depletes revenues for the cities and the state, which causes big deficits, which causes the legislature and towns to raise taxes again, causing more people to flee and the whole unhealthy cycle to repeat itself.”*

The other really telling example is Europe. Currently, we seem to be following their economic model, one they are now abandoning as ineffective. I speak primarily of tax and welfare policy. In recent years, many European nations have dramatically lowered their tax rates and seen an economic boom as a result. They are also seriously questioning the burgeoning welfare state and its effect on the incentive to work. Here is the quote that speaks to me.

*“The Europeans created a vast constellation of domestic policy interventions that were cloaked in the seductive rhetoric of compassion, fairness, and cultural sophistication. In reality they had obliterated work incentives and entrepreneurial activity. These antigrowth policies include highly generous welfare benefits for the unemployed; state ownership or subsidy of key industries (such as the \$15 billion to Airbus); workplace rules that make it difficult for employers to hire and fire workers; prohibitions against closing down plants; heavy protections of labor unions against competitive forces; mandatory worker benefit packages that include health insurance, child care allowances, paid parental leave, and four to six weeks of vacation for employees; super-minimum –wage laws; shortened work weeks; and, alas, high taxes on business and labor to pay for these lavish benefits. In sum, Europe penalizes work and subsidizes nonwork, and no surprise, they have gotten a lot of the latter and far too little of the former.”*

Does any of this sound familiar? “Domestic policy interventions”? “Seductive rhetoric of compassion, fairness, and cultural sophistication”? President Obama is certainly a master of seductive rhetoric. President Bush isn’t as charismatic a speaker, but I certainly remember hearing a lot about “compassionate conservatism”. Both administrations intervened domestically, with the current administration taking intervention to previously unheard of heights. Should we consider learning from the economic results of the European experience?

Those who ignore the lessons of history are doomed to repeat them. This book clearly articulates many of the lessons we need to remember now, complete with supporting data. It is well-written and definitely worth your time. Just be prepared to be shocked, angry and scared as you learn.

Margaret W. Purvine  
July, 2009

*Ms. Purvine is a Principal with Next Step Solution. Reach her at 425.918.1910 or [margaret@nextstepsolutions.com](mailto:margaret@nextstepsolutions.com). Read her business blog at [www.businessinwashington.com](http://www.businessinwashington.com).*

Copyright © 2009 by Next Step Solutions, Inc. All rights reserved.