Right-Wing Economics vs. Reality
By Dan Jacoby

Part 1. Introduction

For decades, we have been assaulted with right-wing fiscal rhetoric, to the point where almost everyone believes its postulates. Yet nobody has publicly, and fully, questioned those postulates to determine if they are accurate. After all, if the postulates are accurate, then by demonstrating that fact we can move forward together with confidence in our economic system. On the other hand, if the postulates are inaccurate, then we must change our system to meet the facts.

In this essay, I will demonstrate that the postulates on which right-wing fiscal rhetoric is based are inaccurate, and therefore that by following them we are creating an American economy – and a world economy – that is detrimental to both our immediate situation and our long-term future.

Finally, I will introduce a different set of economic postulates, which are based on facts and economic history, and which, if followed, can serve to maintain American prosperity and economic supremacy for generations to come.

Part 2. Right-wing Economic Postulates

I have chosen the following set of six postulates, all of which are clear positions that have provided the core of right-wing economic rhetoric for the past thirty years. Initially, these postulates were met with proper skepticism. After over a generation of propaganda emanating from highly funded "think tanks," however, these postulates are generally accepted without question.

After the initial list, I will take each postulate in turn, and explain the rationalization behind each postulate, why the postulate is inaccurate, and where the rationalization went wrong.

The six postulates are:

1. *Entrepreneurs, and the venture capitalists who back them, create jobs.*
2. *Lowering tax rates results in more revenue for the government.*
3. *Reducing restrictions on business activities is good for business.*
4. *Free trade agreements increase economic activity and raise the standard of living.*
5. *Government cannot do anything domestically to increase economic activity.*
6. *A flat tax is fair.*

These postulates have become the standard frame of reference within which all economic discussions are conducted. Before we look more closely at these postulates, however, we should dispose of what appears to be a glaring omission – the right-wing claim that a balanced budget is always needed (except in case of emergency). While the balanced budget argument has seemed to be a right-wing mainstay for decades, every time we have a right wing government we also get the largest deficits ever. Clearly a balanced budget, for all their rhetoric, is not a right-wing economic postulate, but merely a red herring.

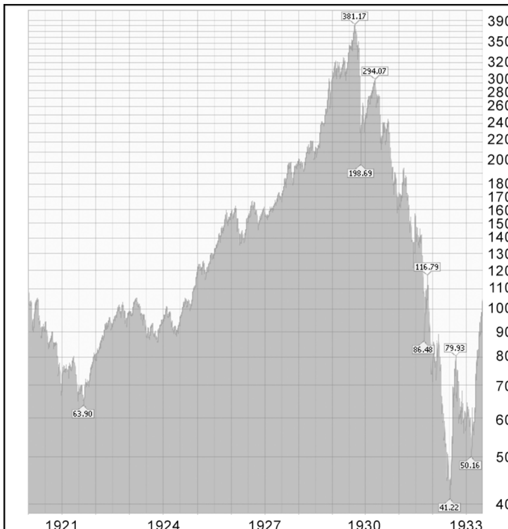
Let us now take a look at the postulates, one at a time, in greater detail, and question whether they are accurate.

1. Entrepreneurs, and the venture capitalists who back them, create jobs.

This is the core statement underlying what became known during the Reagan administration as “supply-side economics.” The claim here is that by increasing the supply of goods and services the demand will increase to meet the supply and the jobs needed to produce the goods and services will be created as well.

The first problem is that when supply exceeds demand prices fall to the point where production slows or stops. The result, therefore, is not an increase in jobs, since the businesses that provide the supply are forced to close for lack of demand. In fact, rather than create new jobs, this supply-side view actually results in a net loss of jobs, as many people hired by new businesses that fail have quit old jobs that are eliminated rather than filled with new workers.

The second problem follows the first. When prices fall in one area, venture capital (the “supply”) goes elsewhere, looking for the highest potential return on investment. The result is what is generally known as a “bubble” in the sector where the supply of venture capital goes next.

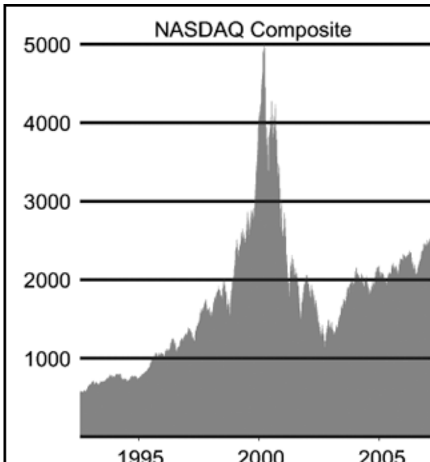


Source: http://stockcharts.com/charts/historical/djia19201940.html

Fig. 1

In the 1920s, the top capital gains tax rate was slashed from a match to the top income tax rates (at 73% in 1921) to a maximum of 12.5% from 1922 through 1933. The result was a stock market bubble. The excess venture capital found its way into the stock market, causing stock prices to rise beyond rational levels. The Dow Jones Industrial Average (DJIA) alone rose from a low of 63.90 in the latter part of 1921 to a high of 381.17 – an increase of nearly 500% – just eight years later, before crashing less than two months after its peak. (Fig. 1) By the middle of 1932, the DJIA had dropped below its 1921 minimum, and we were embroiled in the Great Depression.

During the 1980s, the income tax rates were lowered along with capital gains rates. The savings and loan crisis of the late 1980s was partly a result of imprudent loans and could be symptomatic of a bubble economy. But other factors, including the severe decline in the inflation rate and equally severe deregulation, were far more influential in causing the problems that ended with the federal savings and loan bailout. Generally speaking, therefore, capital gains taxes were not significantly lower than income taxes, and there was no bubble.



Source: http://upload.wikimedia.org/wikipedia/en/e/e1/Nasdaq_historical_graph.svg

Fig. 2

During the 1990s the top income tax rate rose as high as 39.6% while the top capital gains rate was eventually lowered to 20%. The resulting bubble showed up as an overabundance of internet-based companies, called the “tech bubble”, most of which were created with no plan for generating profit at any time. Many of those companies are now defunct, with no jobs created. The tech bubble was most easily seen in the price of the NASDAQ Composite index, which rose precipitously throughout most of the 1990s, only to crash in the year 2000 as the economy slowed. (Fig. 2)

There were actually about 23 million jobs created from 1993-2000, according to the Bureau of Labor Statistics. This tremendous rate of job creation was due mostly to two factors. First, increased productivity as a result of the “PC revolution” allowed wages to rise without affecting inflation. If a person makes more money, but also creates more goods or provides more services, then the price per unit production doesn’t rise. This happened throughout the 1990s. Second, the collapse of the Soviet Union caused Russia and many of the other former Soviet states to dump metals and other raw materials on the market in their desperate need for hard cash. The result was ever-decreasing prices for these raw materials, which allowed wages to rise even farther without a resulting inflation. The constant rise in wages without accompanying inflation resulted in increased demand, as consumers had more money to spend. This increase in demand resulted in job growth.

Source: http://seekingalpha.com/article/73501-existing-home-sales-charts

Fig. 3

In this decade, the top capital gains rate was lowered as far as 15%. This time the bubble showed up in the housing market, which has led to the current housing slump. (Fig. 3) The housing slump is potentially far worse than merely no new jobs being created. In order to generate demand to keep up with the oversupply, mortgage brokers underwrote “sub-prime” mortgages that were aimed at selling overpriced homes to people who could not afford them. The recent “mortgage meltdown” is the natural result, and not only are hundreds of thousands of jobs disappearing, but many people’s life savings have disappeared as well.

These examples of oversupply occurred when taxes on capital gains were lowered far below income tax rates. The concept of taxing earned income at a much higher rate than investment income has become known as the “work tax.” In order to restore the balance between supply and demand, and prevent future bubbles, capital gains taxes must be raised.

In addition to creating various “bubbles,” the supply/demand imbalance caused by too large a difference between income tax rates and capital gains tax rates also results in resources being allocated to nonproductive ventures. Instead of creating new products or providing new services that yield a tangible benefit, money is “invested” in paper securities in the hope that the later sale of the paper to other investors will result in a profit. This activity is not far from pyramid schemes; only the earliest investors have the best chance to show a profit, while later investors, who enter the market after the price has risen, end up buying overpriced securities.

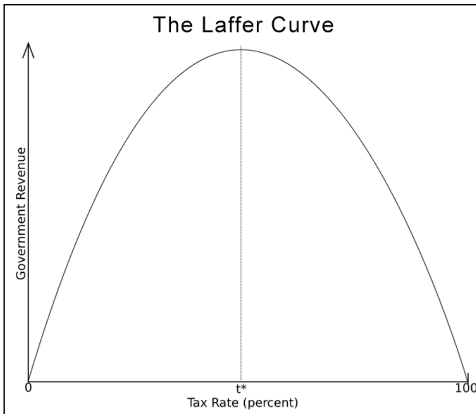
Some will argue that businesses that provide new products or services can, in fact, create demand where none existed before. An obvious example of this argument is the desktop computer. Prior to the creation of the desktop computer, there was little, if any, demand for these specific items. The fallacy here is in taking too narrow a view of demand. The desktop computer increased productivity and, with the creation of new internet protocols, facilitated communication. Demand for both increased productivity and better communication methods never wanes. The production of desktop computers was merely a new response to a demand already present.

Demand, not supply, creates jobs. Entrepreneurs, at their best, merely respond to an existing demand for the goods or services they provide. If they do their job poorly, then the businesses they create fail. If they do their job well, however, then the jobs that are created are merely the result of fulfilling a preexisting demand.

2. Lowering tax rates results in more revenue for the government.

This postulate is based on what is known as the *Laffer Curve*, which was initially sketched by economist Arthur Laffer on a napkin in 1974. (Fig. 4) The idea behind the Laffer Curve was embraced earlier by John Maynard Keynes and far earlier by the 14th century Arabic philosopher Ibn Khaldun. It states that as taxes rise, so does the revenue – but only up to a point, which Laffer labeled "t," that marked the highest possible government revenue. Beyond that point, as taxes rise, revenues fall.

The first problem here is that the general principle outlined in the Laffer Curve is not properly stated in the right-wing postulate. The general principle is that raising taxes will actually increase revenue up to a certain point, and only above that point will further rate increases result in lower revenue. The right-wing postulate ignores the first part of that general principle.



Source: http://en.wikipedia.org/wiki/Image:Laffer-Curve.svg

Fig. 4

The second problem is that no economic model has been developed to date that can be used to determine either where "t" is or, in consequence, on which side of "t" our current tax rates lie. Hence there is no way to know, based on the Laffer Curve alone, whether a tax cut will increase or decrease revenues.

The third problem is that not all taxes are equal. Different forms of taxation yield different results. Hence, attempts to lump all taxes together are more than oversimplification, they are simply false.

Even without the Laffer Curve, the right-wing postulate can be disproven easily. Suppose all tax rates were reduced to zero. Clearly, at a tax rate of zero revenues would also be zero. Therefore, since all tax rates higher than zero (except 100%) will result in revenues greater than zero, from any given tax rate higher than zero there must be some point at which lowering taxes actually reduces government revenue.

3. Reducing restrictions on business activities is good for business.

It would seem, at first glance, that the more freedom a particular business has to do what it likes, the more opportunity that business has to make greater profits. As with the second postulate, however, this ignores the *reductio ad absurdum* argument that if there were no laws and no regulations there would be very little business at all, and certainly no large businesses.

The core approach underlying almost every large business on the planet is the corporation. A corporation is an invented entity that, without laws and regulations, could not exist at all. This corporate entity, being legally separate from any individual or group of individuals, indemnifies those individuals from many activities the corporation undertakes. Under this system, individuals cannot be dunned for most corporate debts. As a result, people who want to take financial risks without jeopardizing their own economic situation have a means to do so.

The other side of that coin is that since the people running a corporation are not personally responsible for the debts of that corporation, it would seem that venture capital would not be available for corporate entities. After all, if someone with capital to invest cannot hold responsible those people with whom the investment is made, the risk to the investor is far too great. That is why corporate regulations, properly enforced, are necessary; laws regarding stockholder powers and fiscal transparency give investors confidence to invest in impersonal corporate entities.

Without the protection offered by the laws that allow for and govern the practices of separate corporate entities, businesses would be extremely limited in size and scope, and the venture capital currently used to create new, large businesses would not be available. We create laws and regulations so that entrepreneurs can create businesses, confident in the knowledge that if they understand the regulations and meet a demand, they have a real opportunity to make a profit.

Another problem with the right-wing approach to regulation, that all regulations are bad for business, is that it is far too simplistic. The question, at any particular time, is whether the current set of regulations is too restrictive or not protective enough – or both. In answering this question, different types of businesses must be treated differently. In addition, within any particular business area, some regulations may be too restrictive, while others are too permissive. A “one size fits all” approach of mindlessly repealing all regulations leads to disaster.

The deregulation of the air travel industry, for example, seemed at first to lead to lower prices and greater competition, but in time the full effects were far different. Although competition surged at first, the demise of new airlines, such as People’s Express, caused others to merge in order to stay in business, or simply to go bankrupt. Over time, passenger services dwindled, prices rose, and the industry underwent an enormous disruption. Even with the greater availability of prices to the general public through the internet, the cost of flying rose and choices dwindled. The combination of rising costs and diminishing choices occurred well before the attacks of 9/11/01 resulted in a severe disruption of the airline industry.

Regulations provide many benefits to businesses, some directly and others indirectly. Proper health and safety regulations ensure worker safety, which allows a business to hire more easily and at lower salary costs. Regulations on sales and advertising practices engender consumer confidence, making it easier for a business to sell its products or services.

Finally, regulations maintain stability. During the period from the end of the Civil War to the Great Depression, the economy experienced wide swings and panics. The panics of 1873, 1893 and 1907, and the Great Depression beginning in 1929, were the result of a failure to regulate large businesses sufficiently. In the 70-80 years since the advent of modern regulations during the 1930s, the U.S. economy has not experienced anything close to the panics encountered in the 70 years before those regulations went into effect.

Regulations provide a roadmap for business to conduct its affairs, secure in the knowledge that its practices are sound. They also create investor, employee, and consumer confidence. While some regulations can be merely onerous, and should therefore be modified or removed, the vast majority of regulations serve to enhance our standard of living and our economic stability.

4. Free trade agreements increase economic activity and raise the standard of living.

There are three fallacies in this postulate. The first fallacy is that the so-called “free trade agreements” actually foster free trade. Those agreements only cover certain types of trade in certain goods, and they are designed and written not to promote truly free trade, but to promote profits for certain multinational corporations.

For example, if the 1993 North American Free Trade Agreement (NAFTA) truly allowed for free trade between Canada, Mexico and the United States, there would be no problem exporting to, and then re-importing drugs from, Canada. But that is still illegal, because NAFTA is far from comprehensive. Meanwhile, even as Americans cannot reimport American drugs from Canada, many prescription drugs consumed in the United States, such as Heparin, are manufactured in China. Even though nobody has died from drugs routed through Canada, but many people have died from contaminated Heparin, the profit interest of drug companies prevails over free trade.

The second fallacy is that the United States has been a long-time champion of free trade. Historically, the U.S. government never has favored truly free trade. For most of our first century as a nation, selective – often protective – tariffs were a major source of income for the federal government. Tariffs not only provided significant revenue, but also allowed domestic manufacturing and international trade of American manufactured goods to develop and grow.

Tariffs, however, are only one way free trade is hindered. Domestic policies can be designed to limit trade in many ways.

Subsidies for certain exported goods serve as an obvious example. Today, the U.S. government subsidizes many staple crops, such as wheat, lowering the price abroad. This practice often prevents farmers in developing and undeveloped countries from making a living, as they cannot sell their crops even in their own area at prices that match the subsidized price for imported American crops. The current worldwide food shortage is due in part to these subsidies, as there are too few local farmers in developing and undeveloped countries to feed their own people.

Another, more subtle example of less-than-free trade is the patent system. International patent laws give a tremendous advantage to developed countries, and to the favored industries within those countries. Failure to enforce those laws in developing and undeveloped countries is a major complaint of U.S.-based multinational corporations. If those patents were fully enforced in those countries, however, the price charged for the patented products would generally be too high for all but a very few customers. Such a high price (high, that is, for most people in undeveloped countries) leads to the patent infringement that can often run rampant.

The third fallacy behind “free trade agreements” is that these agreements are designed to help raise the standard of living. The propaganda is that free trade will result in more trade, and therefore more income for all sides. It sounds logical on the surface, but if there isn’t a demand for more goods then there will be no increase in trade. What actually happens is that trade shifts as goods previously manufactured here are manufactured instead in countries where labor is cheaper. (Note: The failure of NAFTA to create jobs in the United States is tied to the general failure of NAFTA to increase trade with Mexico, as the manufacturing – and jobs – that would have gone to Mexico under this agreement went instead to China.)

The same multinational corporations that champion the so-called “free trade agreements,” and spend huge sums lobbying for these agreements, are the real beneficiaries. These agreements enable them to use the difference in the standard of living between the U.S. and other countries to manufacture products overseas, paying those countries’ inhabitants wages and benefits so low as to be illegal here (and often illegal elsewhere even under the “free trade agreements” the United States enters into, but rarely prosecuted). The real benefit goes to the top executives and large shareholders of the multinational corporations, while American jobs are lost. Meanwhile, the inhabitants of developing and undeveloped countries who get those jobs are barely able to make ends meet, even in the poorest areas of the world – and thanks to the wording of the “free trade agreements,” they generally don’t have the right to unionize or take other steps to raise their standard of living.

These “free trade agreements” are generally designed to bolster the profit margins of certain multinational corporations at the expense of both American and foreign workers. In addition, because they are limited both in terms of which countries are involved and which industries are affected, the trade they promote is far from free. While the multinational corporations get richer, workers in both the developed and undeveloped areas of the world get poorer. Without stricter regulations, and requirements that all products imported into the “developed world” are manufactured for wages and benefits – including environmental friendliness – that truly help workers and their home areas, these trends will continue.

5. Government cannot do anything domestically to increase economic activity.

To be fair, this postulate as stated above isn't an entirely accurate rendering of the true right-wing position. Even the most fervent right-wing adherents will admit that there are mechanisms available to government to stimulate the economy in the short run. The full right-wing theory, however, is that the longer-term price is far too high.

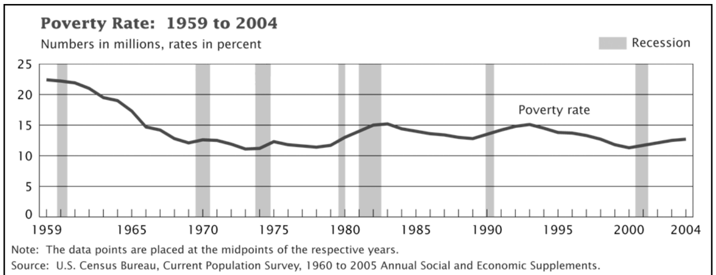


Fig. 5

In 1962, the poverty rate, as measured by the U.S. Census Bureau, stood at 21%. (Fig. 5) In his January 1964 State of the Union address, President Lyndon Johnson announced a "war on poverty." The first method used to wage the war on poverty was generally termed "guns and butter." Under this concept, the federal government spent enormous sums of money on "guns" (the escalation of the war in Vietnam, and increased militarization to fight the cold war), and "butter" (the "Great Society" initiatives, such as Medicare and Medicaid).

By 1973, the poverty rate had fallen to 11.1%. Since then, the poverty rate has risen to 15% twice, both times following recessions, but never approached pre-1964 levels. In both cases where the poverty rate reached 15%, it fell when the economy rebounded. Clearly, the "war on poverty" succeeded not only in reducing the poverty rate but also in keeping it down.

This particular postulate is based on the ultimate failure of the war on poverty to eliminate poverty completely. The fact that abject poverty was vastly reduced, and the national poverty rate itself went down significantly – and stayed down – right-wing politicians still claim that even the significantly lower poverty rate was "proof" that the war on poverty itself failed. The accompanying rise in the inflation rate that seemed to follow these policies was offered as further proof.

The rise in the inflation rate was caused by two related factors. First, government policy in the 1960s was aimed at reducing the unemployment below what is now considered to be its natural level (more on that concept below). Second, the money supply was allowed to expand at ever-increasing rates. Increasing the money supply often (but not always) leads to greater economic activity, and hence a lower unemployment rate. This is usually only true in the short run; over time a constantly increased money supply generally leads to higher inflation. This higher inflation rate was unexpected in the mid-1960s when the plan was created.

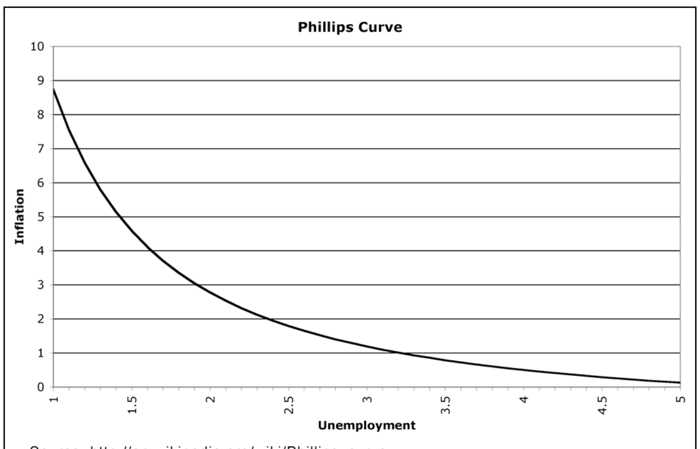


Fig. 6

It turns out that the theoretical economic basis for this plan was seriously flawed.

In 1958, economist Alban Phillips published a paper that purported to show an inverse relationship between inflation and unemployment. Such a relationship could be plotted on a graph as a curve (Fig. 6), which became known as the "Phillips curve." If lower inflation was a desired goal, higher unemployment was the price. Conversely, if a lower unemployment rate was preferred, the tradeoff was a higher inflation rate. Some people quickly claimed that this Phillips curve was immovable, and that government policies could be adjusted to pick a point on the curve; this was the flawed theory.

Since it was believed that this curve could not move, it made sense to pick a point with slightly higher inflation and lower unemployment. The view was that a little extra inflation could be tolerated, especially if it meant more people were able to earn a living. An unemployment rate of 3% was chosen, since it seemed to be comfortably far away from the point at which inflation began to rise at serious rate. In order to stimulate the economy and reach this goal, at a time when America was expanding its presence in Vietnam, the “guns and butter” policies were adopted.

The problem was, the curve could move. By the mid-1970s it was well understood that the Phillips curve not only could move, it was moving at an alarming rate. Both inflation and unemployment were rising, and the term “stagflation” was created to describe the situation.

Milton Friedman, who would win a 1976 Nobel Prize for his work, developed an economic model based on a “natural unemployment rate.” His idea was that when government policies push unemployment below its natural rate it creeps up as people become accustomed to the higher inflation rate, forcing inflation even higher as government policies continue to attempt to lower unemployment below its natural rate.

A standard method for controlling inflation is to limit the growth of the money supply by raising interest rates. Since interest is defined as “the cost of money,” a higher rate means a higher cost of money, which leads to less money being available. The monetary policy of the United States during the 1960s and 1970s, however, remained focused on maintaining stable interest rates, regardless of the consequences. This policy was in line with the erroneous immovable Phillips Curve idea, but it led to increasing inflation. Until the appointment of Paul Volcker as Chairman of the Federal Reserve in 1979, artificially low interest rates resulted in an ever-increasing expansion of the money supply, and ever-increasing inflation rates.

This nearly two-decade history shows that government policies can lead to higher inflation without increasing economic activity. The right-wing argument is that government “interference” in the economy can only lead to this type of morass. But most of the rest of our history shows that the opposite can also be true – that government policies can generate increased economic activity.

In the first years of our nation’s existence, Treasury Secretary Alexander Hamilton created the first national bank with an eye toward both providing and controlling a money supply. His goal was to create an economic climate in which potential investors felt confident enough to create the manufacturing base the new country’s expanding population and wealth demanded. Despite a few mistakes, he succeeded brilliantly. As a result of Hamilton’s policies, the new government was able to pay off an enormous Revolutionary War debt (including assuming the unpaid debt of many states) while generating spectacular economic growth.

During the first half of the 19^{th} century, the elimination of the first national bank in 1811 led to economic panic that was shortly masked by the War of 1812. In 1837, after years of presidential hostility toward the second national bank, investors’ confidence in the relative stability of our nation’s economy plummeted, and the “panic of 1837” ensued. After the Civil War and early economic gains due to reconstruction, the government’s failure to install proper regulations led to the panics of 1873, 1893 and 1907, as well as the Great Depression. This recurring succession of economic expansion followed by severe contraction became known as the “boom and bust” cycle.

In 1913 Congress created the Federal Reserve System with an eye toward ending this cycle. Until the Great Depression, however, the system lacked both sufficient economic understanding and proper controls to ensure relative economic stability. Only when both of these factors were added did the boom and bust cycle subside. Since then, the worst economic recession, which hit bottom in late 1982, was far smaller than pre-Depression panics. That “worst economic recession” was the result of a combination of a decade of the disastrous fiscal policy described above and unwillingness on the part of the Federal Reserve leaders to manage the country’s money supply.

In 1979, President Carter appointed Paul Volcker as Federal Reserve Chairman. Volcker cut the growth of the money supply and ended the spiral of increasing inflation. The short-term result was the deepest recession of the era, with unemployment peaking at 10.8% in late 1982. The long-term result has been 25 years of low inflation and an unemployment rate that, since it dropped below 8% in early 1984 has not been that high since. It should be noted that even with all the failures of three successive presidents, Johnson, Nixon and Ford, to take proper action, the worst unemployment rate was a small fraction of the rates reached in Depression-era and pre-Depression panics. The tighter government controls not only allowed for greater economic expansion over the course of several decades, but also limited the downturns.

After the past 25 years, it is now obvious that proper fiscal and monetary policy can generate economic activity while keeping inflation low. It is so obvious, in fact, that even right-wing politicians promise to take steps – government action – to create or maintain expanded economic activity over time. Additionally, in times of economic stress, even the staunchest right-wing politicians demand some sort of government-induced “economic stimulus.” Clearly, even the right wing no longer believes its own postulate – if, indeed, it ever did.

6. A flat tax is fair.

This is one of the right wing’s favorite mantras. In 1996, businessman Steve Forbes ran for president on a flat-tax platform. Most recently, Mike Huckabee proposed a version of the flat tax that, he claimed, was really a progressive tax. It wasn’t, but it took a close look to understand the difference between what he claimed and the truth.

Governor Huckabee’s plan was to replace the federal income tax with a national sales tax on every item sold, combined with a fixed sum, which he called a “rebate,” to be sent to every person in the country. There were two theoretical components to this scheme. First, it was assumed that low-income Americans would spend less money than high-income earners, and therefore pay less tax. Second it was claimed that the rebate, being a flat number for all Americans, would be a significantly higher percentage of low-income earners’ incomes. The end result, therefore, would be that the more someone earned, the higher effective tax rate that person would pay.

The problem with these assumptions is that they require that all Americans spend an equal percentage of their income. This does not happen; wealthier people tend to spend less of their income, and save or invest a higher percentage, than poor people. As a result, rich people would actually pay a lower percentage of their income in federal tax than poor people, and the rebate often wouldn’t make up the difference. Instead of being a progressive tax, or even a flat tax, the Huckabee proposal would, in many cases, be a regressive tax.

There are two reasons why a progressive tax, in which those who have or make more money pay a higher percentage of their wealth or income, is the best system. One reason is philosophical, the other practical.

The philosophical reason stems from the purpose and effect of the fact of government. Thomas Hobbes wrote that the natural life of man is “solitary, poor, nasty, brutish and short.” Without government to create and enforce stability, nobody could accumulate wealth, since there would not only be too many others trying to take it away, but also be no way to protect wealth without spending it on the protection. Government is created, argued Hobbes, so that wealth could be accumulated, protected, and used to create more wealth that would benefit the whole society.

Hobbes went on to discuss his view on the cost of creating government in terms of sovereignty. His views on sovereignty were repudiated, both in his native England and in the United States, but his basic concept of the initial purpose of government has not been repudiated; governments are created to allow the accumulation and protection of wealth. The Revolutionary War was begun, and primarily fought, over taxes and other economic burdens that King George III and the British parliament attempted to levy on the colonies.

In short, government is nothing more or less than a formalized social compact, designed to preserve, protect and increase the wealth of the society's members. Since government is created to preserve wealth, it follows naturally that those with the most wealth are the greatest beneficiaries of government.

It follows as well that the benefit from government actually rises faster than does wealth. Since any person's needs are met with a certain amount of wealth, it is only the wealth above that "needs" line that is protected by government, since the amount "under the line" is consumed by the person's needs. Therefore, the higher one's wealth, the greater the percentage of wealth protected by government.

If the more wealth one has, the greater one benefits from government, and if the benefit increases faster than actual wealth, then the wealthier one is the greater share of one's wealth one should pay to support the government. This is the philosophical underpinning of the progressive tax.

The practical aspect of a progressive tax is much simpler to understand. Wealthier people can also afford to pay a higher percentage of their wealth than poor people. Paying a higher rate is therefore more less noticeable the wealthier one is. Since paying a higher percentage of wealth is less noticeable to a wealthy person than to a poor person, it makes sense to create a system where higher wealth is taxed at a higher rate.

In addition, money has a gravitational effect – it attracts more money. A person with money to spare has a range of options for making more money, while a person who is destitute lacks most of those options. This effect is often expressed by the phrase, "The rich get richer." It leads to a widening disparity between rich and poor, a disparity that can only be remedied in two ways. Government can intervene with policies designed to redistribute some of the wealth, or an internal revolt will do the same thing, though far more violently. A progressive tax code, which serves to redistribute some of the wealth, is beneficial to the wealthy, since it helps counteract money's gravitational effect without the violent revolution in which those with the most money have the most to lose.

A flat tax, which forces poor people to pay as much, or at least the same percentage of wealth or income, as rich people, is inherently unfair. It is unfair because those who benefit most from government are not required to pay the most for those benefits. It is also, in the long run, self-destructive, since it fails to counteract money's gravitational effect and create the relatively mild redistribution of wealth necessary to avoid revolution.

Part 3. Conclusion

As we have seen, none of the six right-wing postulates stands up to scrutiny. Every one of them is based on a false premise, which leads to erroneous conclusions. By stripping away the veneer of these false premises I have explained why these postulates, and the economic practices that stem from them, ultimately fail.

A proper economic policy, then, must be based on a vastly different, far more realistic, set of postulates, as follows:

1. Balance supply and demand to generate investment without economic bubbles;
2. Adjust tax rates based on what is needed to pay for government;
3. Institute enough restrictions on business activities to ensure safety of workers, customers and bystanders, and to maintain sufficient economic stability;
4. Generate trade policies based on what will raise the standard of living for workers here and abroad, not on what will only lead to short-term benefits for top management of multinational corporations and their major investors;
5. Maintain sufficient government control of the economic engine to avoid a return to the “boom and bust” cycle; and
6. Reestablish a progressive tax code.

These moderate postulates are designed to create an economic environment that allows for sufficient investment to balance the demand for goods and services, allow demand to grow, maintain stability in the business sphere, and require people to pay for the benefits they receive. They are based on reality rather than false assumptions and half-truths. As we have seen, deviating from reality and practicality inevitably results in greater disparity between rich and poor, which can have both unstable short-term, and disastrous long-term consequences.

By implementing practical economic policies, we can balance the budget, allow for business investment, raise the standard of living, and provide the long-term infrastructure needed to maintain our economic dominance throughout the next century.