

THE MUNK DEBATE ON ECONOMIC INEQUALITY

MAY 30, 2013

RUDYARD GRIFFITHS: That moment has come. Let's start getting our debaters on the stage and our debate underway. First, please welcome the former prime minister of Greece, the current president of the Socialist International and one of *Foreign Policy* magazine's top one hundred global thinkers, George Papandreou.

His fellow debater on the pro team, a Nobel laureate in economics, a tenacious columnist and blogger with *The New York Times* and the scourge of billionaires everywhere, ladies and gentlemen, Paul Krugman.

One formidable team of debaters deserves another, and we have them for you now. Please welcome first, the intellectual father of Reaganomics, the author of the famous Laffer Curve, an economist who proudly proclaims that he has never seen a tax cut he didn't like, Dr. Arthur Laffer.

Now, our final speaker tonight, joining Dr. Laffer on the con side of this debate is none other than the former U.S. Speaker of the House of Representatives, a recent candidate for the Republican presidential nomination, and one of the most influential politicians of his generation: ladies and gentlemen, the Honourable Newt Gingrich.

Two final pieces of business before we get underway with our opening statements: first I'm going to ask our projector operator to show the debate countdown clock. Those of you who have been to Munk Debates before will remember that we have a clock, and when it hits its final moments and appears on the big screens, we want you to join me in a loud round of applause for our debaters during their opening and closing statements. That is going to keep our debate on time and our debaters on their toes.

Finally, it's time for a pivotal moment, gentlemen. We're going to see how this audience voted on tonight's resolution as they came into this room. The resolution: "Be It Resolved: Tax the Rich More." Let's have the results of the first audience vote now. There you have it: 58 percent in favour, 28 percent opposed, 14 percent undecided. Let's drill down a little bit deeper with our second question, because we want to see just how big that potential swing vote is in this audience. Depending on what you hear here tonight during the debate, are you open to changing your vote? Let's have that number, please. Wow — 79 percent of you say yes; only 21 percent say no. So this debate is still very much in play.

Okay, it's time for our opening statements. As is convention, the side arguing in favour of the motion will speak first, and Paul Krugman has offered to kick off his team. Paul, you're up.

PAUL KRUGMAN: Good evening, thanks all for being here. Thanks for the invitation. I'm delighted to be here in this lovely city, which among other things appears to have a much more interesting mayor [Rob Ford] than any city I've ever known. But that's not what we are here to talk about. We're here to talk about taxing the rich.

Now, there are some big philosophical and social issues involved here and I believe that my colleague, George Papandreou, is going to address those. I'm actually going to keep my part fairly mundane and I want to talk about three cut-and-dried, or at least fairly mundane issues.

The first is, should we be thinking about raising anybody's taxes? The second is, can we, in fact, raise significant sums by taxing the rich more heavily? And third, should we really fear the economic consequences if we do raise taxes on the rich?

So, on the first question ... look, we are living in a time, certainly in the United States but also here, in which we are constantly being told that there are good things, humane things, that we would surely like to do but that we can't afford, because we are short of money. Right now the debate that I've been tracking a lot in the United States involves food stamps, which has been a crucial lifeline to a lot of people during this difficult economic time, but the House Republicans just voted for major cuts in food stamps, about \$2 billion dollars a year. So, would taxing the rich make any difference for this kind of thing?

Well, you know, it turns out, if you look at the top one percent in the United States, in 2011 they had a combined income of about \$1.4 trillion, not counting capital gains, which says that if you could raise one-seventh of one percent of their income in additional revenue, that would obviate the need for these food stamp cuts we are being told we need to make.

And that suggests to me — obviously, there are a lot of other things ... I want more revenue than that, and there are a lot of other things I want to defend — but the point is, there is a lot of money at the top, enough for it to make a significant difference in allowing us to have a better society than the one we're heading for in our current trajectory.

Can you actually collect a lot more money from the top? Will raising taxes just drive their income underground, causing them to hide it? Well, we have a lot of evidence on that. For the United States, our top marginal tax rate has, over the generations, ranged from as low as 28 percent to as high as 91 percent. So we have a lot of variation, and a lot of careful statistical work trying to analyze it. And it *is* true that our marginal tax rates do cause reported income to decline some, but not much.

We have actually very good estimates of where — if you like, how high does the top rate have to be to put us on the wrong side of the Laffer curve? And the answer is, at least 70 percent, probably 80 percent or more. We are just not starting, from where we are now, in a region from where we have to worry about taxing so heavily that we actually end up losing revenue, because we can collect a lot more revenue and put it to good use if we're willing to raise tax rates on the top.

Well, finally, what about tax rates and the economy? Will raising tax rates on the wealthy really have disastrous economic consequences? And, of course, that's what you always hear, and the classic example came some time ago — twenty years ago, in 1993 — when then newly elected President Clinton raised top tax rates and there were many predictions that this would have terrible effects on the economy, and one famous prediction — you knew this was coming, Newt, right? — a fellow by the name of Newt

Gingrich said, “the tax increase will kill jobs and lead to a recession and the recession will force people out of work and onto unemployment and actually increase the deficit.”

Now, I actually know what your answer is going to be because this has happened to you before. You’re going to say that it’s all because all the good stuff happened after Republicans took over Congress and started cutting taxes. But that’s not going to wash. First of all, because during those first two years of the Clinton administration, the U.S. economy added 6.7 million jobs, 278,000 a month. That’s before you guys moved in.

And secondly, because those later tax cuts were small change compared with the initial tax increase; every year — according to the CBO [Congressional Budget Office] — every year that Clinton was in office, the effective tax rate on the top one percent of the U.S. was higher than it was in any year under the Bush I administration or the Bush II administration, and the U.S. economy experienced an epic boom despite those high tax rates.

Interestingly, we now have a top rate for a few people that’s back to Clinton-year levels. I didn’t hear so many predictions of disaster this time, because I think people have figured out it doesn’t really happen that way.

And by the way, we had much higher tax rates for the generation after World War II. We had tax rates that would be considered inconceivable now, and that didn’t stop that twenty-five-year period from being the best period of economic growth and particularly the best period of middle-class rise in living standards that we’ve ever had in our history.

So, should we raise taxes on the rich? Yes, for various reasons, but above all because we could use the money. Can we actually raise more money that way? Yes, of course we can. The evidence is clear. Should we be afraid that it will hurt the economy? No, we shouldn’t.

So let’s do it.

RUDYARD GRIFFITHS: Very well done, Professor Krugman, twenty-five seconds to spare, and nothing better than when you find those quotes to turn against your opponents. We like that. Speaker Gingrich, you’re up next.

NEWT GINGRICH: Let me say first of all, I’d like to thank Peter Munk for his civic involvement in creating an institution like this. And I’ll tell you in advance, as a former teacher, when you’re talking in the round, and you realize that a large part of your class is behind you, it creates a certain tone of anxiety, but I’m counting on those of you who are here [in front of me] watching them back there [behind me].

So I’m not going to take up Paul’s ... maybe later we can get into that later, in the dialogue about what happened in the ’90s. I want to approach this from a very different angle. First of all, the debate is not about raising the tax rate. We had 70 percent tax rates, we had 90 percent tax rates; and if you were rich enough you had really good attorneys and really good CPAs and you never paid them. We just had a presidential campaign in which Mr. Krugman’s candidate ran against my party’s candidate in part on the grounds that my party’s candidate had an effective tax rate of 14 percent. It was all legal.

It was a lot, in fact, like the current president's proposal for the Secretary of Commerce, who turned out to have misstated her taxes by \$80 million, but it wasn't a big mistake because she is worth about \$1,200 billion. So, compared to you and me, it would be like you and me filing \$300 wrong.

The fact is, really rich people don't earn incomes, they get money. That's why Bill Gates has lots of money. And that's why he doesn't care what the tax rate is, he's not going to pay it.

So I want to make three quick cases. First, about morality. And I do want to commend the 21 percent who honestly said they don't care what the four of us say, they are not going to change their minds. This may mean that Canadian audiences are somewhat more candid than American audiences, who would have said "yes" but not meant it. But let me start first with morality, then with practicality, and then with a question of focus.

As a matter of morality, I love the way it's phrased: "Raise taxes on the rich." Why? What do we mean by "rich"? You live in a neighbourhood; you drive a certain kind of car; the person next to you drives a better car. They happen to like cars; you happen to like something else. But since they drive a better car, should we tax them more? And, if so, why?

You have another friend who happens to work at two jobs, and therefore they have a slightly higher income because they actually earned it. So should we raise their taxes? Why? Remember, this is not about charity and contributions and morality. The power to tax is the power to destroy. The power to tax is the power to coerce.

Are we really prepared to say: "If you're successful enough, we should rip you off? — You owe it to us. How dare you be so successful?"

If that's our strategy, then the right answer is not to go out and have some fancy tax rate that their lawyers will get around. We know about how much Bill Gates is worth. We know about how much Warren Buffet is worth. Why should they have more than a billion dollars' net worth? We can get \$100 billion this year, just out of two people. Now why should they be allowed just to be successful?

Well, of course the American answer has been: "Well, you know, Windows is a big deal; Microsoft is a big deal. It improved the lives of lots of people." The fact that it made one particular person successful is the way we encourage another generation to say, "You know, I'd like to go and invent Microsoft."

Now you could send a different signal: "Why waste your time? If you get successful enough, we're going to rip you off."

So I would argue first of all just on a moral level — in war time, in a crisis, you can say to people, "We need everything we can get." But as a strategy, to say to people in general, "If you're successful, we're going to punish you," is a bad thing morally.

Second, as a practicality, I want to send a signal to people: "Come to America, be an entrepreneur, create jobs, create wealth, create new ideas. We will reward and honour you because we believe that pulls people ahead."

The Chinese have followed the strategy of creating lots of billionaires. They have moved 600 million people into the middle class in a generation. Now, if the price of that was dramatic, radical economic growth, to move 600 million people into middle-class status, I think that is good, not bad.

My goal is to raise the bottom, not to lower the top. And my goal is to find a way to help everybody. So our number one focus ought to be on jobs and on creating opportunities for everybody and on solving the problem of the permanent poor by figuring out what has kept them permanently poor.

Lastly, I think this is the wrong focus for politics. Big government today is a failing, centralized, bureaucratic institution. Look at all the things you have in the private sector that are dramatically improving. Look at the hand-held device almost all of you have that enables you to vote tonight. Look at all the breakthroughs we're making in lowering costs and increasing capabilities. And then look at the inadequacy of government.

And I'll just close with one example: there's a firm created by the head of the Google driverless car system which is called Udacity. The goal of Udacity is to lower the cost of college education by 90 percent by improving access to learning. Now, there is a world out there we could improve dramatically, but it's not a function of taxation, it's a function of breaking out of the boxes we've been in. And I think that would be a lot better focus than trying to figure out how to punish people for being successful.

RUDYARD GRIFFITHS: Well, I can see those Republican primary debates have kept you sharp and on your toes, Speaker Gingrich. That was a great opening statement. Up next, George Papandreou, speaking for the pro team.

GEORGE PAPANDREOU: Thank you. First of all, let me thank you, because when I was only a teenager Canada was very hospitable to my family, who were in exile because of a dictatorship in Greece. So, thank you, Canada.

It's an honour to be here with these speakers because I think we are talking about a very important issue: that of inequality. And everybody knows that there is soaring inequality, even more than in that period in the 1920s, and this inequality has undermined basic principles of fairness and justice and trust in our societies. So I am in favour of this proposition because I believe that our democracies need to ensure fairness and a just society.

I admit this is a value which I cherish. But beyond the moral imperative that I feel is important, I'd like to relate a personal experience to you. When I became prime minister, I had a huge deficit, made by a previous, conservative government, so I had to raise taxes. But actually, my main task was to revamp the tax system because there were loopholes, there was a lack of transparency and a lot of tax evasion. Worst of all, the Greek people who were paying for the debt of Greece were at the same time seeing that as we were paying back our financial lenders, this global financial system was aiding tax evasion through tax havens and offshore companies. So, instead of a trickle-down economy, we had a trickle-out economy.

It's estimated that about a third of total global assets are beyond the reach of effective taxation. Thirty-two trillion are offshore in 2010 and are not taxed. Revenues are lost, and so much is being lost that they could deal five times with the millennium goals that the UN has for poverty and climate change.

So when I say inequitable tax, I also believe in a strong global governance, reformed, which must include transparency, closing loopholes, and effect financial regulation around the world.

A second point: tax revenues, of course, are a democratic decision for each country. I believe in progressive taxation because it is the bloodline of a social contract, or, if you like, a basic bargain in our societies.

The conservative argument is that we need a race to the bottom because of global competition. They say we should emulate the emerging economies with lower taxes, lower wages, lower benefits, lower environmental standards, less education and less of a safety net for health and pensioners. They are basically proposing to undermine this basic bargain that holds our society together.

Is there another way? Well Gordon Brown, former prime minister of the UK, said we need to overhaul our economies and infrastructure, invest in high-tech equipment, promote high-quality education. That is what is bringing our iPhones and our BlackBerrys and this innovation. And that is what he says is going to be the firepower to deal with the emerging economies of China and India. Otherwise, he says, we will have a decline of the West.

But thirdly, business does benefit from this basic bargain — countries like Sweden, Finland and Germany have high taxes, but they have very high competitiveness because they have invested in human capital.

Finally, the argument that we often hear is that if you have high taxes there will be tax avoidance because the lobbies will be pushing for changes. Well, I have seen as a prime minister that what we have is a huge concentration of wealth in our societies and around the globe. What that has done to politics is that it has undermined democratic politics. We are captive to these interests, and that means that governance, good governance, does not exist, because we are not dealing with the public good. And that is, I say, a new threat to our democracies.

Now, if you go back to ancient Greece, when they invented democracy, what did they mean when they talked about democracy? Democracy was to disrupt the concentration of power. And today, the concentration of power is undermining our justice system, our politics, our public good. That's a deep question of democracy.

But I'd like to end with a slide, if you could show it, which shows that there is a democratic demand. First of all, if you see the first bar, that is what the real income distribution is in the United States; the second one shows what people believe the income distribution is; the third is what — across the board despite politics — what people want the distribution to be.

So there is a democratic demand in our society to have a more equal society, to have a more equal and just economy. And I think there is a reason for that, because, if you look at the more equal societies around the world, all the indexes show that they are

top on most anything: whether it's life expectancy, health, jobs, homicides, they are top. They are the most efficient and most humane societies. That's why we need equality in our societies.

RUDYARD GRIFFITHS: Well done, and that's probably in your third or fourth language, so impressive indeed. Up next, Dr. Laffer, you're going to conclude our opening statements.

ARTHUR LAFFER: Thank you very much. By the way, Paul, that was a great one on the mayor. I had a little experience just before coming over here tonight. I was in the health club in the hotel. It's a beautiful city here and I just thought I'd exercise a little bit. As some of you can tell, I'm not much of an exercise freak — as you can see. So I was down in the health club working on the machines and, in fact, I didn't even break into a sweat or anything. But this gorgeous lady walks into the health club — I mean, just *absolutely* beautiful. And I happened to be on the machine next to the manager of the health club, so I tapped him on the shoulder and said, "Excuse me, but do you by any chance have a machine that would attract someone like that to someone like me?" And the man said, "Yes I do, in fact," and he walked me over to the BMO ATM.

Let me just say that all the aspirations that all three of you have mentioned tonight I think are all correct. The question is what happens in the real world. I'm going to tell you that if you raise tax rates on the rich you will *not* get the money you expect and you will probably lose money completely. If you look at the U.S. tax codes, we put in the progressive income tax in 1913, and at that time the highest marginal income tax rate was a high of 7 percent. By 1919 we had raised that rate to 77 percent. We had a depression going into World War I, and after World War I we had a campaign in 1920 between the Democratic candidates Cox and Roosevelt, who wanted to keep Woodrow Wilson's tax rates high, and the Republican candidates Harding and Coolidge, who wanted to drop the tax rates. They said, they wanted a return to normalcy.

They cut the highest tax rate in America from 77 percent to 25 percent. The period was called the roaring twenties. Employment and production soared during this period; tax revenues from the highest one percent of income earners, as a share of GDP, not just in dollars, went way, way up.

We then went into 1929 with the Smoot-Hawley tariff, the largest tax increase on traded products; we raised the highest marginal income tax rate during the Depression from 25 percent to 83 percent. There was a depression during this period and tax revenues from the highest one percent of income earners declined as a share of GDP.

You then go to the post-World War II period with Truman's cotton tax rates. Again a boom. Again, tax rates on the rich went up as a share of GDP. If you look at the period of Jack Kennedy ... Jack Kennedy cut the highest tax rate from 91 percent to 70 percent. We had the go-go '60s, a beautiful period of expansion. Tax revenues from the highest 1 percent of income earners went way, way up as a share of GDP.

Then we had the period which I like to call "The Four Stooges" — Johnson, Nixon, Ford and Carter — the largest assembly of bipartisan ignorance probably ever put

in the United States. They raised taxes throughout the period and, of course, revenues as a share of GDP declined from the top 1 percent, and the economy was in a shambles.

And then, we had Ronald Reagan and we had Bill Clinton, two administrations that cut taxes dramatically. If you look from 1980 to 2007 ... in that period the revenues from the top one percent of income earners went from 1.6 percent of GDP to 3.1 percent of GDP — a huge surge of revenues from the highest income earners. We cut taxes from everything that crawled, jumped, swam, flew, dug holes — it didn't matter what it was — we cut their taxes. Revenues from the bottom 95 percent actually went down during this period.

You know, when you look at the evidence, the evidence is very clear — raise tax rates and you don't get the money. These people, as the prime minister says can avoid taxes. They have the ways and the means. They can hire lawyers, accountants, income specialists, lobbyists. They have the ways, they can change the location of their income, the timing of their income, the composition of their income, the volume of their income — they aren't going to do it. So if you raise rates, they are going to get around it. They can do that.

What we really have to do is lower rates and broaden the tax base to collect the money. You can all see what happened in Britain just recently. After Brown was prime minister, [David] Cameron came in and the first thing he did was he raised the highest rate on income earners from 40 percent to 50 percent. And what happened? Double-dip recession and revenues went way down.

You can look at what happens here in Canada. I mean, during the recent period you've got tax rates on corporations here at 15 percent. You've restrained yourselves on stimulus spending and your economy did far better than the U.S. did during the last six or seven years of the Great Recession. Your unemployment rate at the beginning of the period was way higher than in the U.S. and then it didn't go up nearly as much as the U.S. In fact, it is now lower than the U.S.

If you look at your debt levels today, you have done a much better job. What we need to do today is not to fool around with this ad hoc raising a tax rate here or there. What we need is total tax reform. We need to tax all income across the board — unrealized capital gains, all these gifts and all these things that are done that are tax-exempt, the 501(c)(3), all these gifts that are supposedly charitable — tax them all by one flat rate across the board.

Raising tax rates and wishing it would do some good will only delay us from fundamental tax reform, which we need right now.

Thank you.

RUDYARD GRIFFITHS: Well, Dr. Laffer, with that elegant opening argument I think you've put paid to the notion that economics is a dismal science. So, well done. It's now time, gentlemen, for us to dig into the table that you've set for this debate. I think we're going to have plenty of time to talk about the economics, but I want us to start — because I think it is on the minds of many people in this audience — by talking about the politics of this debate.

Speaker Gingrich, let me begin with you. It recently was reported that the richest 400 people in America command more wealth than 150 million of their fellow citizens, of your fellow citizens. So, outside of any economic consideration, why would you be opposed to taxing the rich as a corrective, a preventative, to America backsliding into the gilded age and a plutocracy.

NEWT GINGRICH: Well, I'm going to start with putting the question back to you, in a sense: Under what right does the state step in and say to somebody, "We now have decided that *you* are doing too well and we are now going to punish you because you are doing too well"?

PAUL KRUGMAN: Can I —?

RUDYARD GRIFFITHS: Yes, go ahead.

PAUL KRUGMAN: I get a little ... what's the appropriate debate-friendly word...?

RUDYARD GRIFFITHS: Ornerly.

PAUL KRUGMAN: Yeah, I was looking for something more like "pissed off," but anyway, yeah. If you start saying, why do you want to punish the rich, I consider that basically a confession of intellectual bankruptcy, because nobody on my side ever says that that's what it is about. It is never at all about punishing the rich. I don't hate the rich, I don't dislike them, actually some of my best friends...

NEWT GINGRICH: You *are* one.

PAUL KRUGMAN: Uh, I'm high enough to be hurt by the policies I advocate. I don't have anything against the rich; I just want some of their money to pay for essential programs. And I think it's worth saying. There are some issues.

I thought it was interesting that Newt Gingrich mentioned that some people have a way so that maybe they can drastically cut the cost of a college education. I hope so. I hope that works. But, you know, there's a funny thing. We used to have a way that middle-class and lower-middle class and working-class kids in the United States could get a college education, which was by going to excellent state universities that were heavily subsidized. That option is largely gone now because the subsidies are gone, and state university tuition has gone way up because there isn't enough money. And so we need more money, and one way to get more money is by taxing the rich. It's not going to solve all of our problems, just some.

NEWT GINGRICH: Well —

PAUL KRUGMAN: And I just want to say that this notion that we are now going to base our tax policy on the belief that we, a modern, twenty-first-century nation with all the institutions of democratic governance, are completely incapable of policing tax evasion, that it is hopeless. We are a third-world country, we are Venezuela!

NEWT GINGRICH: Look —

RUDYARD GRIFFITHS: It's a good point.

NEWT GINGRICH: No, wait a second, wait a second. Look, there are two totally different arguments that Paul just made. The first argument is that we need all this money because government is so inefficient and the prices keep rising so much. Take the case of education. What's happened to the salaries of faculty members? What's happened to the number of bureaucratic administrators? Why has education gotten to be so expensive? Nobody who is for government wants to talk about the necessary rethinking of how we spend the money. And so I start with the question: Before you tell me we need to raise taxes, are you really prepared to defend the current government?

But the second thing you said I find very chilling. We are in the early stages of an IRS scandal in which the IRS agents, who have enormous power, are saying things like, "What prayer were they saying at the meeting?" "This eighty-three-year-old woman who held Friday morning coffee sessions, what exactly were they doing?" At eighty-three years of age, what exactly is she doing?

You may be comfortable, both of you, with a government so powerful that it can guarantee that nobody will escape taxation. That is a government so powerful it frightens me with what it will do with that power.

GEORGE PAPANDREOU: First of all — first of all, I am not saying that I am in favour of government or in favour of markets. And I grew up in Greece when we had a dictatorship, so I didn't like the state then, because that was a very authoritarian state. What I am saying is that we need a government which is democratically accountable to our citizens. And what I am saying is that the concentration of wealth today means that the government is not serving the public good; it is serving special interests. And that is the problem — that is the democratic problem.

And I would add to that, Newt, that I don't think you're against government. I think you're in favour of government. But you are in favour of government for very specific interests, for big business. I'm in favour of government that will serve the people

and the public good. And I'm not against the markets; I just want to make sure that the markets also serve basic principles.

ARTHUR LAFFER: Yeah, yeah. But Mr. Prime Minister, no one disagrees with you on that.

GEORGE PAPANDREOU: Good.

ARTHUR LAFFER: Everyone wants government to serve the people. It is just, are we wanting them to raise tax rates? The answer to that is, that doesn't serve the people. Raising tax rates is not the way to go to have government serve the people better. Creating prosperity is; getting revenues is; having tax reform — which is exactly what you talked about. We need a broad-based tax without all these loopholes, all these deductions, exemptions and exclusions, and with lower rates. This is the whole principle behind Simpson-Bowles. We did this in the '86 Tax Act.

Now, what did we do in the '86 Tax Act? You talk about politics. We lowered the highest income-tax rate in the United States from 50 percent to 28 percent. We raised the lowest rate from 12.5 to 15 percent. We cut the number of brackets from 14 to 4. We dropped the corporate rate from 46 percent to 34 percent. And the vote in the senate? Ninety-seven to three in favour, but including Alan Cranston, Mister Left-Wefty, including my neighbour and great friend Al Gore, including Bill Bradley, including Teddy Kennedy, including Joe Biden, including Chris Dodd, including all of these guys, including Howard Metzenbaum, including Barbara.... They all voted for it because they knew it was the right thing to do to create growth and to get the revenues for government and reduce the need of spending. You know, people —

RUDYARD GRIFFITHS: Let's —

PAUL KRUGMAN: I have looked at some careful economic studies of the '86 Tax Reform Act, which by the way, was widely admired. I particularly do believe that equalizing the tax rate on capital gains, on different forms of income is the right way to go...

ARTHUR LAFFER: Yes it is.

PAUL KRUGMAN: However, there have been many studies attempting to identify the effect of that tax reform on the rate of growth of U.S. productivity, U.S. potential output, but they haven't found a damn thing.

ARTHUR LAFFER: Oh —

PAUL KRUGMAN: It's just not visible, it's just not visible.

ARTHUR LAFFER: [Martin] Feldstein's work on this has shown the effects of the '86 Tax Act very clearly by following the same cohorts using IRS data. If you look at all of these —

RUDYARD GRIFFITHS: Gentlemen, let's —

PAUL KRUGMAN: You know something? We need to step outside and throw spreadsheets at each other.

RUDYARD GRIFFITHS: Good point! Let's pull up from the minutiae, which are important, but let's pull up from them a bit. Again, Speaker Gingrich, again, why do you believe that fundamentally you are going to get the growth that is going to lift all boats through a policy of not taxing the rich, and why do you think Paul Krugman and George Papandreou are wrong?

NEWT GINGRICH: Well, let me first go back to a point that the prime minister made, because it is important to understand the kind of gap here. Four hundred families have a lot of power, fine. You want to actually raise their taxes enough to take away that power? Now you're back to what I said earlier. You want to take enough money away from Bill Gates that he doesn't have power? That's like from 53 billion to 1 billion, and even at a billion, I think billionaires have a lot of power. So you get down to a question: What are we talking about here? What are we trying to accomplish in terms of the signals we send about the kind of society we live in?

Now let me come to your specific question. The primary reason the poorest people in America are trapped in poverty is because government fails them; the government schools fail them; the neighbourhoods fail them; the opportunity to have jobs fails them. Then, if you look at Chicago with over 500 people killed, this public safety system fails them. I would like to see a politics that focuses on asking, how radically do we have to reform the experience of poor Americans in order to break out and to give them a chance to genuinely climb. I'm more interested in the next thousand people rising from poverty than I am in trying to go out and find somebody whose pocket I can reach into and take money from. And I would argue that at \$4 trillion dollars a year the problem with the U.S. government is not absence of money, it's absence of competence.

GEORGE PAPANDREOU: I'll come to that. But if you go to Europe — and I would say Canada is very much in that sense a European country — we're seeing that, of

course, if you have incompetent governments you have incompetent governments; but you can have very good governments that are accountable and democratic, and that's what I'm talking about, a transparent government. A transparent government is not simply to weaken the concentration of power, which I do believe affects politics — it does affect politics. I have been a prime minister and I know how media and politics can be controlled when you have such a huge, amazing concentration of power. What I want, however, is through these taxes to empower our citizens because today I see our citizens are not free. They are very dependent. They are very dependent because there is huge unemployment around the world, in the developed world, and they're not getting the basic needs, the basic services they want.

In countries where we do have higher taxes and government is efficient and the services are good, you have good education, good health care, and at the same time a sense of cohesion and the most highly competitive economies in the world. Why? Because we have invested in the human capacity and these people aren't dependent — they feel very independent and free to be innovative and look forward. So I believe that —

ARTHUR LAFFER: I —

RUDYARD GRIFFITHS: A couple of quick interventions. I'm going to move to Art Laffer and then you'll get the last word on this. And then we're going to move on.

ARTHUR LAFFER: But that's not saying you raise tax rates. We all agree with you. Everything you've said. How do you get the money? And by raising tax rates you won't get what you want. And your example of Sweden, they've been the biggest tax-cutters. Have you seen their performance recently? It's amazing what has happened in Sweden. The best way to achieve your dreams and your goals of a truly democratic government is by lowering those tax rates, broadening the tax base so that everyone pays their fair share, you get the requisite revenues, and you create prosperity.

GEORGE PAPANDREOU: They're not in favour of a flat tax, and they have a very progressive tax rate. And recently the inequality that is actually in Sweden — the rise in inequality in the last few months — has created riots in some of the suburbs. So I think we have to see that a really cohesive society is one that is much more equal.

RUDYARD GRIFFITHS: Paul Krugman.

PAUL KRUGMAN: One thing: actually ... no, two things. Art Laffer has a history of taxes on the economy and all I can say is that none of it is true. America has become — among the advanced countries — America has become the land of the least opportunity. It has become the country where people who start at the bottom have the least chance of

making their way up. We have people who are more trapped in poverty, more trapped in poverty from generation to generation, more trapped in the bottom quintile than in any other advanced country. And a lot of that is not because government is failing, or is doing its job badly; it's because government is not doing its job. Because children don't have adequate nutrition. It is really hard to work your way up to get a good education and work your way up to the middle class if you're hungry all the time, and a lot of kids in America are hungry all the time. It's really hard to work your way up if you're sick all the time and not treated, and a lot of children in America don't have adequate health care. And the reason they're not given those things is not general philosophical principles, or at least that is not the way it is sold. It's sold as that we don't have the money. You know, "you can't do that, you can't raise any more money by taxing the rich because, if you do that, it'll destroy our economy." So don't tell me that is not the real issue. Because that is certainly an important part of our story.

RUDYARD GRIFFITHS: Okay, good point to do a transition on. Let's go to the first of our video interventions. We did this last time with some success, so we're going to experiment with it again. The contributor is former U.S. Treasury Secretary, former economic adviser to President Barack Obama. Let's listen to Larry Summers.

LARRY SUMMERS: Yes, we should tax the rich more in the United States. In the United States we have growing pressures on the public sector, a rising population over 65 who are nearing or past retirement, and rising relative prices of things that governments buy — education and health care. The relative price of health care and a television set has changed by a factor of a hundred over the last generation, and the public sector buys health care and, of course, we have rising debt burdens. That's going to put pressure on the public sector. Some of it needs to be met by cutting wasteful spending, but there isn't that much wasteful spending to cut. So revenues are going to have to increase. Where should that come from? On grounds of fairness, it should come from the wealthy. On grounds of the major changes that have taken place over the last two decades, it should come from the wealthy, whose share of the top one percent has gone from less than 10 percent a generation ago to more than 20 percent. And it should come from the wealthy because they are the ones who have been able to escape and avoid the most taxation over the years through a range of inappropriate tax loopholes and tax expenditures.

RUDYARD GRIFFITHS: Speaker Gingrich, I'm going to come to you first on this, because this is a key part of this debate, especially here in Canada. With an aging society and a shrinking workforce, there is a sense that we are all going to have to pay more to cope with the demographic challenges that much of the West faces. So, in a sense, you know, why hasn't history given the nod to this side of the debate and said: "You know, you're right. Everyone is going to pay more, including the rich"?

NEWT GINGRICH: Let me take two examples. First of all, let's look at Dr. Krugman's appeal to children who don't get adequate food, and so forth, in a country that

has a women's, infants' and children's program, has food stamps, has pre-natal care, has a program specifically designed in schools to help children eat. Now, he may be commenting on the ineffectiveness of government at reaching every child despite spending billions of dollars, but it's not because we're not spending a lot of money to ensure that poor children have nutrition. So it's important to set this in place.

But Larry Summers said one thing there that I thought was amazing, that I don't think Larry understood he said. He says, the difference in television price versus health care has changed by a factor of a hundred. Meaning, televisions are a hundred times less expensive today relative to health care than they were, say, in 1960, or 1950. He doesn't then stop and say, "Gee, why is it that we are able in the private sector to produce, for example, hand-held computers called cell-phones at declining costs with rising capabilities and we can't, in government-controlled areas, get the same kind of breakthroughs?"

So I would argue, we are on the edge — if we have the courage to do it — of a breakout in how we think of all of government, and I'll give you a specific example because I'm a conservative and therefore I'm supposed to be pro-defence. And I am. But I always tell people, "I'm a hawk, but I'm a cheap hawk." I think you could take 20 percent out of the defence budget and have a more agile, more effective, better defence department if you modernized it. And so, before I raise taxes to pay for a bloated, inefficient, oligarchical defence system that is really running behind the world, running behind reality because it can't keep up with change, I want to fundamentally overhaul the Pentagon. Then come talk to me about taxes.

But don't tell me I've got to tolerate every bureaucratic incompetence, including some of the things — the failures that Paul Krugman talked about. Why shouldn't we overhaul the entire system of helping poor children if, in fact, what he is saying is true? Because we spend billions in multiple bureaucracies, and according to Dr. Krugman we are failing to get the job done.

PAUL KRUGMAN: Actually, we spend a fair bit, but what we spend on helping the poor is something well under half the share of GDP that Canada does. So don't talk about how we are vastly generous. We are not. We are the least generous of all the vast countries when it comes to helping the poor. And, as it happens, the particular program which is on the firing line... By the way, your party — oh, and one correction: you said "the candidate I favoured" and as a *New York Times* columnist, I am not allowed to do endorsements, so you have no idea who I favoured in the last year's election.

RUDYARD GRIFFITHS: It probably wasn't Mitt Romney.

PAUL KRUGMAN: In any case —

NEWT GINGRICH: Paul, I may have no proof but I have every idea.

RUDYARD GRIFFITHS: This is true.

PAUL KRUGMAN: But, as it happens, food stamps are very much in the firing line. We are talking about cuts in the current agricultural bill, and Paul Ryan [U.S. Budget Committee Chair] calls for savage cuts in the food stamp program and, as it happens, that is a program that the government does very, very well. Bureaucracy is minimal, the spending goes to the right people. But there just isn't enough of it. It is not enough to ensure that everybody who needs nutritional assistance receives it; the sums are too small. Health care? We've done a good job. Medicaid is actually a surprisingly efficient program — better, by the way. Health care happens to be one of those areas where government consistently is more efficient than the private sector. But again, not enough. And you know, if you're going to use electronics as your standard of comparison and say, why can't we do everything — why can't we make haircuts as cheap as we manage to make smartphones, right? That hasn't changed much either. That's a really, really bad argument.

RUDYARD GRIFFITHS: Let me bring George Papandreou into this. Mr. Papandreou, if cynicism about government exists anywhere, it is probably in your home country of Greece right now. So why, in the context of this debate, are these gentlemen wrong in terms of people saying: "Look, these systems aren't working; they don't need more money, they need overhaul reform." Maybe they need financial pressure, the fear of the reduction of funds, in order to reform themselves.

GEORGE PAPANDREOU: Well, I've been the first one — and my mandate in my campaign was to change government and make it more transparent. But if you talk about government and bureaucracy, now, I had to deal with the big lobbies of the pharmaceutical companies that were milking the pension system with very costly treatments in our medical care.

And, if I'm not mistaken, in the U.S., in the discussion about medicare and the whole change in the health system, the Congress did not pass a bill to allow central procurement, which is the bargaining power of the central government — the federal government — vis-à-vis the pharmaceutical companies. Why? Because they can get better prices if they pick off hospital by hospital. Now that is bureaucratic inefficiency. But it's bureaucratic inefficiency, not because of socialism but because of the concentration of power in big business. And that is what I was fighting in Greece. We were having crony capitalism; we had to change. I had to bring in electronic prescriptions to cut out about 30 percent of the waste — which I did, in prescriptions.

And I would add, also, one other thing. Business needs a functioning state, and a functioning state which provides for basic needs such as good education. In many of the countries in Europe you have businesses which are able to fire people very easily but then the welfare state comes and says, "I'm going to train you — re-train you — and I'm going to get you back on the job market and you're going to be even better than."

And you know what that does? That is a boon for business. And that is why those businesses are competitive. So I don't want to punish business. I want to make sure that the monies are used in the right way.

ARTHUR LAFFER: I —

GEORGE PAPANDREOU: Definitely, we need higher taxes if we want to have the capacity of our societies to create the capacity of our citizens to be free and capable people.

ARTHUR LAFFER: I agree with all that but, I mean, this is all off the point. The question is raising tax rates on the rich. The best form of welfare, as John F. Kennedy said, is still a good high-paying job. It's far better to get the people off welfare with jobs. I mean, people don't become prosperous with hand-outs. They become prosperous with jobs. When you look at Benjamin Hooks, think about what Benjamin Hooks said —

GEORGE PAPANDREOU: I'm not talking about hand-outs, I'm —

ARTHUR LAFFER: But I agree with you about making everything efficient and making it better, and no one wants to let those people who are down and out not get what we can afford as a society — we all want that. What we want to do is create the prosperity. I mean, Benjamin Hooks put it so well. He was head of the NAACP, by the way. He said that blacks are hired last and fired first, and the only way blacks are ever going to get jobs and keep them, he said, is if there are so many jobs around they've *got* to be hired. Prosperity is the answer; it's the answer to all the things; it's the answer to tax revenues, Believe me, if we can provide so many more services than Ethiopia, it's because we are more prosperous than they are.

Don't kill the prosperity. If you tax people who work and you pay people who don't work — do I need to say the next sentence to you? Come on! Help me on this!

GEORGE PAPANDREOU: But I —

ARTHUR LAFFER: You know, if —

RUDYARD GRIFFITHS: Art, you're eloquent; you've had your time. But I want to get Paul Krugman in on this, and then I want to move on to another question.

PAUL KRUGMAN: I just think again, I'm disappointed in the sort of cosmic nature of these arguments, as if we're talking about destroying, you know — as if the kinds of tax changes that we might be contemplating are things that would have stopped Steve Jobs and [Steve Wozniak] from trying to invent a computer in their garage, right? We're not talking about that. We're not talking about punitive taxation, we're just talking about somewhat more, to provide somewhat more benefits. And I think that by phrasing it as if it's all or nothing — as if we have to have no attempt at progressive taxation, no attempt to provide benefits financed in part by that progressive taxation, or we have to have taxation at levels that will destroy everything — is wrong.

What we do know — and I think this is where the Scandinavian stories do come in — here you have societies that collect 40 percent or 50 percent of GDP in taxes and they function. They function very, very well. That tells you right away that the notion that taxes are in themselves extremely destructive can't be right. The question of how much you can focus those taxes on the rich — well I keep making the argument that I think is based on a lot of evidence that we could do a significant amount of it by focusing it, by having a progressive tax system — not all of it, but some of it. And that is the question we should be answering, not, are you for a free society or not? I mean —

ARTHUR LAFFER: Yeah, but we all agree —

NEWT GINGRICH: Well, but —

RUDYARD GRIFFITHS: Speaker Gingrich, we'll go to you.

NEWT GINGRICH: The question *is* rather global. It didn't say, tax the rich more; it didn't say, tax the rich less or a little more or a lot more. And the prime minister suggested we should tax the rich enough to redistribute power away from the 400 families. That's a lot of tax. But let me ask you about a specific example: would you regard [French president François] Hollande's 75 percent tax on the wealthy as too much, too little? I mean, it is clearly leading a lot of wealthy Frenchmen to decide they love Luxembourg. But how would you... I mean, is that within the Krugman world view?

PAUL KRUGMAN: Actually, I don't think France can do it, because France is one piece of Europe and it is too easy to move to Luxembourg. I think if the European Union as a whole did it, it would be workable. I think if the United States did it, it would be workable. My former colleague and Nobel laureate Peter Diamond has crunched the numbers as best he can and his estimate is that the optimal tax rate — top tax rate — is as it turns out, 73 percent.

ARTHUR LAFFER: Not optimal, the highest revenue.

PAUL KRUGMAN: Let's not argue about why that's also optimal, but that's another story, in any case.

ARTHUR LAFFER: It's not optimal.

PAUL KRUGMAN: And we used to have that, by the way. We had tax rates in that range all through that great generation of postwar growth. So, am I actually suggesting that the United States should try to match Hollande's tax rate? No, because I know it doesn't have a chance of happening, right? But do I think that a move in that direction is okay? Do I think that what Hollande is doing is crazy? No.

NEWT GINGRICH: So, one more question.

RUDYARD GRIFFITHS: Quickly, because I want to be conscious of our time.

NEWT GINGRICH: I'm sorry. But I think this is a useful dialogue. If you're going to go to a 73 percent rate, if you could do it by a magic wand, would it be the 1950s-style 73 percent rate, with large enough loopholes that nobody paid it, or would it actually be a cleaned-out system so you're actually going to get 73 percent?

PAUL KRUGMAN: I think if it is at 73 percent you are going to have to have some differentiation for capital income, but not nearly as much. And, by the way, if you actually look at what the effective rates of taxation were on the top .1 percent back in the '50s, they were high, they were over 50 percent. Maybe not 73 percent.

RUDYARD GRIFFITHS: Gentlemen, in our remaining minutes here, I want to internationalize this debate a bit because it is not just about Canada and the United States. This is a conversation that is happening around the world. And to do that I want to go to our final video contribution for tonight. It's from a big thinker from Asia. Kishore Mahbubani is the Dean of the Lee Kwan Yew School of Public Policy in Singapore. We caught up with him via satellite recently. Let's listen to his intervention.

KISHORE MAHBUBANI: Thank you, Rudyard. About twenty years ago a group of Chinese economists came to New Delhi and met a group of Indian economists, including the current deputy-chief economic planner, Montek Singh Ahluwalia. They explained to the Indian economists what reforms they would undertake. When they finished, Montek Singh, with some trepidation, said to them, "Do you realize that if you carry out these

reforms in China, there will be rising inequality?” The Chinese economists smiled broadly and said to Montek, “We certainly hope so!” And that’s exactly what happened.

As China progressed, it produced the largest number of new billionaires. By the same time, China also carried out the largest poverty-reduction program in human history, lifting over 600 million people out of absolute poverty. It also produced the largest new middle class.

So you can see that as long as the rising inequality also benefited the majority of people, the people of China and Asia accepted it.

RUDYARD GRIFFITHS: Good point. An important one in this debate. Let’s have George Papandreou weigh in on this first. Why is the China model wrong? Lifting people out of poverty ... six, seven, eight percent GDP growth. We’d kill ourselves for that right now, wouldn’t we?

GEORGE PAPANDREOU: Absolutely. But I would disagree with him. I don’t think that is because of inequality. I think it’s because the Chinese government actually invested heavily in industries. It brought people out of poverty, yes, but the rising inequality in China is slowly facing a dead end, because first of all, the Chinese realize — and I’ve talked to the Chinese — they realize that they don’t have a pension and a welfare system. They have an aging population, the one-child-per-family has actually worked. There is going to be a big burden on the younger generation for this older generation, so they have a first big problem there.

They also have a problem of needing to cater to the needs of a new working class that’s asking for higher wages. And I’m sure, we know it here in the West because, you know, they talk about the different companies that do the Apple, iPhones and the other industries, and they are asking for better conditions, for better life conditions. Thirdly, they have a major environmental problem, and soon Beijing will not be viable. They realize that they need more money to create a better society.

So I don’t think it’s inequality that has helped them; it is inequality that actually has undermined a more cohesive society. And I would say that the Chinese will slowly move toward a more equal society by investing in the needs of a social system which will help the Chinese people.

RUDYARD GRIFFITHS: Paul wants in on this, but I’m going to go to Speaker Gingrich first. You mentioned China in your opening statements. George Papandreou thinks the model, if not broken, is in serious trouble.

NEWT GINGRICH: Well, I think it is in serious trouble because it’s the consequence of its own success. I mean, you now have a China that has so many cars that they have a problem of air pollution. You have a China that has so many people working that they have all sorts of problems of transportation. You have a China that now has so many

people producing goods and services that they have to go back to the very basic level of environmental policy, which is, for example, that you don't want several thousand dead pigs floating down the river.

Now, the great thing about China is that, unlike sixty years ago — this is one of the great moments in human history — unlike sixty years ago, the Chinese have generated enough wealth that they can actually deal with the next generation of problems, which in 1930 would have been starvation, slavery, people who had no hope, a level of poverty that is almost unimaginable. So I think the Chinese will tell you, yeah, they've got big problems, they're a big country, and they're going to have to have some big solutions.

GEORGE PAPANDREOU: So obviously Newt is in favour of central planning.

RUDYARD GRIFFITHS: I want to be conscious of time —

GEORGE PAPANDREOU: Newt is in favour of central planning of government. Right, Newt? In China?

NEWT GINGRICH: Oh, I'll talk about that in the closing.

RUDYARD GRIFFITHS: Okay, the more billionaires the better? China does it; it allows inequality; it doesn't go after the rich hard — not in the way that you would want, Paul.

PAUL KRUGMAN: I've spent a lot of time on these issues. Latin America looked at this a lot. Twenty years ago there was widespread acceptance of the so-called Washington consensus, which said, liberalize, free up your markets, don't worry about inequality, and you'll get those wonderful Asian takeoffs. And a bunch of Latin American countries, including Mexico, more or less did that. And they liberalized and some good things happened. But no takeoffs. Growth just didn't take off. It must have been really disappointing.

And after a long time we looked and tried to figure out what it was that the Asians actually had that the Latin Americans had not managed to have. And it turns out the Asians had really well-educated populations; they had really good infrastructure. And it turns out that just having policies that let inequality rip without providing those other things does not, in fact, produce growth.

And since the last ten years or so, countries like Mexico have actually started to tackle inequality seriously and it's working: inequality is coming down; poverty is falling fast, through government action, not through the magic of the marketplace. And it looks like that is actually starting to improve their growth prospects as well, because of better

nutrition and better education. So the actual lesson is not, “China has inequality and China succeeds.” We need to look at some comparisons, and it turns out that — you know what? — just letting the rich run wild is not enough. No.

RUDYARD GRIFFITHS: Okay, back to you, Art Laffer — the rich running wild! I like it.

ARTHUR LAFFER: Paul, you’re so right. The rich shouldn’t just run wild. But we’re talking about raising tax rates on a tragically flawed system that has all these loopholes where all forms of income aren’t taxed equally. These people are gouging the system, but not because tax rates are too low. It’s because you haven’t defined income properly; you haven’t put it in the right context. It is a tragedy what is happening, but without what happened in China, where they did three things: tax cuts, sound money and free trade — the three pillars of supply-side economics. And you see this massive growth from 1979 on, the prosperity coming. Yes, Newt is totally right. These diseases and problems you’re talking about are those of prosperity, not of poverty. China beforehand was educated but they were in really bad shape. They now have a different set of options.

RUDYARD GRIFFITHS: Okay, gentlemen, it’s time now for closing statements. You get to settle scores with each other in your remaining three minutes each. We’re going to do our closing statements in the opposite order of the opening statements, so, Art Laffer, you’re up first.

ARTHUR LAFFER: I’m going to start, if I can with one example, of a man who has been trying to raise tax rates on the rich for the longest time. He is one ... his name is Warren “Buffay.” He’s a French-origin person from Omaha, Nebraska — Warren Buffet, by the way. He has been saying: “Me and my friends have got to have higher tax rates; we all think we should pay more.”

Let me take you through Warren Buffet. He wrote a letter to *The New York Times*. That letter said that he paid a little less than \$7 million in taxes, but that was 17.4 percent of his income and he had the lowest tax rate of any of the people in his office; it was half the tax rate of his secretary. Now, I’m a math whiz, so what I did was I took his \$7 million and 17.4 percent tax and I divided it and I got that his income was a little bit less than \$40 million. Now, that’s a large, large level of income.

But let me tell you also what happened to Warren Buffet during that year of 2010, when he reported \$40 million in income. His wealth, in unrealized capital gains, which is not taxed — un-taxed unrealized capital gains — rose by \$10 billion. His gifts to the Bill and Melinda Gates Foundation, which are tax-free, were only \$1.6 billion. I didn’t find out how much he gave to his sons’ and his daughters’ tax-exempt foundations. But as an economist, to me, income is what you spend, what you give away and the increase in your wealth.

His income in 2010 was \$12 billion. And he paid \$7 million in taxes, that is six one-hundredths of one percent of his income. That is not fair. But all the tax rates he wanted to raise were the ones he doesn't have to pay.

And here is your dilemma for tonight. And then I want to close. We shouldn't raise tax rates as they currently stand. We should change the tax code and lower tax rates. If we had a 12 percent tax ... now, I did Jerry Brown's flat tax when he ran for president — Jerry Brown of California when he ran for president in 1992 — and we had two flat rate taxes, one of business net sales and one on personal unadjusted gross income. No other federal taxes, none. And if you did just the 12 percent tax on Warren Buffet it would be \$1.44 billion. That is what I consider fair.

Thank you.

RUDYARD GRIFFITHS: Fighting words. You're up next, George Papandreou.

GEORGE PAPANDREOU: Thank you. I've never asked, and I don't think Paul is asking, to punish the rich. What we're saying is that we have so much wealth that we have created as humanity — we have created so much wealth, whether it's the United States, whether it's China, whether it's Europe, a huge amount of wealth. But it is highly unequally distributed. And all we're saying is that part of that amazing wealth in the hands of a few hundreds or thousands of people around the world can go a long way if we tax it.

And there are major issues we have to deal with. Is it climate change, is it unemployment? In my country, young people have youth unemployment of close to 60 percent. Now is that a sustainable society? We need to give them the training, the hope, the prospects. So we're talking about a small portion of their wealth, to give to our societies, to make our societies more just, better, more efficient, and to prepare also for major challenges the younger generations will face, such as climate change.

Secondly, in all studies, we have seen that with higher equality in societies, any society you see, they perform better in any category: life expectancy, math and literacy, infant mortality, teenage births, trust, obesity and even happiness. Even the rich live longer in equal societies.

So we're not punishing them. They will get benefits.

Finally, I just want to give a personal experience. I had the curse of being exiled, but the blessing of coming to Canada. I came from a country that was not only a dictatorship, but there was really no social contract. There was no bargain between society, citizens, and the different classes. If we don't have a just society, we will have class warfare. I'm not advocating class warfare, I'm advocating the complete opposite — a cohesive society. I found it here in Canada, with all its difficulties — and I know Canada does go through its difficulties — it's a society that welcomed refugees, migrants and was able to integrate them because it respected, it helped, it invested in us. It invested in human capacity.

And that's all I'm saying. We need today to use some of the wealth that exists to invest in the human capacity of our society and of our citizens, and in doing so we will not only have a more efficient and competitive economy, we will have a much better economy, a much better society, a much better life.

Thank you.

RUDYARD GRIFFITHS: Speaker Gingrich, your final words.

NEWT GINGRICH: Well, let me say first of all, let's start with the almost 60 percent youth unemployment in Greece — which is a tragedy — and ask, “What is the underlying lesson we can learn about a system which has failed so decisively that 60 percent of its young people don't have a job?”

I'll give you two examples. I was inspired by the last message from Singapore. I had a chance to spend time with Lee Kwan Yew, the senior minister who had helped develop modern Singapore, and I said, “What was the key to why you were so successful?” And he said, “You know, I was a graduate student in Great Britain during the Labour government right after World War II. And I watched everything they did to create a socialist society. And when I finally got to be Prime Minister of Singapore, every time I'd encounter a problem I'd say to myself, what would the Labour government have done? And I would then do the exact opposite.” And he said, “I wanted the work ethic to be important. I wanted people to save. I wanted the rule of law.”

Now let's take this whole question. And I think there are two key things: practicality — what works — and whether you favour freedom or the state, which is a permanent tension in every society.

What works? There is a bridge in Nanjing, China, which has two giant statues, a black cat and a white cat, and it comes from a famous speech. Mao had tried, by coercion, to create an equal society. He had driven the intellectuals out to the farms. He had caused chaos late in his career. And Deng Xiaoping — at great cost to himself, three times imprisoned by the state — was arguing that what they were doing was against the way people function. And in his most famous speech he said, “Look, I don't care if it's a black cat or a white cat; I care that it catches mice.” And what he was saying was revolutionary. He was saying to the Communist Party of China, “Don't come in here and lecture me about ideology. Capitalism works and if we don't give the people of China jobs, if we don't give the people of China hope, they are going to throw us out and there will be a bloody revolution.”

He risked his life to get that across and he spent twenty years getting it across. And while I have many, many problems with the Chinese dictatorship — and it is a dictatorship — there are few achievements since World War II that have helped more human beings than the application of free trade, hard money and the right of people to go out and work really hard and rise. And I'd rather see those 600 million Chinese rising in a society with inequality than see them smothered in a society of absolute equality.

RUDYARD GRIFFITHS: Paul Krugman, you get the final word.

PAUL KRUGMAN: Well, at the moment I am feeling that there have been so many straw men thrown out here tonight that we have created a fire hazard in this auditorium.

No one is advocating a society of complete equality. No one in this group, at any rate. Nothing like that. And I want to say a word, since I do spend a lot of time on the Euro crisis. If you think that it is that excessive government — that Greece is somehow proving your ideological point — what about Ireland? Ireland has famously low tax rates especially for corporations across Europe — zero in the case of Apple. Conservatives all around hailed it as a role model — “a shining model,” said George Osborne, before he became Chancellor of the Exchequer. And Ireland is rather a mess now also, you know. They’re not quite as bad as Greece, but that’s not a slogan you want to run on, “Not quite as bad as Greece.”

So that’s not what it’s about. And with a former Speaker of the House here, I, of all people, shouldn’t have to be the one saying “politics is the art of the possible.” Policy is the art of the possible. We’re not going to turn the United States into Cuba. We’re not going to level. What we might do — hopefully what we could do — is something like what President Obama has suggested in his last several budgets, which is closing more loopholes that the rich take advantage of, raising more revenue, possibly pushing top marginal rates higher. I’d like to.

I’d certainly like to end — you know, what I take from Art Laffer is that the two great sins of recent history are the 2003 Bush tax cuts, which gave special treatment to dividend income and that cut in the capital gains tax rate in the ’90s that was under somebody’s leadership in the House — I can’t quite remember who [he turns teasingly to Gingrich].

I want to raise a few extra points of income from the top one percent and use that money for important things — that’s what we want to do. I don’t think that is going to solve all of our problems. I think it’s a start towards reducing the excessive power of the elite. The fact of the matter is that in the past when we had more progressive taxation — when we came out of the 1930s with a much more progressive tax system than we had before — we also came out with a society that wasn’t quite as plutocratic as it had been before. And that I’d like to do.

I will say one thing. I am not worried about us sliding back into the gilded age. We have slid back already. That’s already happened. What we want to do now is claw our way back towards the kind of middle-class society we used to be.

RUDYARD GRIFFITHS: Well gentlemen, a superb debate, a hard-fought debate, a lot for us to think about. And also, to reflect on. Let’s face it, the last few weeks here in the city of Toronto have not been great ones for the quality of public debate or, frankly, the quality of executive leadership. So you’ve given us a nice respite from that. And look, in all seriousness, I think events like this, and countless others in the city, remind us that, despite what happens in City Hall, despite an international reputation that we may have to

start to unwind, we are a city of sophistication, we are a city of substance, we are a city of civility. We thank Peter and Melanie Munk for reminding us. Thank you.

Now for a crucial part of tonight's program: we are going to review quickly the audience vote at the start of the evening. We began tonight with strong support for the motion. Let's get those numbers up. Be It Resolved: Tax the Rich More, 58 percent were in favour, 28 percent opposed, 14 percent undecided. As for the number of you that would change your mind over the course of the evening — I like Newt Gingrich's remark that 21 percent of you were absolutely adamant, you weren't budging — let's see whether you have budged or not. Each one of you has a second ballot in your program. Vote once and please use that vote wisely. We'll announce the winning results a little before 9 p.m. in the south lobby, where you can also purchase books of past Munk debates. And for those of you watching online, the show continues; it's not over. Our webcam town hall starts now on sprecast, so share your analysis of the debate with fellow experts and with one another. So, ladies and gentlemen, thanks for another great Munk Debate. Let's vote!