

**Best Uses:**

- ⊙ Laffer shows an optimal target tax rate for fiscal policy
- ⊙ Laffer highlights disincentive effect if taxes are too high e.g.  $r_2/B$  shown on Laffer curve below
- ⊙ Laffer curve highlights one option for government direct tax policy but he ignores the impact on the provision of merit and public goods.
- ⊙ Lower taxes is only likely to be possible with a lower welfare state, lower transfer payments with less merit and public goods

**ED 6: Laffer Curve**

<http://www.yellowsubmarine.com>  
Web note 241 Laffer Curve

- A tax rate of  $0$  or  $r_2$  would actually decrease tax revenue for government. In other words higher tax rates discourage work and output falls
- = dis INCENTIVE

Diagram 1: Laffer Curve

