Chapter 1: The Crime: Growing Income Inequality in the United States

This report deals with an ongoing, evolving and yet unsolved national mystery. The evidence at the crime scene is voluminous, clues abound everywhere, but how to make sense out of so many. Compounding the problem, the crime scene and the millions of clues are not confined to one discreet site around which yellow tape can be drawn. Instead, the crime scenes and clues are spread across the country—on farms, in isolated hollows, crossroad hamlets, sleepy villages, small towns, sprawling suburbs and big cities. These baffling and recurring crimes can best be investigated by addressing several questions.

1. How did the U.S. political economy move from a “best of times” *Shared Prosperity Era* which existed from 1947 to 1980 to a “worst of times” *Growing Inequality Era* which has existed from 1980 to the present day? Figure 1.1 displays the differing results of the *Shared Prosperity* and *Growing Inequality* eras in terms of changes in real income per household for selected income categories.

2. What are the major factors contributing to the derailment of the nation’s political economy when a form of *democratic capitalism* was delivering comparable rates of real income growth to households in all income groups and building a broad middle class in the *Shared Prosperity Era*. What contributed to a shift in the political economy since 1980 in the *Growing Inequality Era* in which a modern-day form *feudal capitalism* took hold and has prevailed ever since. This has resulted in most of the economic gains going to large corporations, investors and the very wealthy, leaving at best economic crumbs for millions upon millions of American workers and families?

3. Why has the U.S. been so slow in discovering the crimes, reporting and investigating the crimes?

4. Why has the U.S. failed to make the political economy adjustments in the form of legislation and enactment of public policies that other developed countries have made to deal with similar challenges and issues facing their workers and families?

Canaries in a coal mine provided the early warning signal miners were not able to detect. If the canary stopped singing and keeled over, the miners scrambled to the surface and fresh air to escape the toxic gases their nostril could not detect but the tiny lungs of the canary could.
Even grizzled miners developed an affection for canaries and appreciation for how many miners’ lives canaries saved by giving their lives.

Detecting early warnings signs for the mystery this book is trying to solve in a huge, complex and changing country is a difficult task. Based on this investigative report, evidence—conveyed in over 200 graphs and tables and analysis stemming from this evidence throughout the six chapters of the report—this first chapter presents the theory of the case in understanding how these national crimes were and are being committed and why they have persisted for almost 40 years. If the theory of the case has merit, it suggests what will be required to repair the extensive damage to the country. Chapters 2, 3, 4 and 5 provide more evidence in support of the analysis provided in the executive summary and this chapter. Chapter 6 offers a range of public policies which will have to be considered and eventually enacted to return the nation to a shared prosperity path benefitting all Americans and not just the very wealthy in the current Growing Inequality Era.

Figure 1.2 shows selective but telling trends as they played out in the Shared Prosperity and Growing Inequality eras. Every one of the trends goes in a direction inimical to majorities of
workers and families in the county. These trends and relevant factors contributing to them are fleshed out in greater detail in subsequent chapters.

Figure 1.3 reveals how income growth was distributed between the Top 10% and the Bottom 90% during ten periods of economic expansion since 1946. More economic expansions occurred in the Shared Prosperity Era; a total of six for an average of one every 5.4 years. Four economic expansions occurred in the Growing Inequality Era at a rate of one every 8 years. The most important revelation in the graph is the distribution of income growth for the Top 10% and Bottom 90% of the population. During both eras, it is clear those in the Top 10% were increasing their share of the distribution of income growth while those in the Bottom 90% were dropping in income share, although it remained above 60% throughout the Shared Prosperity Era.

After 1980 the income growth share of the Bottom 90% fell dramatically with the onset of the Growing Inequality Era as the share for the Top 10% rises dramatically. Note, in the 2009-2012 expansion following the Great Recession, the Bottom 90% experienced negative change and this loss allows the Top 10% to capture this loss and gain even more than 100%. In stark terms, the graph reveals the crime unfolding before the American people, a crime sadly approaching its fortieth year. Given this crime, how can some politicians say that if we try to solve this crime with public policies which would result in a more equitable distribution of income as in the Shared Prosperity Era it is somehow a call for class warfare? This and other graphs illustrate for all to see class warfare has been waged for many decades and only the very wealthy are
winning. Clinton’s first presidential campaign famously said, “It’s the economy stupid!” In understanding growing income inequality, “It’s the political economy stupid?”

To put it in simple and stark terms, a form of democratic capitalism prevailed in the Shared Prosperity Era when the benefits of economic growth in terms of wages and household incomes were shared equitably across income groups. Then something dramatic happened and after 1980 a form of feudal capitalism took hold in which the benefits of economic growth bypassed most workers and families and have been going primarily to large corporations and the very wealthy.

What turned a Santa Claus economy into the Ebenezer Scrooge economy for most Americans? Merry Christmas for the many has turned into bah, humbug for the many. A rising middle class in the Shared Prosperity Era has been treading water and losing ground in the Growing Inequality Era.

For reasons not fully understood, since 1980 most American workers and families have paid a heavy price for the failure of the political economy to adjust and respond to the slow but steady economic torture dished out to workers and families during the Growing Inequality Era. American workers and families have been the proverbial frog in the water, being gradually heated by the flame of stagnating wages, declining real income and growing income inequality. Unless the heat is turned down soon the water will boil and the fate of more workers and families will go the way of the unsuspecting frog.

As national economies have been impacted increasingly by the global economy, workers and families in other developed countries have faced similar challenges and problems as those in the U.S. However, the political economies in other developed countries have been proactive, making changes and adjustments and have passed national legislation protecting workers and families to an extent not found in the U.S. These other countries also crossed the political Rubicon in recognizing raising taxes would be necessary in providing these protections. The U.S. has been moribund and done little in terms of national legislation and new public policies to address growing inequality. Even worse, what the U.S. has been doing in the legislative and public policy arena is contributing to growing income inequality.

Figure 1.4 shows in the Shared Prosperity Era workers were benefitting as hourly compensation rose in tandem with gains in labor productivity. Labor productivity went up 108% from 1948-1979 and hourly compensation rose 93%. This indicates workers were receiving the lion’s share of the benefits in the Shared Prosperity Era under democratic capitalism which shared the benefits of economic growth with most Americans and fueled a growing middle class. However, in the Growing Inequality Era labor productivity rose 63% but hourly compensation by only 8%. Clearly the benefits of economic growth were no longer going primarily to workers and families but to owners, corporate profits, investors and the wealthy under a form of modern-day feudal capitalism. This has served the Wall Street economy but not Main Street economies across the nation. This raises the questions: 1) what economic and societal forces and public policies may have contributed and still are contributing to workers receiving less of the benefits in terms
of wages from increases in labor productivity in the Growing Inequality Era and 2) what public policies and national legislation can return the nation to the Shared Prosperity Era path benefitting all workers and families once again?

Figure 1.5 traces the different paths taken by the U.S. and the average Organization of Economic Cooperation and Development (OECD) country. The number of members in the OECD has increased over the years but the organization contains most of the highly developed countries in the world. The average OECD country’s total tax revenue as a percentage of GDP in 1965 was almost identical at about 25% to the U.S. Yet, by 2009 the U.S percentage was 24% while the OECD average had grown to 34.8%.

One can rest assured politicians and citizens in other OECD countries would have liked to keep taxes low but
realized they had to live in the real world of the late 20th Century and the 21st Century. In deciding to live in the real world, they recognized government legislation and programs were required to provide guaranteed benefits for workers and families commensurate with 21st Century standards. Apparently, the U.S. and especially Republicans believe there is some lower taxes secret sauce solution yet to be discovered. Dream on.

Comparing the U.S. with What Developed OECD Countries Have Been Doing

Like a once very successful sport’s team, the U.S. has been falling behind and teams we once beat regularly have been passing us up. In an increasingly global economy, it comes as no surprise that most developed countries have been dealing with the issues and problems facing the U.S. The difference is they have been doing something about it by providing their workers and families with 21st Century standard benefits and economic security. This has only been possible by raising taxes since the 1960s as indicated in Figure 1.5, a step the U.S. has refused to take. Raising taxes has been a necessary first step to provide the funding required to support national legislation and public policies protecting workers and families in furtherance of government’s mission to provide for the health, safety and general welfare of the population. Chapter 4 elaborates in greater detail, but several examples are offered here.

Protecting Workers and Families

Since stagnating and declining real wages have contributed to growing income inequality, national legislation in most OECD countries has provided guaranteed benefits for all workers and families. Figure 1.6 shows the U.S. is the only country which does not guarantee paid vacation days and holidays. Twenty paid vacation days are standard for most OECD countries. This means a person earning $200 a day receives $4,000 in benefits while such benefits are not guaranteed in the U.S. The added benefit is paid sick and vacation days provide time for workers to rest, recover from infectious disease rather to take it to work, pursue other hobbies and pursuits and spend more time with families, relatives, neighbors and friends in recreational, social, cultural and other activities.

Many weeks of paid maternity, paternity and parental leave are available in most OECD counties. This means a person earning $200 a day taking 20 weeks of paid parental leave to tend to an ailing child could receive up to $20,000 in benefits. It is easy to see why higher taxes are required to offer such guaranteed benefits, protections and economic security for workers and
families. And yet even with paying higher taxes the savings rates in most OECD countries are higher than in the U.S.

Chapter 4 provides comparisons between what OECD countries are doing and the U.S. is doing, and in too many cases not doing. Union membership as a percentage of the labor force has been declining, although it is still higher in most OECD countries than the U.S. Unions fought for worker safety, higher wages, fringe benefits and retirement funds. Most OECD countries have passed national legislation guaranteeing workers’ rights and protections that provide benefits to both union and nonunion households.

The 30-day paid vacation for a worker in France who earns $200 a day translates into a $6,000 benefit; a worker in Germany making $480 a day translates into a $9,600 benefit; and a low paid worker in Spain making $80 a day receives a benefit of $2,400. What is a worker in the U.S. guaranteed—$0?

Figure 1.7 displays paid maternity leave weeks in blue and paid parental leave weeks in red for OECD countries. Every OECD country, except the U.S., provides paid maternity weeks ranging from 2.6 to 56.7 weeks. Ten of the countries join the U.S. and offer no paid parental leave weeks; the remainder provide from 4.9 to 79.9 paid parental leave weeks. “Leave entitlements to care for sick or ill family members are entitlements to leave, sometimes paid, for employees with a child, partner, parent or other family member who is in need of care because of illness.” (OECD Family Database)

Politicians in the U.S. often claim they value and support families; however, when one considers the paucity of legislation backing up this claim and myriad of policies making the situation worse, such a claim rings hollow and is of no tangible value to workers and families.

Having paid leave days and weeks to tend to a new-born child, stay home due to illness, tend to a family emergency or care for an ailing child or parent without losing income provides peace of mind and economic security—and truly supports families. If a worker in Sweden earning $1,500 a week takes ten weeks of paid leave to tend to a child recovering from an operation, they could

<table>
<thead>
<tr>
<th>Country</th>
<th>Maternity Leave</th>
<th>Parental Leave</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Austria</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Belgium</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Canada</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Denmark</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Estonia</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Finland</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>France</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Germany</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Greece</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Hungary</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Iceland</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Ireland</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Israel</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Italy</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Japan</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Korea</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Latvia</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Lithuania</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Malta</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Mexico</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Netherlands</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>New Zealand</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Norway</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Poland</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Portugal</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Romania</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Slovenia</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Spain</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Switzerland</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Turkey</td>
<td>16</td>
<td>12</td>
</tr>
</tbody>
</table>

United States 0

Figure 1.7: Paid Maternity Leave and Paid Parental Leave Weeks for OECD Countries
benefit to a maximum of $15,000. If a person in Estonia earning $2,200 a week should use 75 weeks of paid leave, they may benefit as much as $165,000.

Figure 1.8 shows the number of weeks and proportion of earnings compensated for paid paternity leave for nine countries. The average compensation rate is 65% and average number of weeks about nine. This indicates the amount suggested in the 100% compensation examples above is reduced in practice. When it comes to policy, workers in the U.S. are at the bottom on the graph and are without guaranteed paid paternal leave. It is clear higher taxation in most OECD countries provides the necessary funding to guarantee all workers and families protections, benefits and levels of economic security worthy of many thousands of dollars that are simply not available to all workers and families in the U.S.

Figure 1.9 summarizes the guaranteed benefits available to workers and families throughout other OECD countries in Europe. These benefits are one of the reasons the ravages of income inequality have not threatened those living in most OECD countries in Europe as much as workers and families in the U.S. It may also answer Trump’s question or lament as to why many Europeans would have little interest migrating to the U.S. and leave behind 21st Century standard benefits their higher taxes have been funding for years.

This is not to say some OECD countries may be going too far or stretching the limits of what taxpayers are willing to countenance but one cannot be a citizen of the real world and make the claim with a straight face, which Republicans do constantly, that taxes are too high in the U.S.

**Health Care Systems: Quality of Care and Costs**

Most OECD countries have made the decision health care is a right and not a privilege. They have established nearly universal health care for all their citizens. The U.S. lags in providing
universal coverage. By three important measures—coverage, price and quality of care—most OECD countries have developed as good or better health care systems than the for-profit, insurance dominated system in the U.S. Figure 1.10 traces the upward trajectory of health care costs as a percentage of GDP for the U.S. have increased more rapidly than for other OECD counties costs since 1980. In a comparison study with ten other OECD countries using thirteen different measures by the Kaiser Family Foundation, the U.S. ranked last on six of ten, including on the overall ranking and had the highest per capita cost which was $2,800 more than the next highest per capita cost (see Figure 4.9). A more expensive health care system not covering millions of citizens is hardly a ringing endorsement of American exceptionalism in a good sense.

By spending an inordinately higher percentage of GDP on a less effective and more costly health care system, the nation the opportunity cost of not shifting taxpayer dollars to other priorities (infrastructure, education, paid leave, etc.). In 2012, if the U.S. had reduced it health care costs from 17.5% to 15% it would have had the opportunity of spending $404 billion in spent on health care to on other priorities.

**Energy Crises of the 1970s**

Figure 1.11 charts the constant (inflation adjusted to 2015 dollars) and current (nominal) gas prices and shades the Shared Prosperity Era green, the Growing Inequality Era red and highlights the energy crisis decade. In a tight global oil market, the 1973 Arab-Israeli war triggered the first energy crisis during which the price of barrel of crude oil shot up to over $30 a barrel. This in turn triggered a rapid period of inflation and led eventually to recession. The term “stagflation” was introduced to Americans for the first time. The country has experienced periods on inflation and recession in the past, but they had never overlapped in the past. However, they did begin to occur at the same time so that policies designed to reduce recession aggravated inflation and policies aimed at easing inflation fed recession. As prices declined some, the Iranian Revolution in 1979 ignited the second energy crisis, oil prices spiked higher to over $100 a barrel and more stagflation followed; interest rates on home mortgages and motor vehicles climbed and made purchases of homes and vehicles beyond the reach of many. The much higher price of oil sparked more production and in time there was more global supply than demand. The Organization of Petroleum Exporting Countries (OPEC) cartel tried by cutting back production to keep prices high but to no avail as supply once again outpaced demand and oil prices declined.
In part, the periodic rise in constant gas prices more recently is a byproduct of the nation’s failure to craft a viable long-term energy policy, something most OECD countries have done. The economic turmoil and rapid rise in energy prices in the 1970s contributed to disturbing blips in the electrocardiogram of the nation’s economy but do not explain the continuation of the Growing Inequality Era when energy prices abated. As energy prices fell in the early 1980s and had democratic capitalism resumed, the nation would have been expected to return to the Shared Prosperity Era pattern of growth. This did not happen. This report contends the inability of the political economy in the U.S. to adjust, as other OECD countries have, has played a role in explaining the persistence of growing income inequality and allowed feudal capitalism to replace democratic capitalism.

The Costs of “Cut Taxes on the Wealthy and Trickle-Down” Economics

Ronald Reagan won two sweeping popular and Electoral College victories and is considered a popular and successful president. In hindsight, however, what Reagan did and failed to do may have contributed to the Growing Inequality Era’s damage to workers and families. Reagan embraced “supply-side” or “trickle-down” economics, an approach his first budget director, David Stockman, later repudiated when he recognized the huge deficits and debt it was causing. At its simplest, “trickle-down” is based on the theory that huge tax breaks for large corporations and the very wealthy will cause them to use the tax savings to invest in productive ventures which will create jobs and thus the benefits will “trickle-down” to all Americans. This
questionable assumption is matched by another questionable assumption that the economy will grow so fast that much more revenue will be collected so that deficits will be low or not occur and surpluses are likely to be the result. This candy land theory—later labelled voodoo economics by Bush I—as budget director Stockman warned, was and subsequently in both the Bush II and Trump “trickle down” cons once again proved to be fiscally irresponsible. Bush I, Stockman and many others were proven right as Figure 1.12 reveals and the national debt as a percentage of GDP rose higher under Reagan than any post-World War II president by a wide margin. As seen in Figure 1.13, job creation under Reagan was higher than under any post-war Republican president but tied by Democrats Johnson and bested by Carter and Clinton. Yes, during the energy crisis there were more jobs per month created under Jimmy Carter than under Ronald Reagan.

An overlooked factor contributing to Reagan’s success is revealed in Figure 1.11 by the rapid decline in the price of a gallon of gasoline in his first term. As the graph shows, Carter was on the wrong side of the energy price peak and Reagan was on the favorable side. It is ironic that Carter performed better than Reagan when it came to the national debt and job growth per month but “stagflation” and being on the wrong side of the energy crisis doomed him politically. It is even more ironic that one of the things Reagan criticized Carter for in the 1980 election was the rising national debt.

Although Reagan used the phrase “all boats rise with the tide” to assure the nation his economic policies would benefit
all Americans, this did not occur, and income inequality only worsened. It appears it was in the Reagan administration when democratic capitalism was being replaced by feudal capitalism. All boats did rise with the economic tide when democratic capitalism was operating in the Shared Prosperity Era. But under feudal capitalism in the Growing Inequality Era the benefits have gone to the wealthy and corporations. What role did Reaganomics and subsequent Republican administrations play in prolonging the Growing Inequality Era?

Figure 1.14 plots the Gini coefficient which is a measure of income inequality with higher values indicating greater inequality. The democratic capitalism in the Shared Prosperity Era brought about the lowest level of inequality in over 100 years. This would suggest the New Deal was a very good deal for most Americans. In this light, it is disturbing that the Republican Party has been attempting to dismantle or diminish many aspects of the New Deal and certainly has yet to offer a viable alternative. The rapid rise in inequality in the Reagan/Bush I years suggests Reaganomics, in addition to being fiscally irresponsible, was a failure in reining in and, in fact, accelerated income inequality in the Growing Inequality Era.

The graph begs the question: With income inequality reaching levels not seen since the 1920s, does the U.S. face something approaching the Stock Market Crash in 1929 which was followed by the Great Depression? Canaries have been dying. Will miners—struggling workers and families—suffocating in the collapsing mine shaft of Republican tax cut policies be able to scramble to safety before the economic poison from feudal capitalism overtakes them? Absent wise public policies and national legislation, it does not look good for the miners.
Bill Clinton’s successful two-terms produced the largest post-war increase in job creation as indicated in Figure 1.13. Given how conservatives insist raising taxes will hurt economic growth and job creation, Figure 1.15 reveals it was after George H. W. Bush broke his “read my lips, no new taxes” pledge and raised taxes in 1990 and Clinton increased them again in 1993 that growth rate in GDP soared to its highest. Bush II’s tax cuts in 2001 and 2003 did not spur growth; instead GDP growth plummeted. In addition, the national debt as a percentage of GDP under Bush II is second highest only to Reagan of the eight presidencies in Figure 1.12.

Since 1980 Reagan gave the nation “cut taxes on the wealthy trickle-down” economics No. 1, Bush II gave the nation “cut taxes on the wealthy trickle-down” economics No. 2, and Donald Trump has delivered No. 3, the 2017 Tax Cuts and Jobs Act. Most Americans under feudal capitalism have received puny tax cuts at best while large corporations and the very wealthy rake in the dough.

When compared with recent tax increases under Clinton and Obama, “cut taxes on the wealthy trickle-down” economics No. 1 and 2 under Reagan and Bush II produced lower job growth, lower rates of growth in GDP and rising

![Figure 1.15: GDP Growth Rate with Tax Cuts and Tax Increases Indicated, 1987-2011](image)

![Figure 1.16: Increasing Taxes Increases Federal Revenues and Reduces the National Debt and Cutting Taxes Reduces Federal Revenues and Increases the National Debt](image)
deficits and debt. Figure 1.16 reveals when taxes were cut under Reagan-Bush I and Bush II the fiscal deficit increased but when Clinton and Obama increased taxes the fiscal deficit decreased. The same study concludes, “In contrast, the fiscal deficit deteriorated sharply following the Reagan tax cuts and got especially worse following the Bush II tax cuts. The federal fiscal deficit was 2.5% of GDP in FY1981, when Reagan took office, went as high as 5.9% of GDP in FY1983, and was 4.5% of GDP in FY1992, the last year of Bush I (it was 2.5% of GDP in FY2015 under Obama). Bush II inherited the Clinton surplus when he took office but frittered these surpluses away quickly. The deficit was then 3.1% of GDP in FY2008, the last full year when Bush II was in office, and hit 9.8% of GDP in FY2009 due largely to the collapsing economy (with Bush II in office for the first third of this fiscal year). The still widespread fantasy among Republicans that tax cuts will spur growth in jobs and in GDP is simply not borne out by the facts. Growth was better following the tax increases of recent decades than it was following the tax cuts.... The deficit as a share of GDP was sharply reduced under Clinton and even more so under Obama. Indeed, under Clinton the fiscal accounts moved from a deficit of 4.5% of GDP in FY1992 to a surplus of 2.3% of GDP in FY2000, an improvement of close to 7% points of GDP. And in the period since the tax increases under Obama, the deficit has been reduced by over 4% points of GDP, in just three years. This has been a very rapid [pace], faster than that seen even during the Clinton years. Indeed, the pace of fiscal deficit reduction has been too fast, a consequence of the federal government spending cuts discussed above. This fiscal drag held back the pace of recovery from the downturn Obama inherited in 2009, but at least the economy has recovered.”

The fiscal drag referred to above alludes to the fact that, given the depth of the Great Recession, funding for the stimulus plan under Obama was not large enough and is one of the reasons GDP growth rates were not as impressive as many had hoped. This notion is reinforced by Figure 5.18; when converted to 2009 dollars the size of Reagan and Bush II tax cuts were $1.76 and $1.64 trillion respectively while Clinton and Obama’s tax increases were $736 and $787 billion. Many economists believe Obama’s tax cuts should have been at least as large as Reagan’s and Bush II’s tax cuts and as a result the rate of economic recovery was robbed of the oxygen required to produce better results. Contrary to prevailing economic thinking, Republicans insisted Obama should cut spending during the recession and resisted the administration’s stimulus plan.

“Cut taxes on the wealthy trickle-down” economics No. 3 under Trump is repeating the gloomy track record of tax cuts tilted in favor of the wealthy leading to a supposedly brighter future for American workers and families and will instead only accelerate and extend the Growing Inequality Era, yearly deficits, the national debt and its many attendant problems.

**Republican and Democratic Responses in the Growing Inequality Era**

---

Neither the Republican Party or Democratic Party has distinguished itself and formulated a coherent strategy and compelling narrative for checking and reversing growing income inequality. However, the “both parties have been equally derelict” argument often floated by the media is intellectually lazy and ignores evidence suggesting one of the parties bears greater culpability.

The radical shift in Republican ideology further to the right has produced a party unwilling to compromise, pursuing bankrupt solutions such as tax cut “trickle-down” economics No. 1, 2 and 3 discussed above, and actively proposing policies (privatize social security, charter schools and prisons, cut Medicare and Medicaid, repeal the Affordable Care Act and replace it with some vague market-based solution which will be unaffordable for many and increase the number of uninsured Americans). Figure 1.17 shows the rightward lurch of Republicans serving
in the House of Representatives; this has removed most liberal and moderate Republicans, already a scarce species, serving in the House and replaced them with Tea Party members whose top priority was to purge moderate Republicans from the party. When House polarization was less extreme, it tracks with greater income equality in the Shared Prosperity Era. But when polarization increased dramatically so did income inequality in the Growing Inequality Era, as shown in Figure 1.18. This suggests the movement of Republicans in this more extreme direction may be contributing directly or at least indirectly to growing income inequality. The policies put forth by the Republican Party underscore this conclusion.

For those who might want to conclude Democrats are contributing as much to political polarization as Republicans, Figures 1.17 and 1.18 suggest otherwise. The first thing to note in the graph is during the very favorable Shared Prosperity Era in which all workers and families benefited, Republicans in the House were becoming slightly more moderate and Democrats were becoming slightly more liberal. As the political center of gravity shifted in the direction of Democrats and their policies, all Americans benefited. However, as Republicans lurched noticeably to the right and the separation between Republicans and Democrats widened, the Growing Inequality Era has been on steroids, making reaching political consensus almost impossible. The drift of Democrats in the House in the more liberal direction is explained in part by the defection of conservative southern Democrats following passage of civil rights legislation and their switch to the Republican Party which has contributed to the party’s movement further right; a push further right owes to the Tea Party. Since the Supreme Court has also been moving further to the right (see Figure 5.25), it is likely to be more hinderance than help in moving in the direction the country needs to go to address income inequality.

Until the Republicans abandon their tax cuts for corporations and the rich knee-jerk response and are willing to concede taxes may need to be increased, they cannot be counted on to help in developing a Shared Prosperity Plan for the 21st Century. It will be left to Democrats and Independents, many who have been voting Republican, to fashion a plan articulating short, mid and long-range goals and policies to put the nation back on a shared prosperity path like the one existing in the Shared Prosperity Era from 1947-1980.
More Progressive Taxes Required for a Return to Shared Prosperity

It will be important to phase out the 2017 Tax Cuts and Jobs Act and replace it with a far more progressive tax system. Figure 1.19 shows how tax rates, especially on the very wealthy were much higher before 1980 but have been reduced dramatically since. The form of democratic capitalism prevailing in the Shared Prosperity Era with more progressive taxes has been allowed to morph into a form of feudal capitalism in the Growing Inequality Era, perhaps triggered by Republican and Reagan’s “trickle-down” economics No. 1 under Reagan, No.2 under Bush II and No.3 under Trump.

As corporations have become bigger and bigger, it is difficult to see a good justification for corporate taxes falling as a share of total taxes when this means taxes corporations used to pay must come from other sources, as revealed in Figure 1.20. Guess who? Here’s a hint, look in the mirror. The corporate tax share of total federal taxes needs to increase. The Office of Management and Budget reported corporate taxes as a percentage of federal revenues declined from 32% in 1952 to 12% by 2014. Considering these trends, what explains Republican insistence corporate taxes are too high? Might it be the donations for corporate and billionaire donors explain why Republicans are working overtime to satisfy their donors’ interests? There are those who will say corporations will only pass these costs on to consumers. This is a valid point but at least wealthy investors and owners of stock in these corporations will bear some of the costs because gigantic profits will turn into only huge profits as higher taxes are paid. Gradually doubling the corporate tax share to at least 20% of total federal revenues would make sense and reduce somewhat the burden on other taxpayers.
It would also be wise to consider a minimum tax on corporations to provide a floor that even robust lobbying efforts cannot break.

There is only one area of taxation where the notion of a flat tax is appropriate if democratic capitalism is to return. The sales tax is largely a flat tax unless certain goods like luxury items (cigars and cigarettes, alcohol, diamond rings, yachts, etc.) are taxed at higher rates. The U.S. should consider a Value Added Tax (VAT). The VAT in Europe functions like a national sales tax and is a significant tax, averaging 18% in OECD countries; however, consumers are not reminded at every purchase of the tax because the market price in a store includes the VAT.

Figure 1.21 identifies the sources of revenue for the average OECD country and the U.S. The VAT is represented in the consumption tax percentage and is almost double that of the U.S. It is also obvious the higher consumption tax in OECD countries reduces the share coming from individual taxes. It is believed a benefit of higher consumption taxes is they provide an incentive for individuals to save, which may explain why savings rates are higher in other OECD countries than in the U.S. even though their total tax rates are higher. Figure 1.22 shows saving rates for all six countries have declined since 1980, not an unexpected trend in the *Growing Inequality Era*. 

---

**Figure 1.21: Sources of Revenue the Average OECD Country and U.S. 2012**

The U.S. Relies on Income Taxes, while the OECD Relies on Consumption Taxes

Share of Tax Revenue as a Percent of Total Revenue, U.S. and OECD Average, 2012

- **OECD Average:**
  - Individual Taxes: 24.5%
  - Corporate Taxes: 8.1%
  - Social Insurance Taxes: 36.2%
  - Property Taxes: 5.9%
  - Consumption Taxes: 32.8%
  - Other: 2.6%

- **United States:**
  - Individual Taxes: 37.7%
  - Corporate Taxes: 10.2%
  - Social Insurance Taxes: 22.3%
  - Property Taxes: 11.8%
  - Consumption Taxes: 17.9%
  - Other: 0.1%

Source: OECD Tax Data.
Chapter 6 presents an array of goals and public policies useful in implementing a Shared Prosperity Plan for the 21st Century. The failure to develop such a plan forty years into the Growing Inequality Era speaks to inaction and gridlock in the nation’s political economy. This is a shame because other developed economies have acted and provide 21st Century standards for workers and families.

The role of government in providing pensions is notably higher in other OECD countries than in the U.S. as revealed in Figure 1.23. The dependency ratio is “65-year-olds and over as a percentage of 20-to 64-year-olds”. The U.S. has the least public spending in support of pensions at only 4% of GDP.

A Kaiser Family Foundation study found the share of large firms (200 or more workers) offering retiree health benefits to active workers had declined from 66% in 1988 to 28% by 2013. The benefits for workers and families which had been imbedded in the social contracts between workers and employers in years past have been eroding in the Growing Inequality Era when workers and families facing stagnating and declining real wages need them most.

Some may make the case some developed countries with extremely high total tax rates have gone too far but a stronger case can be made the U.S. government has not gone far enough to fulfill its mission to protect the health, safety and general welfare of the population at a level commensurate with 21st Century standards other developed countries are meeting.

Until Americans wake up to this fact, the nation’s current levels of economic and political dysfunction will get worse and reversing course will be even more difficult. Canaries are dropping like flies. If the nation does not react soon, we may be singing “where have all the canaries gone, gone to graveyards everyone, when will we ever learn, when will we ever learn.”
Summary

If the nation can return to a shared prosperity path, Democrats, Independents, Republicans, Catholics, Protestants, Jews, Muslims, Buddhists, Hindus, people of other faiths, agnostics,atheists, people from big cities, suburbs, small towns, rural areas, meat eaters, vegetarians, Coke drinkers, Pepsi drinkers, people in all walks of life, right handers, left handers, sport’s enthusiasts, couch potatoes, Virgos, Aires, Leos and other signs of the zodiac, climate science believers and deniers, boxer or brief wearers, conspiracy theory devotees, viewers of Fox, MSNBC and CNN, music lovers of classical, blues, jazz, rock, soul, hip hop, country, opera and countless other Americans will be better off. The constituents for addressing income inequality can be found in countless place across the country.

This chapter has shown a form of democratic capitalism in the Shared Prosperity Era from 1947-1980 distributed the benefits of economic growth across all income groups. Much of this economic success was clouded by social unrest in the civil rights movement, the Vietnam War, sexual revolution and energy crises in the 1970s. Rather than continuing on the shared prosperity path, the political economy of the U.S. morphed into a form of feudal capitalism in an emerging and ever since intensifying Growing Income Inequality Era soon to enter its fortieth year. Whereas both Wall Street and Main Street did well in the Shared Prosperity Era, in the Growing Inequality Era Main Street America has suffered while banks and Wall Street were bailed out by taxpayers. The financialization of the U.S. economy depicted in Figure 1.24 indicates we are moving from an economy producing useful tangible private and public goods and services representing wealth to a financial casino economy designed for high rollers and card sharks to produce paper wealth but offering virtually nothing for workers and families who have been struggling to gain secure economic footing for the last forty years.