Chapter 2: The Theory of the Case: A Tale of Two Political Economies

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair." (The opening in A Tale of Two Cities by Charles Dickens)

Nothing in the 20th Century shaped the political economy of the United State more than the New Deal. The degree to which the nation celebrates the 100th anniversary of the New Deal in a little over a decade is uncertain. Few would disagree our political system has become more partisan and gridlock the norm in the nation’s capital. If this is not disconcerting enough, the U.S. economy for the last 40 years has failed to deliver economic growth benefitting millions of American workers and families. This leads to the conclusion both our political and economic systems have become ineffective in dealing with the major challenges facing the nation. The corrosive effects of growing income inequality are eroding our democracy, thinning out the middle class and make achieving the “American dream” an ever more distant prospect. America was the place where it was expected children would enjoy economic success and futures brighter than their parents. The percentage of U.S. 30-year-olds who earn more, adjusting for inflation, than their parents did at age 30 has declined from 90% to 50% in forty-five years.¹ To borrow again from Dickens, “Great Expectations” for young people today have been evaporating.

In the Shared Prosperity Era, the best of times, benefits from economic growth were broadly shared across all income groups. All boats—row boats, canoes, dories, dinghies, sail boats, cabin cruisers, yachts and luxury liners—were rising with the favorable economic tide. Since the onset of the Growing Inequality Era, the worst of times, most Americans have been left behind as large corporations and wealthy households continue to prosper. All boats have not been rising with the favorable economic tide.

the tide. The row boats, canoes, dories, dinghies, sail boats and even some cabin cruisers have been buffeted by strong winds and rough economic seas, some have capsized, and workers and families are struggling to stay afloat. Many boats are leaking, and some have capsized while the yachts and luxury liners cruise on in splendid comfort toward an even more prosperous future. It appears a have and have-not economy typical of many Third World countries has taken shape in the U.S. Collectively, the ship of state finds itself in dangerous and unchartered waters with no responsible captain at the helm.

This chapter offers more evidence and considers factors contributing to this unfortunate shift in the performance of the nation’s political economy. The Shared Prosperity Era economy was propelled by democratic capitalism produced the season of light because all workers and families prospered and were able to achieve a higher quality of life and many moved into the expanding middle class. The Growing Inequality Era propelled by a modern-day form of feudal capitalism has produced the season of darkness where the already wealthy and powerful accumulate more wealth and power while many Americans are relegated to a degrading form of political and economic serfdom.

Figure 2.1 shows the six different income groups plotted on the graph rose in similar fashion in the Shared Prosperity Era, although in the 1970s two energy crises caused blips on the electrocardiogram and separation did occur. But also note the income groups that fell the most

Figure 2.1: Changes in Real Income per Household by Distributional Shares, 1947 to 2014 in the Shared Prosperity and Growing Inequality Eras
Shared Prosperity Plan for the 21st Century
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during this energy crisis period were the higher income groups. During the Shared Prosperity Era, the gains ranged from a low of 57% for the Top 1% to a high of 89% for the top 10%. Even though the Top 1% percentage gain was lower than other income groups, the actual dollar value increase was much higher. It stands to reason the political and economic systems were meshing and contributing to or at least not getting in the way of impressive economic gains for all Americans. To borrow from Dickens “it was the age of wisdom….it was the epoch of belief……it was the season of Light……it was the spring of hope.”

In contrast, the Growing Inequality Era has funneled most of the benefits from economic growth to wealthy corporations and households. For the Bottom 90% real household income declined -3% while the Top 10%, 1%, .1% and .01% household incomes grew by 82%, 162%, 281% and 386% respectively. This era “was the age of foolishness……it was the epoch of incredulity……it was the season of Darkness……it was the winter of despair” for an increasing number of American workers and families. The winter of despair continues. For such a trend to persist is anathema to democratic principles and a functioning economy in a vibrant democratic society.

Figure 2.2 plots the Bottom 50% and Top 1% share of pre-tax income from 1962-2014. Throughout the portion of the Shared Prosperity Era depicted on the graph, the Bottom 50% share of pre-tax income hovered around 20%, but after 1980 it began to decline and by 2014 had fallen to 12.5%. Conversely, the Top 1% came down slightly in the Shared Prosperity Era from

Figure 2.2: Share of Pre-Tax Income in U.S. for Bottom 50% and Top 1% of Income Earners, 1962-2016
12.5% to 11%, but in the *Growing Inequality Era* it climbed to 20% by 2014. The 2017 Tax Cuts and Jobs Act rewards the Top 1%. Notice the rapid upward swing for the Top 1% did not occur until after 1980. It would appear Reaganomics may have contributed to this unfortunate shift.

Figure 2.3 clearly reveals tax rates on the wealthiest households were high in the *Shared Prosperity Era* but came down on these households and stayed lower in the *Growing Inequality Era*. If one tax is going down like the corporate tax or for a certain income group like the Top 1%, then other taxes are going up, such as the property tax, other income groups and the middle class are having their taxes increased. The loss of revenue from a certain tax or a certain income group invariably shifts the tax burden elsewhere. Those with power, the wealthy, aided and abetted by Republican policies, have successfully been shifting taxes to others in the *Growing Inequality Era*.

Figure 2.4 displays tax shifting has occurred regarding revenue sources for the federal government from 1950 to 2016. The corporate tax share was greater in the early years of the *Shared Prosperity Era*, being as high as 30% but came down steadily in this era. With the corporate tax share declining and excise taxes as well, the Social Security payroll tax has expanded dramatically. Corporate taxes have remained low throughout the *Growing Inequality Era*. The individual income tax share has remained in the 42% to 48% share range.
Americans Views on Income and Wealth Inequality

What do Americans think about three different national wealth distributions: 1) the actual distribution of wealth; 2) what Americans mistakenly think the distribution is; and 3) what they would like the distribution to be (Figure 2.5). The wealthiest 20 percent control almost 85% of the nation’s wealth. Based on a survey of over 5,000 Americans, they think the wealthiest 20 percent control about 60% and think they should control about 33% of the nation’s wealth. The bottom 20 percent control less than 1% of the nation’s actual wealth. Americans think they control about 3% and think they should control about 12%. The 20 to 80 percent group controls 15%; Americans think they control 40%, and Americans think they should control 55% of the wealth. Clearly, the goal of effective public policies and reapplication of democratic capitalism should be to move the wealth distribution from where it is to where Americans mistakenly think it is; this would go a long way in returning the nation to a shared prosperity path of economic growth compatible with democracy. Tax policies and public policies supporting democratic capitalism rather than the ones currently favoring feudal capitalism are needed to begin implementing a Shared Prosperity Plan for the 21st Century.
Based on these survey results, Americans think the distribution of wealth is more equitable than it really is. If a *Shared Prosperity Plan for the 21st Century* is enacted, over time the current distribution of wealth should move in the direction where Americans incorrectly think it is—the middle distribution on the graph. If this occurs, the policies are working.

**It’s the POLITICAL ECONOMY Stupid**

Adding the word POLITICAL to Bill Clinton’s “it’s the [POLITICAL] economy stupid” refrain in the 1992 campaign is necessary in evaluating the economic situation the nation finds itself in. “Political economy is the study of production and trade and their relations with law, custom and government as well as with the national distribution of income and wealth.” (Wikipedia)

Too often discussions of the economy are focused too narrowly and ignore the law, custom and government aspects. This report gives due attention to the “national distribution of income and wealth,” which should be a concern in any society, but especially in one which takes pride in claiming to be the world’s leading democracy. For this reason, the book espouses a form of democratic capitalism which the nation should strive to attain. Democratic capitalism can only succeed when the political economy supports and oversees it.

**The basic but very ambitious role of government, and not one markets are equipped to do, is to protect the health, safety and general welfare of the population.** For modern 21st Century nations, the most successful political economies strive to provide for the physiological, safety, belongingness and love, esteem and self-actualization needs outlined in Maslow’s hierarchy of needs pyramid for its citizens as shown in Figure 2.6. Without providing the basic physiological and safety needs of its citizens, it is difficult for workers and families to move on to fulfilling their psychological and self-actualization needs. Without providing these basic needs an individual and family cannot gain economic security. From a secure base camp, moving up Maslow’s pyramid is more likely to succeed.

A society, especially one possessing great resources, should first and foremost do all within its power and means to provide the basic needs for its citizens. To find extreme poverty when it comes to basic needs in a very wealthy country, indicates it is not the ability to produce the basic needs but society’s inability to distribute them fairly that explains poverty. This report advocates the goal of the nation’s political economy

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*Figure 2.6: Maslow’s Hierarchy of Needs Pyramid*
should be to assist households to attain a living wage appropriate for the communities where they reside because a living wage should allow access to securing basic needs and give as many citizens as possible the means to reach their full potential.

A democracy is best judged by how effective the political economy is in fulfilling the basic, psychological and self-actualization needs of its citizens. Since income gains in the Growing Inequality Era have bypassed most Americans and gone to the largest corporations and very wealthy, the basic needs and economic security of workers and families are being threatened. The simple fact is the political economy in the U.S. has not adjusted to the challenges facing workers and families and has failed to respond with national legislation and public policies aimed at providing for the health, safety and general welfare of the population to 21st Century standards. The failure of workers’ wages to increase and household incomes to rise in the Growing Inequality Era over the last 40 years the way they did in the Shared Prosperity Era has put more workers and families in jeopardy and taken trillions of dollars of disposable income out of local Main Street economies across the nation. Main Street struggles while Wall Street flourishes.

Figure 2.7 shows both Wall Street and Main Street economies across the nation did well in the Shared Prosperity Era. However, in the Growing Inequality Era, Main Street has suffered while Wall Street prospers and was even bailed out by taxpayers in the Main Street economy. Nothing can revive Main Street economies faster than getting more disposable income into the hands of workers and families who will be spending it on basic needs (housing, food, clothing, etc.).

**What Americans Think about Taxes**

Americans would like to have lower taxes and high-quality public goods and services. This is equivalent to wanting to eat 1,000 calorie desserts after each 1,600-calorie meal and remain slim without exercising. It is delusional.

“Our new Constitution is now established and has an appearance that promises permanency; but in this world nothing can be said to be certain, except death and taxes.”

(Benjamin Franklin in a letter to Jean-Baptiste Leroy, 1789)
To the quote above, one might have expected the witty Franklin to have added something like, “Regarding death and taxes, I prefer the latter.” Most economically successful countries in today’s world have established democracies with market economies. This combination has afforded freedom for individuals and economic opportunity for their citizens. Is it an accident that the most successful countries tend to tax their citizens at higher rates than less successful countries? Not really, modern societies try to meet 21st Century standards for workers and families by providing a range of high-quality public goods and services; raising taxes to provide these goods and services is required. In fact, these public goods and services are the hallmarks of successful modern societies. Americans undervalue the worth of many public goods and services provided in whole or in part by government and paid for through taxation.

When Americans are asked if they support spending cuts for governmental programs generally, majorities say yes. However, when Americans are asked if they want to cut specific government programs, majorities are difficult to find and in fact most Americans support maintaining or increasing funding levels for specific programs (see Figure 2.8). When asked the general question, most respondents can think of one or two government spending programs they would like to cut, for some it is military spending, for others welfare programs, education and so on. For the eighteen federal programs surveyed, support for increasing or maintaining spending on each program was considerably more than those favoring a decrease in spending and for all but aid to the world’s needy it isn’t even close. The lack of support for aid to the needy may be due to the broadly
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held but erroneous view that foreign aid constitutes a significant percentage of the nation’s budget, it does not and is well under one percent of all federal spending. Even though foreign aid represents less than one percent of the federal budget, a Kaiser Foundation survey found that “only 3 percent of Americans correctly estimated spending at 1 percent or less of total spending. The average answer was that foreign aid accounts for 31 percent of the U.S. budget; 15 percent of the people thought it represented over half of all spending.”

higher taxes are necessary to implement a shared prosperity plan for the 21st century

The good news is public opinion survey results provide evidence that majorities of Americans will support the goals of a Shared Prosperity Plan for the 21st Century. A simple fact which will not be a simple matter involves convincing Americans that overall tax rates in the U.S. will have to be increased in forming a viable political economy response to 21st Century challenges facing workers and families. Evidence supporting this statement is presented in greater detail in Chapter 4 where U.S. circumstances and actions are compared with what most other developed countries have been doing in the face of similar challenges.

Cutting government programs and spending has become a tired, dog-eared mantra rather than a sober 21st Century judgment, especially prevalent in the Republican Party. As Figure 2.9 reveals total taxes as a percentage of GDP were 26% in the U.S. compared with the average of 34% for OECD countries. Only four of the countries had lower total taxes—South Korea, Ireland, Chile and Mexico. Considering what most developed countries have done, Mexico and Chile will have to increase total taxes as a share of GDP if they are ever going to reach levels of development matching those of the average OECD country. The same can be said for the U.S. It appears obvious if the U.S. is to match what other OECD countries are doing to provide workers and families 21st Century standard guaranteed benefits and economic security it will have to increase taxes to do so.
Claims taxes are too high in the U.S. are fake news if what other developed countries are doing has any relevance. Figure 2.9 shows the average total taxes as a percentage to for all OECD countries is 34%, about of 10% increase from where it was in the mid-1960s. In 2015 the U.S. is at 26% of GDP, less than two percent higher than in the mid-1960s. That American politicians and much of the public want to ignore the steps other countries have had to take to match their rhetoric about valuing workers and families by raising taxes to provide the litany of high-quality public goods and services and fringe benefits and pretend the U.S. can find some low-tax and high-quality public goods and services secret sauce solution is delusional. Most OECD countries learned this lesson decades ago. For this reason, any proposals to cut federal taxes should be ruled out since the empirical evidence is the U.S. is not taxing itself at a high enough rate if it desires to provide workers and families with 21st Century standard benefits and economic security comparable to what other developed countries are already providing.

Figure 2.10 compares ten other OECD countries with the U.S. in terms of guaranteed paid benefits for workers and families. It is clear these countries which provide these benefits have total taxes as a percentage of GDP higher than the U.S. 21st Century benefits cannot be attained at 19th or 20th Century prices. The average tax rate for the ten is almost 38% while the U.S. is at 26%. If a family pays a higher tax rate but receives more benefits and the dollar value of these benefits exceeds the amount they were taxed, they are better off.

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<th>Guaranteed Paid Benefits for 10 OECD and U.S.</th>
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While the U.S. provides 0 guaranteed paid benefits, the other ten countries average 1) 21.2 days of paid vacation, 2) 5.5 paid holidays, 3) 12.1 weeks of paid maternity leave and 4) 28 weeks of paid parental leave. Whereas workers have the security knowing they can respond to
health issues and family emergencies like tending to a sick child and assisting ailing parents in other OECD countries and not suffer loss of income, workers in the U.S. can only hope their employers will be generous enough to offer such assistance. Of course, many employers are not. One disincentive for employers in the U.S. is the extra cost of providing such benefits to workers would put them at a comparative disadvantage if other employers do not do the same. Such employers who offer such benefits are punished for being the good Samaritan.

By no means does this report suggest the U.S. should move immediately to the higher total tax rates in other OECD countries. However, the report does contend that the U.S. will have to move in that direction if workers and families are to be treated with the dignity and respect workers and families in other developed countries are receiving and if any dent in growing income inequality is to be achieved.

If the assumptions on which free markets are based and should operate are violated, then mutant and even destructive forms of capitalism will emerge. Some of the names given to these mutant forms are: laissez faire capitalism, crony capitalism, predatory capitalism, plutocratic capitalism, feudal capitalism and others. It is possible that these different forms of capitalism can exist at the same time, as they appear to be in the United States. The Growing Inequality Era in the U.S. has been accompanied and invigorated by a modern-day return to a form of feudal capitalism, with dollops of crony, predatory and plutocratic capitalism added to the mix. Two areas where evidence of crony capitalism seems apparent has been in the charter school movement and the privatization of prisons.

Charter Schools: There are no doubt some excellent charter schools; however, Figure 2.11 shows the number of charter school closings nationwide has been increasing in number, although the percentage closing has fluctuated between 3 to 4%. The main reasons for closings have been financial, academic and bad management. The closing of charter schools has been identified as a major factor explaining why students attending charter schools graduate later than their peer group attending traditional public schools. One controversial issue is the money charter schools drain from existing public education budgets already experiencing financial difficulties. A second issue is charter schools are not held accountable to the same standards public schools are.
Privatizing Prisons: There is an emerging consensus the U.S. has been over-incarcerating its citizens, many non-violent offenders, owing to the War on Drugs, three-strikes-and-you-are-out and mandatory sentencing and it is likely overall prison populations may level off or decline. The world incarceration rate is 144 per 100,000 and the U.S. edged out St. Kitts and Nevis for the highest rate of 716 per 100,000. The private prison industry will lobby for tougher sentencing and locking more Americans up because their profitability rests on filling as many cells and beds as possible. In fact, most contracts with private prisons guarantee a high occupancy rate will be maintained. Well-run public prisons operate at comparable per inmate costs or even less in some cases since private prisons must make a profit. In any case, it is taxpayers who pay for prisons whether they are public or private, so the argument advanced by some that privatization will save taxpayers money is bogus.

Adam Smith is Rolling Over in His Grave: Markets in theory can operate with little governmental regulation if producers of goods and services and consumers of goods and services are not large enough to influence the market price; they are the theory argues price takers and subject to prices set by the even and invisible hand of the market. Citing two examples, when it comes to large passenger commercial aircraft, Boeing and Airbus are the only game in town. They form a duopoly and possess dominate market power. Should they successfully collude, they could set artificially high prices. Other potential producers of large passenger aircraft are prevented from entering the market by the extremely high entry costs involved in creating enough comparable quality aircraft to compete with Boeing and Airbus and make a profit. To pretend the free hand of the market is the same for big-box retailers like Walmart and small independent businesses is preposterous.

Welfare for the Wealthy: Critics of the political economy in the U.S. contend it is “capitalism for the poor and socialism for the rich.” Bank robbery is generally perceived as a crime in which a citizen or citizens rob a bank. The financial and bank bailout would seem to be a situation in which the banks and financial institutions robbed the taxpayers. This is also seen where corporations claim fidelity to free markets while at the same down shake down communities in the form of tax breaks, public infrastructure investments and other subsidies provided by local and state governments and taxpayers in locating their plants.

With 11,462 locations worldwide as of February 28, 2015, Walmart has a huge purchasing power advantage over smaller stores providing goods which Walmart sells and therefore can use its power to negotiate or extort lower prices from suppliers. Small retailers have no such leverage and can never compete with Walmart or other big-box retailers. Figure 2.12 shows the various ways Walmart is subsidized by taxpayers. Walmart is just one highly successful corporation that has no problem espousing free markets while dipping into the public till at a huge expense to taxpayers. “The study estimated the cost to Wisconsin’s taxpayers of Walmart’s low wages and benefits, which often force workers to rely on various public assistance programs. It found that
one Walmart Supercenter cost taxpayers between $904,542 and $1.75 million per year, or between $3,015 and $5,815 on average for each of 300 workers.”

Walmart is not alone in avoiding taxes and feeding at the public trough. Figure 2.13 lists 28 corporations that paid no federal income tax in 2014. This is inconsistent with democratic capitalism but part and parcel of and evidence of feudal capitalism. There is mounting evidence in the charter school movement, privatization of prisons and detention centers for those seeking asylum or immigration to the U.S. that these provided new opportunities for examples of crony capitalism to flourish.

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The simple fact is the political economy in the U.S. has not adjusted to the challenges facing workers and families and has failed to respond with public policies aimed at providing for the health, safety and general welfare of the population at 21st Century standards other developed countries are providing. It bears repeating, the failure of workers’ wages to increase and household incomes to rise in the Growing Inequality Era over the last 40 years the way they did in the Shared Prosperity Era has taken trillions of dollars of disposable out of the Main Street economy and many additional local jobs the spending of this disposable income would have created.

Most developed countries have evolved over time to social democracies, some countries more than others. As Chapter 4 reveals, most democracies have moved farther in the social democracy direction and embraced a form of democratic capitalism more than that practiced in the United States, most notably in the Growing Inequality Era. “A social democracy is a political, social and economic ideology that supports economic and social interventions to promote social justice within the framework of a liberal democratic polity and capitalist economy.”

Much of the discussion of the challenges and problems the nation faces and the range of public policies to address these problems is untethered from reality and not based on facts, evidence and sober analysis. Talking points advanced by politicians and political parties seldom serve as a basis for sound policy making. The many graphs employed throughout this report were selected based on the evidence they convey and the ease with which a person can discern the evidence they reveal. An addition to many of the graphs is in shading the Shared Prosperity Era in green and the Growing Inequality Era in red.
Opinions are not necessarily useful evidence. On the one hand, opinions supported by analysis and evidence can prove useful in considering and passing new legislation. On the other hand, opinions refuted by analysis and evidence contribute very little of constructive value in considering and passing useful legislation. Opinions refuted by readily available evidence, such as that used by climate science deniers, is misinformed opinion and borders on fake news; such opinions are of little use in crafting effective public policies. Opinions neither supported nor refuted by evidence may be useful for consideration but become more useful when evidence is provided to back them up. It is human nature to accept opinions and evidence which conform to one’s thinking and question opinions and evidence that challenges them. But expressing opinions that are contradicted by evidence and worse supporting policies at odds with evidence contribute little to informed debate and policymaking.

**Private and Public Sectors of the Economy**

Markets do an effective job in allocating private goods and services which tend to confine benefits to the persons or households purchasing them, but markets are of less value in allocating public goods and services. Public goods and services impact individuals but society more broadly. Imagine two different scenarios in a city of one hundred thousand in an upper Midwest state with four distinct seasons. The first scenario involves an announcement a month in advance that all businesses producing goods and services in the private sector will be closed the first full week in March followed by the second scenario in which all agencies providing public sector goods and services will be closed the second full week of March. This means all people employed in the private sector will not be working in the first week and all those employed in public sector will not be working the second week.

Which scenario would be most difficult to cope with for citizens in a modern society? Knowing all goods and services provided by the private sector will not be available the first week would mean individuals could stock up on essential items, purchase groceries, fill the gas tank of their vehicles to prepare for the week. No public employees on the job the second week would mean schools are closed, there will be no organized response to fires, crimes and other disturbances in the city; in fact, criminals are likely to take advantage of the situation. Publicly run hospitals, clinics and emergency rooms will not be open, snow will not be removed from streets, garbage will not be picked up and general chaos could ensue.

The promised savings of those pushing for privatization of public services are allusions. Advocates keen on privatization fail to recognize it will still be taxpayers who foot the bill; the difference is they will have to guarantee private contractors make a profit as well. Privatization also invites levels of crony capitalism which appear to have crept into the charter school movement and privatization of prisons and detention centers as noted earlier. The profit motive is one reason why contactors providing private prison facilities require very high occupancy rates be guaranteed because empty cells mean less profit.
Workers for defense contractors are not generally counted as public employees but their salaries for government contracted service are paid by taxpayers. Those who push privatization of public goods and services in directions it should not go seldom acknowledge the large number of workers in the private sector who get their paychecks for contracted government services. “Four out of every ten people who work for the U.S. government are private contractors...according to a new report by New York University professor Paul Light. Light estimates the true size of the federal government (as of 2015) is 9.1 million government employees, active-duty military personnel, Postal Service workers, and contract and grant employees. More than 40 percent of the workforce—about 3.7 million people—are contract workers. Light’s analysis shows that contractors have long been the single largest segment of Uncle Sam’s “blended workforce,” accounting for between 30 and 42 percent of that workforce.”

Total taxes as a percentage of GDP was 26% in 2015 in the U.S. At first blush this seems high. However, stop and consider all the public goods and services government at local, state and federal levels provide to protect the health, safety and general welfare of the population. A partial list includes.

- Support men and women and families serving in the army, navy, air force, marines and coast guard.
- Pay for all the weaponry and equipment required for these forces.
- Provide care for veterans.
- Build, repair, plow and maintain all public roads and bridges across the country. There are 47,000 miles of interstate highway and a total of 8,656,000 lane miles in the U.S.; this is enough lane miles to circle the earth at the equator 346 times.
- Staff all offices for departments and agencies at the federal, state and local levels of government.
- Provide police and fire protection in thousands of communities throughout the country.
- Staff and maintain national, state and local parks.
- Dredge and maintain harbors and waterways.
- Staff and maintain federal, state and local judicial systems.
- Provide public education in over 90,000 elementary schools, 24,500 high schools, 630 4-year public colleges and universities and 1,070 2-year public colleges across the country.
- Support public hospitals and clinics across the nation.
- Provide water and sewage systems and disposal services at the local level.
- Provide aid following natural disasters.
- Provide public transportation in many communities.
- Enforce health, safety and environmental standards.
- Provide Medicare and Medicaid to qualifying recipients.
- Fund and administer the Social Security System.
• Fund basic research that private institutions do not fund because of cost and the unlikelihood of paying off within the time horizon necessary.
• Provide postal service.
• Support basic research such as that conducted at the Center for Disease Control and universities across the nation.
• Inspect food and test safety of numerous products to protect consumers.
• Conduct and oversee elections at national, state and local levels.

MYTHS, NOSTRUMS, HALF-TRUTHS and PLATITUDES Holding the U.S. Back from a Shared Prosperity Plan for the 21st Century

Myth: Taxes in the U.S. are too high.

Figure 2.14 indicates federal spending and revenue were closer together in the Shared Prosperity Era but increased in the Growing Inequality Era. In the face of this historical record of expenditures exceeding revenues, politicians, mostly Republicans, claim government spending is too high and taxes should be cut. Given the fact all government spending is the result of laws and policies passed by legislative bodies and signed by the president or governors in the states, it is more accurate to say taxes are not high enough to bring in enough revenue to support...
what legislative bodies and chief executives have passed and signed into law. This is like and employer hiring a worker at a $15 dollar per hour job but when it comes to paying the employee finds she made only $10 per hour. On taking her concern to the employer, he says sorry I did not budget enough for the $15 per hour wage.

It would be ideal if tax rates were set to raise slightly more revenue than anticipated outlays for two reasons: 1) to eliminate yearly deficits which mount up to a rising national debt requiring yearly interest payments on the debt; and 2) to establish a rainy day fund like what some states have created to cover unanticipated costs such as disaster relief.

**Platitude: Government budgets should operate like a family budget.**

Do families have to field an army, float a navy, semper Fi-nance the marines, build and maintain roads, operate public schools and provide a host of other goods and services government provides? This also ignores the amount of credit the average household carries in purchasing a home, vehicles and in purchases with credit cards. Governments are expected to respond to national emergences for which mother nature does not provide adequate warning. “The average household with credit card debt owes $16,061, up 10% from $14,546 10 years ago and $15,762 last year, according to a new analysis of Federal Reserve Bank of New York and U.S. Census Bureau data by the personal finance company NerdWallet.....Nationwide, total household debt (including mortgages, auto loans and student loans) now equals almost $12.4 trillion, up from about $11.7 trillion in 2010.”

**Myth: Giving tax cuts to very large corporations and wealthy households will generate investments and promote robust economic growth which will “trickle down” to the advantage of all workers and families.**

The three most recent tax cutting attempts at “trickle down” economics in action were under Republicans presidents Reagan, Bush II and most recently Trump. Each will be covered in greater detail in Chapter 5. Suffice to say for now Reagan’s was followed by good job growth but the economy never grew as advertised and yearly deficits and the national deb skyrocketed (see Figure 1.9). Bush II’s effort produced little job growth but did drive up deficits and the national debt because the promised economic growth never materialized. It is too early to say with certainty about Trump’s third try but most forecasts say yearly deficits and the national debt will rise considerably because “it’s déjà vu all over again” as Yogi Berra said, and the projected economic growth is unlikely to occur.

**The Problem of Bigness**

The Great Recession of 2008 demonstrated bigness, exemplified by “too big to fail,” was the reason American taxpayers had to subsidize banks and large financial institutions with bailout funds. As businesses and corporations have become gigantic, Wall Street has prospered while Main Street has suffered. Figure 2.15 shows how the amount given for bonuses on Wall Street could be deployed differently to the benefit of many more workers, many working in Main Street economies across the nation. Between 3 and 4 million low-paid workers’ wages could be raised
to $15 per hour. This would more than double the salary of those making the current minimum wage.

Main Street businesses historically have been small operations but have provided most of the nation’s employment. With national franchises when it comes to grocery, big-box retailers, fast food chains, hotels, financial services, and other chains, big businesses have overwhelmed small businesses. In the absence of prudent and effective legislation and the necessary oversight of big government, predatory capitalism, plutocratic capitalism, crony capitalism and feudal capitalism have flourished in the *Growing Inequality Era*.

The mission of the federal government reads, “*We the people of the United States, in order to form a more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do ordain and establish this Constitution for the United States of America.*” A shorter version is, “to promote the health, safety and general welfare of the population.”

Louis Brandeis, one of the most influential Supreme Court Justices’ of the 20th Century, thought deeply and wrote about the dangers of a “financial oligarchy” in both big business and big government. Despite his warnings, the bigness of large corporations and financial institutions and tendency toward plutocracy in the *Growing Inequality Era* are clear and apparent dangers today. It is difficult to see how the excesses and misdeeds of financial and corporate oligarchies are to be checked without government oversight, regulation and enforcement.

**Connecting the Dots**

The pot is simmering, the frog—the present political economy in the U.S.—is in danger but the nation’s leaders and citizens seem unwilling to come to the aid of the frog. How far off is the boiling point? It is not too late to institute political and economic reforms and save the frog. Unfortunately, for societies reaching the boiling point, reform may be replaced by civil strife and more revolutionary and destructive actions.

In the simplest of terms, the following chapters in trying to understand the two quite different political economies which have been operating in the U.S. the last 75 years try to
connect some of the dots, look at trends and forces connecting the dots and draw reasonable inferences based on the evidence presented. Since the ultimate objective of this report is to make the case for significant changes in the existing political economy to return the country to a shared prosperity path, it is important that the dots identified and how they are connected be based on evidence and not just fancy, opinion and stale talking points. The many graphs provide the evidence. Like any detective in a complex case, readers will see and think of clues which have been overlooked and disagree with the inferences drawn. But this is what a vibrant democracy guided by evidence and some fidelity to the truth is all about.

Chapter 3: What Contributed to the “Best of Times” in the Shared Prosperity Era and “Worst of Times” in the Growing Inequality Era. This chapter analyzes how changing demographic, economic, social and political trends contributed to the best of times in the Shared Prosperity Era when a form of democratic capitalism was distributing economic gains in an equitable fashion to all income groups. However, after 1980 a form of feudal capitalism cast a pall over the economy and the lion’s share of economic gains started going to large corporations and the very wealthy, a trend which has persisted throughout the Growing Inequality Era.

Chapter 4: What Are Other Developed Countries Doing When Compared to the United States? This chapter explores what other developed countries are doing to assist workers and families in dealing with 21st Century realities and how what they are doing compares with what the U.S. is doing or not doing. Other developed countries have faced many of the same problems and challenges the U.S. has experienced but unlike the U.S. altered their political economies and passed legislation and developed public policies to assist workers and families in attaining 21st Century standards.

Chapter 5: Does the Economy Perform Differently under Democratic or Republican Presidents and When Democrats or Republicans Control Congress? This chapter evaluates job creation, economic growth, income growth, budget deficits and national debt under Democratic and Republican administrations. It asks and answers the question “has the nation fared better when Democrats or Republicans are in control of Congress and the White House?” It continues to assess how the two major parties have responded or failed to respond and provides evidence showing how the increasing income inequality seems related to growing political dysfunction and hyper-partisanship for which one party bares more responsibility.

Chapter 6: What is Needed for Shared Prosperity Plan for the 21st Century? This chapter based on the evidence presented in the earlier chapters, suggests a range of public policies and national legislation which can return the political economy to fostering economic growth which can once again share the benefits of economic growth with all workers and households in the U.S. It offers ideas, suggestions and policy choices for A Shared Prosperity Plan for the 21st Century with the goal of reducing income inequality and returning once again to shared prosperity path.

The analysis provided implies a relation or correlation between this trend and that trend; however, correlation does not mean or automatically prove causation. A man standing on the
balcony of his hotel room on a lovely plaza in an Italian city sees a man across the plaza at some distance sitting at what seems to be an unseen table in front of the open window. He scans the plaza and his gaze returns to the man when he observes a tall object next to the man on the unseen table falls and disappears from his view. He thinks little of it because the man had raised his arm and obviously bumped the object causing it to fall. However, since he is some distance the swing of the man’s arm was at least a foot from the object. Was it a strong gust of wind or an excited pet bumping the real table or a prankish boy who had tied and thin string to the object and yanked on it to get the reaction of his father. Correlating the movement of the man’s arm with the object falling was a mistake but based on what the man on the balcony observed, it was a reasonable inference and an honest mistake. Honest mistakes can be forgiven but we must be vigilant of those who market in dishonest misrepresentations and falsehoods.

The author stands by the inferences drawn and believes they are inferences reasonable people would draw based on the evidence. The author also believes, despite the contentious nature and tone infecting the body politic in the country, if fifteen to thirty people of differing political views and predispositions were to gather to focus on an issue of concern to those present, the discussion would be constructive, civil and they would agree on far more than elected politicians in Washington seem capable of. Therefore, informed grassroots involvement will be essential and will have to be maintained if an effective Shared Prosperity Plan for the 21st Century is to succeed.

Canaries are dying, frogs are in danger and so is our democracy unless we act. What fate awaits the U.S.