

## **ABANDONED:**

# **HOW REPUBLICANS AND DEMOCRATS DESERTED THE WORKING CLASS, YOUNG, AND PEOPLE OF COLOR BY FORSAKING WEALTH-BUILDING AND OPPORTUNITY FOR ALL**

### **SUMMARY**

There is a profound dysfunction in our American polity, manifested in growing inequality in wealth and wages; disaffection from society, especially among large groups of working class, people of color, and the young; unsustainable budgets; and elected officials unable to govern.

All these problems are related and attributable to a profound difference in the way our two political parties have pursued trickle-down and trickle-around policies that have dominated the American public agenda for over four decades, squeezed out wealth-building and opportunity for too many, and together stand ready to wreck our shared prosperity. We're staring into an economic abyss. And it's staring back. This book seeks to look into that abyss precisely and clearly and offer a way out.

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The key is understanding the major and largely ignored distinction between policies that build wealth and those that support additional consumption. Wealth for the wealthy and consumption for the masses has been the mindset, respectively, for Republicans and Democrats for a long time. Together, they have both set an agenda that abandoned many of its citizens, with the working class, the young, and people of color among those most disaffected in what can only be described as a mutating threat of an economic and political pandemic.

By wealth-building, I mean adding to the financial, real, and human capital (or capabilities) that provide the foundation for upward mobility, greater opportunity for individuals, and prosperity for the nation. America's past success and its long-term growth have long been built upon creating a more equitable society through wealth-building in the form of education, training, land, homes, pensions, and jobs for ever larger shares of the population. By contrast, the government also provides income support to finance the consumption of everything from food to yacht cruises. The latter can both sustain—a worthy function—and entertain, but they are inadequate for building wealth, dignity, and purpose.

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So, what happened? This. Our government has squeezed out broad, participatory, inclusive wealth-building by obsessively pursuing two agendas since about 1980:

cutting tax rates on capital income, now by about half, and more than doubling real spending per household to support their consumption, mainly in retirement.

To explain, I use an analogy of “Three Santas.” Three gift-giving Santas promising easy money have driven the growth in wealth inequality and the consequent fiscal cliffs on which we find ourselves teetering. The Republican Santa of tax cuts that pay for themselves has showered benefits mainly on the wealthy, making it even easier to maintain dynasties. The Democratic Santa backs unsustainable rates of spending growth on retirement and expensive health care to the exclusion of almost everything else. The Fed (Federal Reserve) Santa added to this volatile mix for most of the 21<sup>st</sup> century until now by supporting negative borrowing costs that largely allow the wealthy to leverage up, even more, their wealth accumulation while the non-wealthy borrow more to finance consumption. As long as Congress pretends that money is free or somehow grows in Fort Knox, it denies the necessity of making trade-offs. It pays limited attention to the cost of the next tax cut or to where or whom the next automatic spending increase should be directed.

Even worse, our political parties continue to make legal commitments to continue unsustainable trends forever, requiring some future Congress, but never this one, to renege on promises that arithmetically can't be kept but to which the public has been told they have entitlement. When taxes are cut continually, healthcare and retirement spending grow faster than the economy, and the interest cost of borrowing is kept unsustainably low, then deficits rise, and programs promoting opportunity and mobility get shoved aside. The costs are pushed onto households in the future. But no one is looking at the bill.

Rather than make everyone happy with this largess, this volatile mix has added to the social discontent that permeates society, as many legitimately feel left out and excluded. They see their wealth declining relative to others, their cash wages stagnating, their region declining, and the control over their lives being turned over to others, whether the rich or the government. Democrats and Republicans couldn't be more wrong when they think everyone can be appeased simply by sharing in some new tax cut or benefit expansion.

The three Santas of easy money and wealth inequality have us careening toward a train wreck the likes of which we haven't seen before. Others have written about the coming “collapse” of the American experiment. Still, in almost all cases, they present agendas associated with some simplistic liberal or conservative viewpoint and make qualitative judgments without even looking at what budget data reveal as to how our nation's priorities must change. Failing to do the math, they fail to present solutions that can work. For instance, taxing the rich to provide more consumption rather than wealth-building opportunities to the non-wealthy does little or nothing to improve wealth equality and can reduce the nation's wealth. And they fail to read the warning signs that will soon force – if we are to survive economically – major adjustments: historic high federal debt that inevitably drives out other future opportunities; the inability of Social Security and Medicare trust funds soon to pay even current

beneficiaries their full benefits, which will force Congress within a decade to raise taxes or cut benefits, or likely both; and the recent upward movement in interest rates which, if sustained, dramatically affect everything from the size of government deficits to the cost of home ownership to the collapse of segments of the economy grown dependent upon negative costs of borrowing.

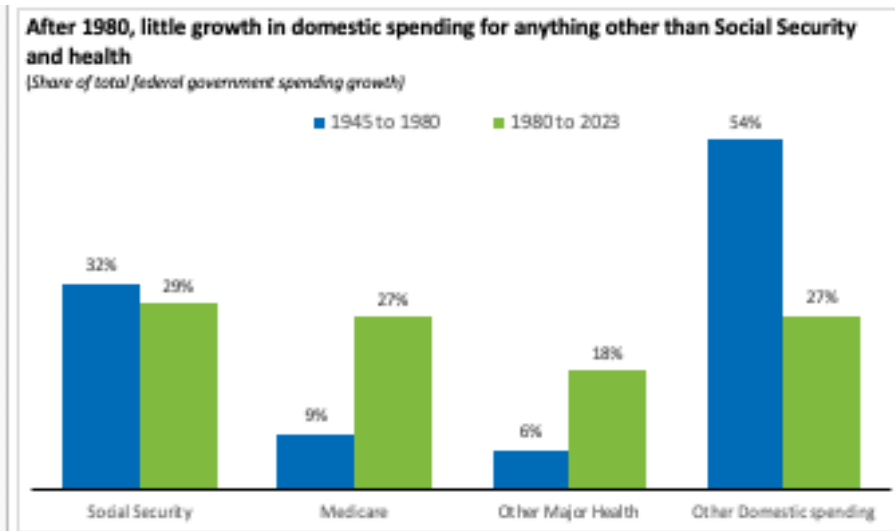
These warning signs have mistakenly been treated as totally separate from the growth of wealth inequality. Yet, they relate largely to the same causes—easy money that has been poorly allocated.

This book seeks not just to provide us with the tools we need to understand the relationship among problems largely but incorrectly treated as discrete, but to offer solutions untainted by partisan politics. Our government institutions, as is the public's faith in them, are on the brink of collapse. Even the turning of politics to cultural wars arises as a way for elected officials to deflect attention from the coming end of the three-Santa era and address their unsustainable promises for low taxes and high benefit growth. Only a holistic, all-encompassing approach can put us on a viable path.

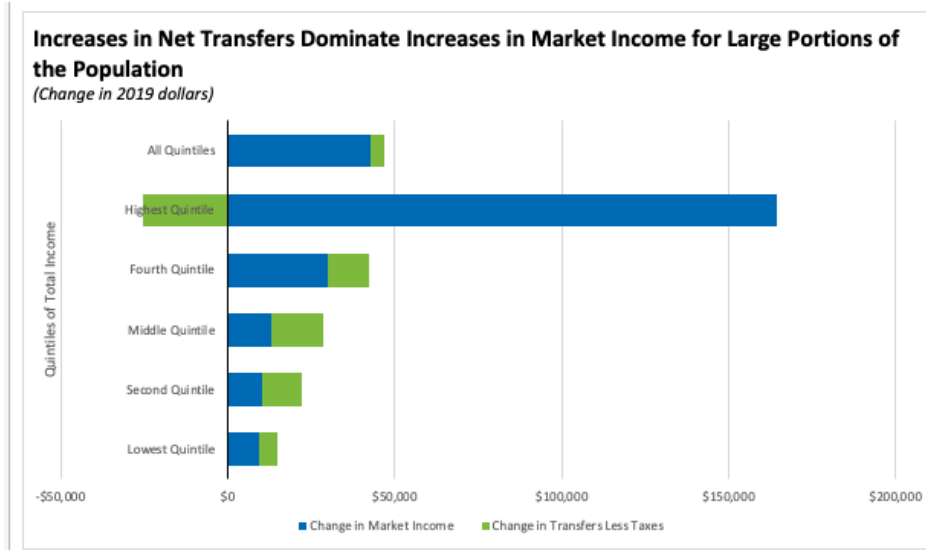
That said, while the required solutions are deeply complex politically, they are relatively simple economically. Restore a government that directs a significant share of the resources that arise naturally from economic growth toward programs, like wage subsidies, education, apprenticeships, pensions, and homeownership, that promote mobility and restore opportunity for all as a national priority. With even modest economic growth, the money will be there to do new things. Channeling that growth sustainably more toward wealth-building for all provides exciting possibilities for the nation our children will inherit—one truly committed to helping them pursue the American dream. It's not simply a matter of money—both households and government are richer than ever—but what is being done with that money. At its root, the book is a call to arms to march in a different direction, not just for the sake of those left behind – although this is imperative – but to restore a shared faith in the very meaning of our democracy.

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Note: The book provides many unique looks at the data to prove its points. These include:



Taxes on Capital Income Cut Dramatically Since 1980			
	1980	2020	Change
	Percent		
Top Rate Ordinary Individual Income	70	37	▼
Top Effective Rate Qualified Dividends	70	24	▼
Top Effective Rate Long-term Capital Gains	28	24	▼
Top Rate Corporate Tax	46	21	▼
Top Rate Estate Tax	70	40	▼
Corporate Income as Share of Total Corporate & Pass-Through Income	87%	60%	▼
Share of estates filed as % of population	0.0000065%	0.0000005%	▼
	Number		
Number of Estate Tax Returns	148,000	15,023	▼
Population (millions)	227.7	331.8	▼



- Government spending at all levels is now well over \$80,000 per household and growing, while GDP per household now exceeds \$200,000. We can do a lot; we're just not doing it well.