

Understanding the Arithmetic of America



The Past – A Big Help to The Future

*If the wealthy would accept a more equitable share of
the national income as in the 1950s, 1960s, & 1970s, we
will have the investment needed for great future jobs.*

— Dick Alexander —

© September 2014

Dick Alexander:

- *50 years business experience*
- *Founder, Software Company*
- *Naval Officer*
- *CPA*
- *MBA, Harvard*

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Table of Contents

Chapter

1	The Overview/ Financial Budget.....	2
2	Wealthy Income & Taxes.....	4
3	Progressive Taxes, Taxing Wealth	8
4	Other Revenues (Corporate Tax, Collection Improvement)	14
5	American based Companies Shipping Jobs Overseas/Cutting Productivity	16
6	Climate Change and Carbon Tax	18
7	Founders Attention to Fiscal Responsibility	20
8	Future Jobs	22
9	Income Grows Faster with Democrats.....	24
10	Performance of Democrats vs. Republicans.....	26
11	Trade.....	32
12	Democratic Leadership in Helping Poor & Middle Class	34
13	Education.....	44
14	Infrastructure Spending	48
15	Small Government.....	49
16	Economic Performance – President Clinton	50
17	Damage to Economy from Republican Obstructionism	52
18	Decent Share of Taxes – Individual & Corporate.....	54
19	Summary – Jobs, Income, Retirement, Healthcare	56
20	Moving America Forward/Obstacles	58
21	Biographies	60

The Overview

“The income of the wealthy (upper 1%) before tax grew 266% from 1979 to 2007.”¹
“The wealthy got 21% of the national income in 2011 compared to 9% in 1970.”²

The middle 60% in income from 1979 to 2007 had an income growth of 32%.

That takes us up to the Great Recession of 2008 when the wealthy and the middle class did lose income. However, Paul Krugman writes in *The New York Times* on 9-12-13 that 95% of the 2008 recovery went to the upper 1%. This leaves us with a 266% before tax gain for the wealthy from 1979 to 2013 and a **zero gain** in income for the middle class for the last 35 years.

The following is a calculation of the change in after tax income of the wealthy:

	1979 (Trillions)	2013 (Trillions)	Increase in income (Trillions)	% in after tax income increase
Before tax income	.75 ³	2.7		
Tax Rate	47%	31%		
After Tax income	.4	1.86	1.46	365%

Following is a business like financial model for the government. It assumes we ask a decent share of taxes from the wealthy and corporations, that we address climate change through a carbon tax, that we collect more from individuals not paying all their taxes and we invest heavily in education, renewable energy, infrastructure and research and development creating good jobs for the future. From this model, we anticipate full employment, 4% growth in GDP and a budget surplus starting in 2018.

1. CBO report dated 10-12-2012
2. *The Price of Civilization* - Jeffery Sacks (Copyright 2011)
3. \$2.7 trillion/3.66 (1.00 + 266% increase)

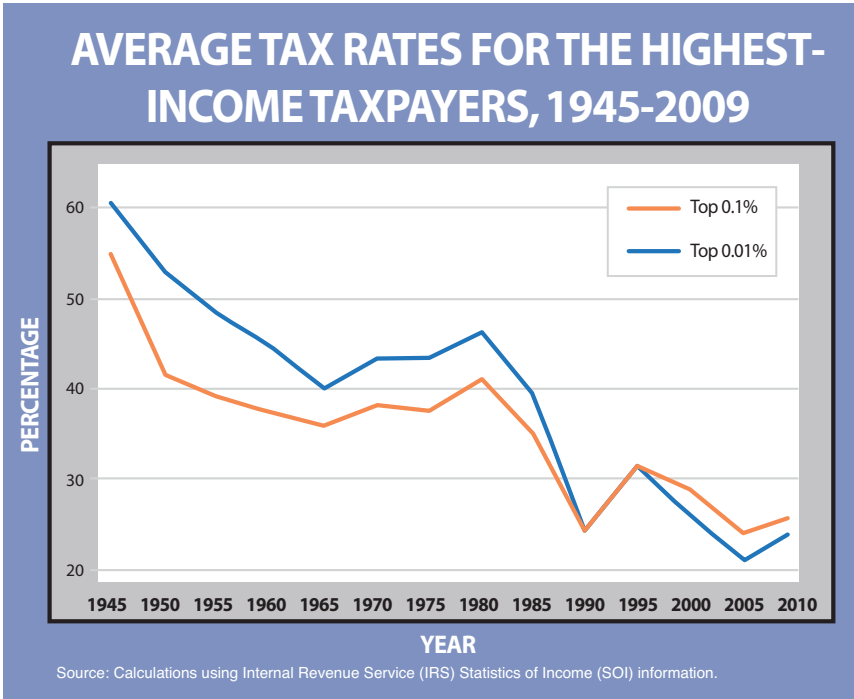
Financial Budget (In Billions)

	2015	2016	2017	2018	
Projected Deficit Spending (CBO) February 2014	478	539	581	655	The Deficit
Investment (1.5 trillion over 4 years) Expect a 4% growth in GDP	300	400	400	400	The Investment
Deficit plus investment	778	939	981	1,055	Deficit plus investment
Added taxes – Progressive Income Tax on upper 1% (\$400B), \$150B Carbon Tax, \$150B Corporate Taxes, \$100B in Collection Improvement (from \$290B estimated uncollected); Total \$800B. All of this is phased in over 4 years.	240	440	600	800	Taxes
		(Phase in)			
Growth in tax revenue from economic growth of 2% more than CBO of GDP included in line 1 (Projected Deficit Spending)	64	130	200	275	Tax growth from 4% GDP growth
Robert Reich writes: “Consider that in 1934, when the economy began emerging from the bottom of The Great Depression, it grew 7.7%. The next year it grew more than 8%. In 1936 it grew a whopping 14.1%.” With the added investment, we should be able to achieve a 2% growth over and above the CBO projection.					
Deficit (surplus)	474	369	181	(20)	(Surplus)
Jobs created in 4years from 4% growth [Includes 2% growth within CBO projection (line 1)]				12	Million jobs added = Full Employment
Total Deficit over 4 years				1,004	Deficit of \$1,004 Billion added in 4 yrs

This government financial model shows an increase in the revenue based on a 4% annual growth rate of GDP and 20% tax rate (revenue). With this, we show a surplus in 2018 and full employment. But, most important we do this while investing 400 billion a year and creating good jobs for the future:

- Infrastructure spending.
- Leading in climate change.
- Moving education forward.
- Increasing R&D spending.
- Reducing poverty and income inequality.
- Feeding all our people and providing healthcare for all.
- Assisting in providing retirement through social security.

This graph based on IRS Source Documents shows the drop in tax rates for individuals in the upper one-tenth of 1% and one-hundredth of 1% of income.

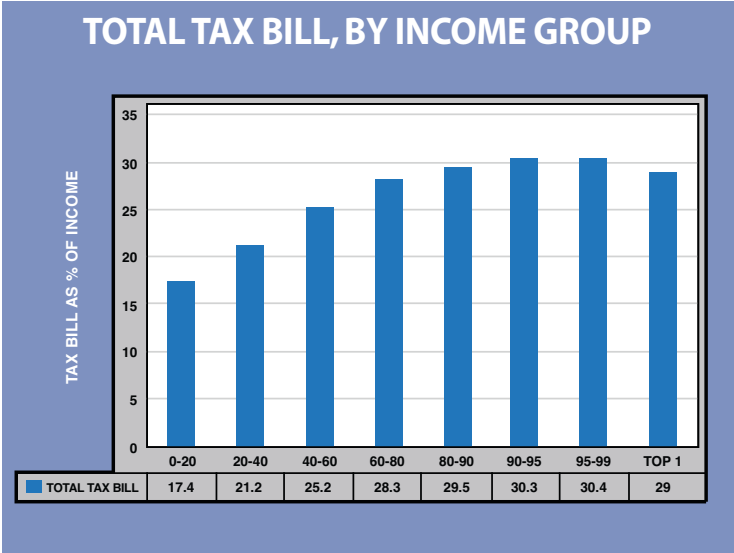


GRAPHS on following page:

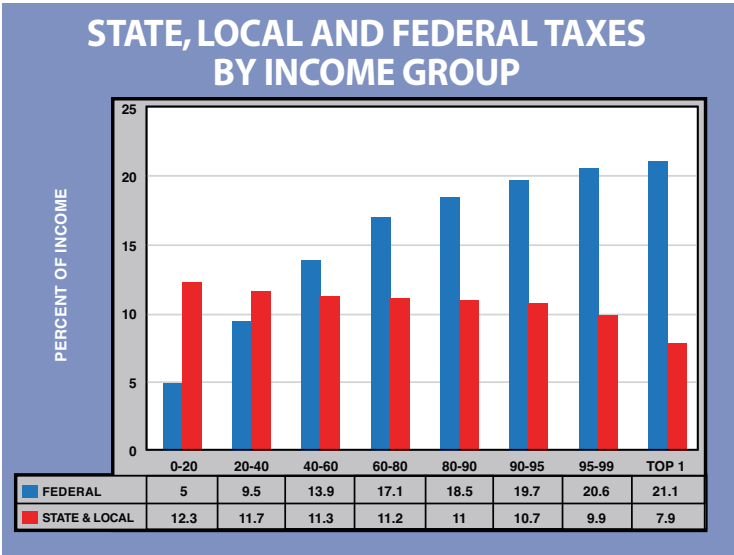
The graphs on the following page documents what the wealthy (upper 1%) pay in total taxes as a percentage of total income. They pay slightly less than the taxpayers in classes of 95-99%, 90 to 95% and the 80 to 90%. They pay slightly more than the taxpayers in classes of 60 to 80% and 40 to 60%.

Shown in the bottom graph, the lower your income the higher percentage of income you pay in state and local taxes.

Who pays taxes



This graph illustrates the percentage of taxes paid by each income class. All income classes pay taxes and these percentages are probably not as far apart as you have been led to believe.



This graph breaks down tax percentage by class between Federal Income Tax and all other taxes. All taxes other than income taxes are a higher percentage the lower you go on the income scale.

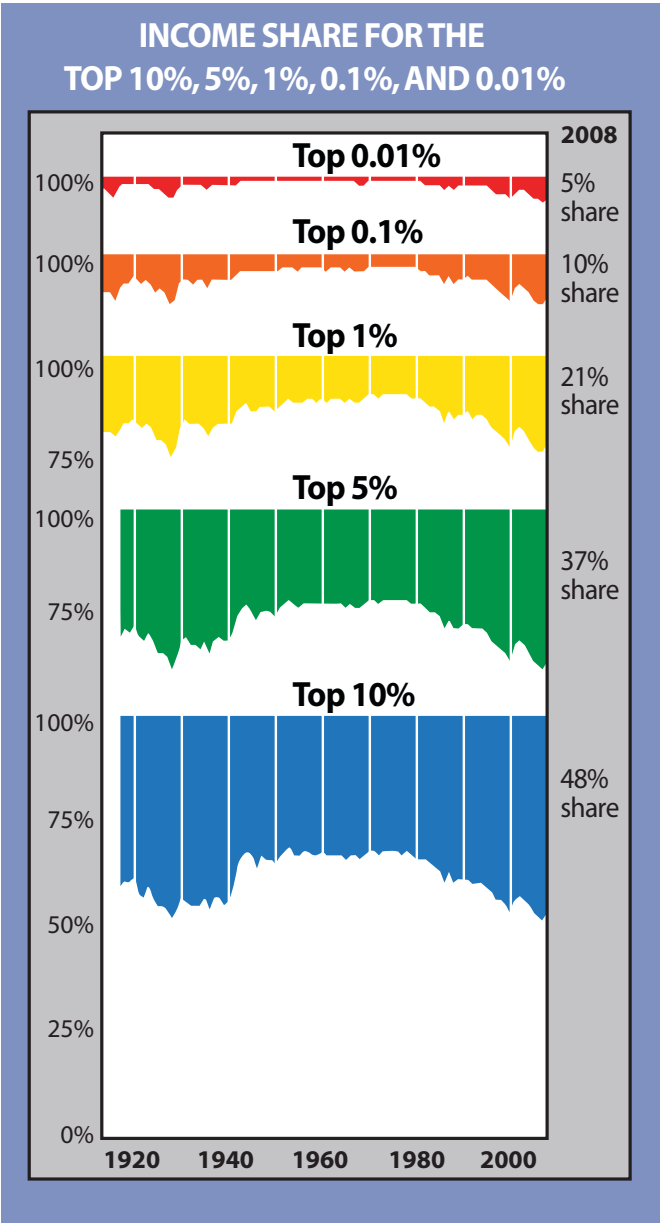
These graphs were prepared by Ezra Klein and presented on Washingtonpost.com/blogs/wonkblog 09-19-2012. Ezra Klein is the author of wonkblog and a columnist of *The Washington Post* as well as a contributor to MSNBC and Bloomberg.

Timothy Noah, assisted by studies from Saez and Piketty (Of Berkley and the Paris School of Economics, respectively), adds color to the numbers in his book *The Great Divergence* and writes:

- The top 5 percent (Basically, Undeniably, Really, and Stinking Rich; today, everybody making at least \$153,000) increased their share of national income during the Great Divergence from 23 to 37 percent.
- The top 1 percent (Undeniably, Really, and Stinking; today, everybody making at least \$368,000) more than doubled their share of the national income during the Great Divergence, from 10 to 21 percent.
- The top 0.1 percent (Really and Stinking; today, everybody making at least \$1.7 million) tripled their share of the national income during the Great Divergence, from 3 to 10 percent.
- The top 0.01 percent (Stinking; today, everybody making at least \$9.1 million) nearly quadrupled their share of the national income during the Great Divergence, from 1.4 percent to 5 percent.
- Notice a pattern? The richer you are, the faster you expand your slice of your country’s income. Or as Saez put it to me, “The (inequality) phenomenon is more extreme the further you go up in the distribution,” and it’s “very strong once you pass that threshold of the top 1 percent.”

Back to our financial model which shows \$400 billion added taxes on the upper 1%. This could break down as follows:

		Total Annual Added Taxes (Billions)	Individual Approximate Avg. Annual Income (Millions)	Individual Approximate Tax Percent Increase	Individual Approximate Avg. Tax Increase (Thousands)	Households in this class
Sort of Rich	\$109,000 to \$155,000					
Basically Rich	\$155,000 to \$368,000					
Undeniably Rich	\$368,000 to \$1.7 million	95	1	9.5	84	1,017,000
Really Rich	\$1.7 million to \$9.1 million	135	6	19.5	1,272	101,700
Stinking Rich	\$9.1 million to much more	170	58	22	12,760	11,300
Total households in upper 1%						1,130,000



Source: *The Great Divergence* by Timothy Noah Alvaredo et.al.
The world Top Incomes Database

Progressive Taxes

Thomas Piketty writes in his recent number one (for several weeks) best-selling book, *Capital in the 21st Century*:

“The major twentieth-century innovation in taxation was the creation and development of the progressive income tax. This institution, played a key role in the reduction of inequality.

Progressive taxation was as much a product of two world wars as it was of democracy.

Roosevelt (a Democrat) came to power in 1933, when the crisis, (the depression) was already three years old and one-quarter of the country was unemployed. He immediately decided on a sharp increase in the top income tax rate, which had been decreased to 25 percent in the late 1920s and again under Hoover’s disastrous presidency. The top rate rose to 63 percent in 1933 and then to 79 percent in 1937, surpassing the previous record of 1919. In 1942 the Victory Tax Act raised the top rate to 88 percent, and in 1944 it went up again to 94 percent. The top rate then stabilized at around 90 percent until the mid-1960s, but then it fell to 70 percent in the early 1980s. All told, over the period 1932-1980, nearly half a century, the top federal income tax rate in the United States averaged 81 percent.”

Progressive Taxes

Executives used to get paid 30 times worker's pay. Now, typically they get paid 300 times worker's pay. This change came about after President Reagan's drop from a top rate of 70%, to 28%. Piketty writes in *Capital in the 21st Century*:

"The evidence suggests that a rate on the order of 80 percent on income over \$500,000 or \$1 million a year not only would not reduce the growth of the US economy but would in fact distribute the fruits of growth more widely while imposing reasonable limits on economically useless (or even harmful) behavior..."

The idea that all US executives would immediately flee to Canada and Mexico and no one with the competence or motivation to run the economy would remain is not only contradicted by historical experience and by all the firm-level data at our disposal; it is also devoid of common sense."

There's only so much national income (now, about \$13 trillion a year), and if CEOs are taking \$60 million in salary in lieu of \$3 million, this comes right out of the pocket of workers.

Taxing Wealth (Income Inequality)

Piketty again in his book *Capital In The Twenty-First Century* talks about the rate of return on income is and predicts will be $1\frac{1}{2}\%$ versus 4% to 5% on capital. Another way to say this is if you are a worker, your income might grow $1\frac{1}{2}\%$ a year (more than it grew for the middle class in last 35 to 40 years), but if you inherit a lot of money that money would earn $4\frac{1}{2}\%$.

Taxing Wealth (Income Inequality)

Piketty writes:

“To be sure, one could tax capital income heavily enough to reduce the private return on capital to less than the growth rate. But if one did that indiscriminately and heavy-handedly, one would risk killing the motor of accumulation and thus farther reducing the growth rate. Entrepreneurs would then no longer have the time to turn into rentiers, since there would be no more entrepreneurs.

The right solution is a progressive annual tax on capital. This will make it possible to avoid an endless inegalitarian spiral while preserving competition and incentives for new instances of primitive accumulation. For example, I earlier discussed the possibility of a capital tax schedule with rates of .1 to .5 percent on fortunes under 1 million euros, 1 percent on fortunes between 1 and 5 million euros, 2 percent between 5 and 10 million euros, and as high as 5 to 10 percent for fortunes of several hundred million or several billion euros. This would contain the unlimited growth of global inequality of wealth, which is currently increasing at a rate that cannot be sustained in the long run and that ought to worry even the most fervent champions of the self-regulated market. Historical experience shows, moreover, that such immense inequalities of wealth have little to do with the entrepreneurial spirit and are of no use in promoting growth.”

World Wealth

The worldwide wealth according to Wikipedia in October, 2013 was \$240.9 trillion which at that time, the United States had \$72.1 trillion in wealth and more recently was reported at \$80 trillion. So, the world wealth has gone up since October, 2013. However, for this display, we will use the \$240.9 trillion in wealth.

Wealth by Country (\$ Trillions)	
United States	72.1
European Union	70.0
Japan	22.6
China	22.2
India	3.6
Russia	1.2
Total of all other countries	49.2
Grand Total	240.9

Are We Ready For Taxing Wealth

Piketty makes some excellent arguments for taxing wealth. However, we might experience some of the same type of problems in taxing wealth as in taxing income-i.e. a lot of lobbying in Washington for special considerations for tax rates, exemptions, exceptions, and/or deductions. Piketty recognizes the big role progressive income taxes played in America's success of becoming the world leader in the 20th century. Some of this was partially forced on us by two world wars. However, starting with Democrat President Roosevelt in 1933 a progressive tax was immense help in generating government revenues. This trend continued for half a century until the cut in top rate from 70% to 28% by President Reagan. I have suggested a return to more progressive rates- more like a top 60%. See schedule on page 7 of added taxes and the current rate the upper 1% are paying of 29% on page 5. Please note on page 7 that the added taxes are on the upper 1%, most (75%) of which are on the upper one-tenth of 1%- individuals earning over 1.7 million per year. All suggestions made on page 7 are for taxing income.

Taxing wealth could have a big advantage of reducing inequality as vast fortunes and inheritance would be taxed and flow back into the economy creating more opportunities for millions of our people. This would lead to faster growth and enhance our chances of continued world leadership. Free market innovation, capitalism has wonderful qualities in creating productivity and individual initiative, but the extreme income inequality that we are currently experiencing appears to be diminishing its effectiveness. And, we could find that a combination of taxes on wealth and income would be best for the common good of all our people.

For instance Jeffrey Sachs suggested in his book *The Price of Civilization* a 1% tax on all wealth over 5 million dollars in a household would amount to 150 billion per year (now 210 billion because wealth increase since the book was based on 2010 wealth data). This might be used in combination with progressive income taxes.

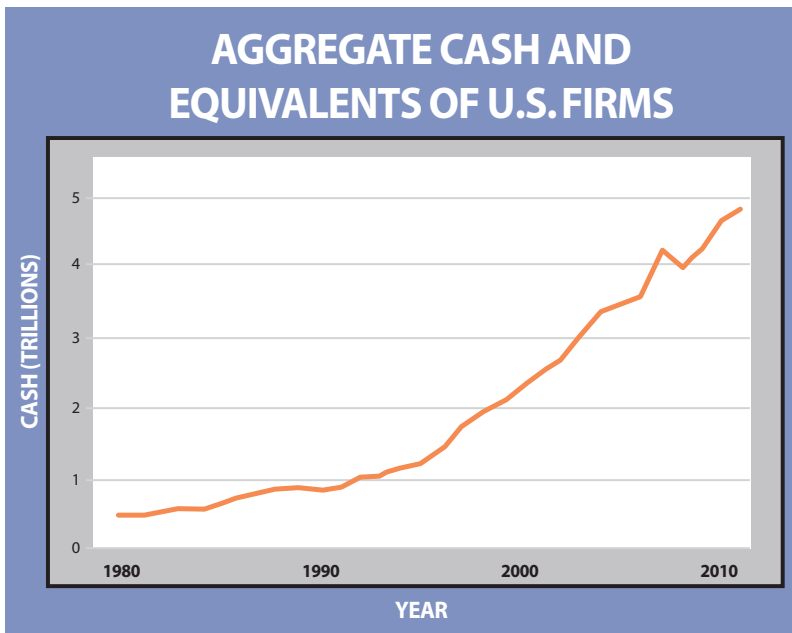
Other revenue increases in our financial model include:

Corporate Tax

\$150 billion per year increase in corporate taxes. The official corporate tax rate is 35%. A lot of lobbying is done for special interest tax rates. Corporations actually paid taxes of 12.6% on corporate profits in 2008 versus 25.6% in 1987.¹

Jeffrey Sachs writes in *The Price of Civilization*:

"The corporate income tax is now a sieve, with so many loopholes and ways to shelter income in foreign tax havens that the tax collection has declined from around 3.5 percent of GDP in the 1960s to around 1.5 percent of GDP now. By tightening the rules on foreign income and other loopholes, it should be possible to raise another 1 percent of GDP. GDP is 16 trillion at this time. The following graph shows cash on the Balance Sheet of corporations have grown from ½ to 5 trillion from 1980 to 2011."



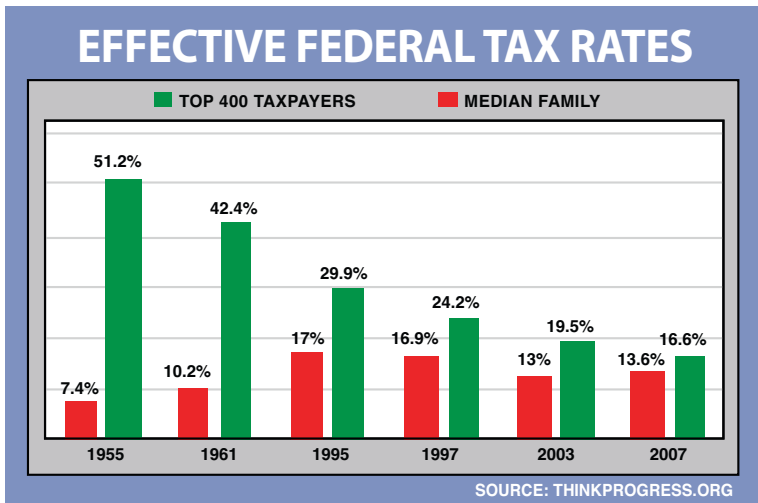
1. Robert Reich's book *Beyond Outrage*

Collection Improvement

\$100 billion per year increase. Collection improvement from the \$290 billion estimated uncollected taxes.

More on Income Inequality and Taxes

In his book *Beyond Outrage*, Robert Reich writes “400 richest Americans have more wealth than the bottom half or 150 million Americans... Our lives will not be better if our democracy is dying, replaced by a system mostly responsive to big corporations and wealthy individuals.”



“In the half century from 1958 to 2008, the average effective tax rate of the richest 1% of Americans including all deductions and tax credits dropped from 51% to 26%. During the same period the typical middle class taxpayer went from paying 15% of income in taxes to 16%.” – *Beyond Outrage* by Robert Reich.

American-based Companies Shipping Jobs Overseas

“American based global corporations added 2.4 million workers abroad in the first decade of this century while cutting their American workforce by 2.9 million workers—Apple employs 43,000 people in the United States, but contracts 700,000 workers abroad... Super rich are not investing in jobs—instead in Treasury Bills, Southeast Asia, Brazil, etc...”¹

Robert Reich continues in his book *Beyond Outrage* that our corporations should have a pledge allegiance to the United States of America. In part it says:

“We pledge to create more jobs in the United States than what we create outside the United States... We pledge to keep a lid on executive pay so that no executive is paid more than 50 times the median pay of American workers... We pledge to pay at least 30 percent of money earned in the United States as taxes to the United States... We won’t shift our money to offshore tax havens.”

1. Robert Reich’s book *Beyond Outrage*

Cutting the Future Productivity of Our People

“Outside of defense, domestic discretionary spending is down sharply as a percentage of the economy. This spending is “discretionary” in that Congress decides how much to fund such programs with declining (including federal), state and local spending, total public spending on education, infrastructure and basic research has dropped from 12% of GDP in the 1970’s to less than 3% in 2011.”¹

This drop is very much related to the upper 1% getting 21% of national income in 2011 vs 9% in 1970.

1. Robert Reich’s book *Beyond Outrage*

Climate Change

Some of what former Vice President Al Gore writes in his new book, *The Future*, includes:

“Burning of carbon rich fossil fuels for 85% of the energy spews 90 million extra tons of heattrapping global warming pollution every twenty-four hours into this thin shell atmosphere surrounding our planet... equivalent by weight of more than 5,000 Deepwater Horizon Gulf oil spills every day... prospective extinction of 20% to 50% of all the living species on earth within this century... the depletion of topsoil and groundwater resources... trapping more extra heat energy each day in the lower atmosphere than would be released by 400,000 Hiroshima atomic bombs, altering the water cycle of the Earth... 25% of the CO we put into the atmosphere this year will still be contributing to higher temperatures at least 10,000 years from now.”

“The more energy we produce from solar and wind, the cheaper it gets... unless we quickly start reducing global warming pollution... adaptation will ultimately prove to be impossible in most regions of the world... international scientific consensus confirming the dominance of human activities is as strong as any consensus ever formed in science... every national academy of science and every major scientific society in the world supports the consensus view.”

Carbon Tax

\$150 billion per year—an incentive to speed up movement to renewable energy by increasing the price on any product that releases carbon will be taxed in proportion to the carbon it produces. This tax amount will be used to incentivize renewable energy sources thus creating jobs as well as reducing carbon.

Fiscal Responsibility

In 1993, Bill Clinton increased taxes primarily on the wealthy. Not a single republican voted for this bill. In 1999 and 2000, America had a surplus. This was in the tradition starting with our Founding Fathers of using debt very sparingly and paying off debt.

Fiscal responsibility is presented in practical lessons by Bill White (former Mayor of Houston and Deputy Secretary of Energy during President Clinton's administration) in his recent book, *America's Fiscal Constitution—its Triumph and Collapse*, White writes:

“The federal government borrowed during severe economic downturns beginning with the panic of 1819. The United States also incurred debt during three major depressions and severe recessions. Federal debt plugged holes in budgets occasioned by sharp drops in forecasted revenue and it helped pay for some expenditures directly related to the downturns.

The federal government promptly balanced its budget after each temporary use of debt. Until the Cold War, federal leaders used surpluses to steadily retire debt after its emergency use. Occasionally they did borrow when revenues fell short of mistaken estimates. But for almost two centuries the President and Congress never planned to incur debt simply to reduce taxes or to pay for routine annual spending.

Within twenty-four months of George W. Bush's first State of the Union Address the federal government was borrowing at a rate of half a trillion dollars per year—almost \$5000 annually for every American household. Federal funds spending had soared by \$200 billion a year while federal funds tax revenues plummeted by more than \$300 billion a year. Only a very small portion of the rise in spending was related to the military response to the terrorist attacks on September 11, 2001.

Never before in American history had federal leaders financed a major war entirely with debt. Federal officials did not even ask the general public to contribute to war efforts by lending money. When the nation made a commitment to a global security umbrella in 1950, tens of millions of American Citizens purchased savings bonds.”

Thus, we have an example of the title of Bill White's book: *America's Fiscal Constitution—Its Triumph and Collapse*.

Fiscal Responsibility

The Republicans competing for the Republican nomination for President in 2012 were asked in a national debate if they would raise one cent of taxes to balance the budget. To a person, they all said no.

“Taxes are down for the wealthy from 51% to 26% from 1958 to 2008 and down from 25% to 12% for corporations from 1987 to 2008.”¹

1. Robert Reich's book *Beyond Outrage*

Future Jobs

America's Future Leadership

Will America retain its leadership over the next generation or so. The world needs America's leadership. Will the next generation be better off than the prior generation.

Future Jobs Invest, Invest, Invest

This will depend on whether we invest in new jobs including education, climate change, infrastructure, research and development, and other important areas.

Republican/Tea Party obstructionism will not get it done. They are slowing this country's growth through deficit fears.

Balancing the budget is easy-ask the wealthy and corporations to pay a decent share of taxes...invest, invest, invest and grow the economy balancing the budget, and achieving full employment.

From the book *The Great Divergence* by Timothy Noah:

The most damning partisan findings (for the GOP) appeared in the 2008 book *Unequal Democracy*, by the political scientist Larry Bartels, then at Princeton and now at Vanderbilt. Indeed, they were so damning that Bartels felt compelled to assure readers in his book's preface that when he began the project he was "an unusually apolitical political scientist" who hadn't voted since 1984—when he pulled the lever for Ronald Reagan. During the two election cycles that followed his book's publication, Bartels did not, records indicate, donate to any candidate for federal office. Yet his conclusion boiled down to a bluntly partisan message. You don't like income inequality? Then don't vote Republican. "My projections," Bartels wrote,

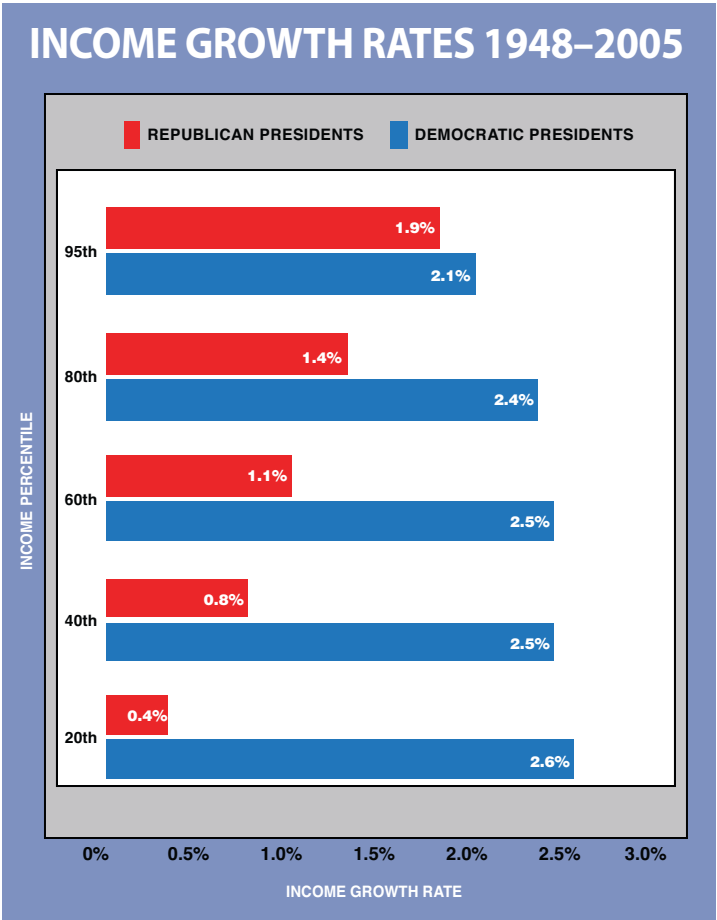
Based on the historical performance of Democratic and Republican presidents suggest that income inequality would actually have declined slightly over the past 50 years... had the patterns of income growth characteristic of Democratic administrations been in effect throughout that period. Conversely, continuous application of the patterns of income growth observed during periods of Republican control would have produced a much greater divergence in the economic fortunes of rich and poor people than we have actually experienced—a PlatinumGilded Age.

Bartels came to this conclusion by looking at average annual pretax income growth (corrected for inflation) for the years 1948 to 2005, a period encompassing much of the egalitarian Great Compression and most of the inequalitarian Great Divergence. The White House during this period was occupied by five Democrats (Truman, Kennedy, Johnson, Carter, Clinton) and six Republicans (Eisenhower, Nixon, Ford, Reagan, Bush I, Bush II). Bartels broke down the data according to income percentile and whether the president was Democrat or a Republican. Figuring the effects of the White House policies were best measured on a one-year lag, Bartels eliminated each president's first year in office and substituted the year following departure. Here is what he found:

"Under Democratic presidents, the biggest income gains went to people in the bottom twentieth income percentile (2.6 percent), then tapered off as you traveled up the income scale (2.5 percent for the fortieth and sixtieth percentiles, 2.4 percent for the eightieth percentile, and so on). Under Republican presidencies, the pattern was precisely opposite. The biggest income gains went to people in the ninety-fifth percentile (1.9 percent), then tapered off as you traveled further down the income scale (1.4 percent for the eightieth percentile, 1.1 for the sixtieth percentile, etc.)."

If you want your income to increase, **VOTE FOR A DEMOCRAT.**

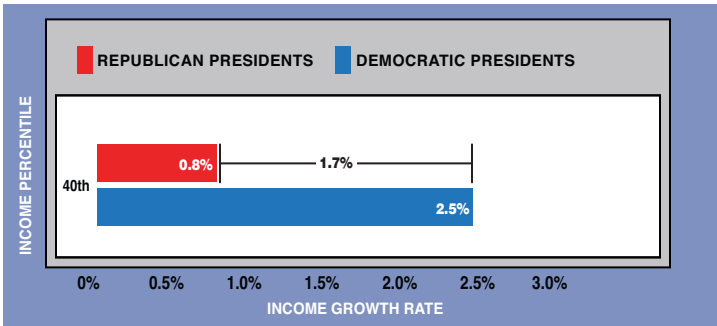
Income Grows Faster Under Democratic Presidents



Source: Larry Bartels, *Unequal Democracy: The Political Economy by the New Gilded Age* (Princeton, NJ: Princeton University press, 2008)

**Your Income Grows Faster
Under Democrats**

The fourth category down on the prior page graph shows the following:



This difference of 1.7% per year over 33 years of Republican Presidents from 1948-2005 equals 56.1%.

In this category, if your annual household income is \$40,000, it could have been \$62,000 with all Democratic Presidents.

From www.PresidentialData.org

Data compiled here come from official government sources such as statistical abstracts of the United States, the Economic Reports of the President, and the Bureau of Labor Statistics. For more information and data, see www.presidentialdata.org.
Contact: Jere Glover, 21st Century Democrats, 2120 L Street NW, Suite 305, Washington, D.C. 20037. Phone : 202.628.0100

It matters which *party* is in office.

***Democrats* work for all the people.**

***Republicans* work for the wealthy.**

From www.Presidentialdata.org

“

Since World War II, 55,794,000 jobs have been created under Democratic Presidents, while 38,256,000 jobs have been created under Republican Presidents

- ***Total jobs created under Democratic Presidents: 55,794,000***
- ***Total jobs created under Republican Presidents: 38,256,000***
- ***Average jobs gained per year under Democratic Presidents: 1,830,000***
- ***Average jobs gained per year under Republican Presidents: 1,063,000*** ”

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GDP Grows Faster Under Democratic Presidents

“

GDP grows 52% faster under Democratic presidents

- ***Average real GDP growth under Democratic Presidents: +4%***
- ***Average real GDP growth under Republican Presidents: +2.63%***

”

From www.PresidentialData.org

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Budget Deficits

Republicans are NOT FISCALLY CONSERVATIVE



Federal Budget deficits under Republican Presidents are 100% higher than under Democratic Presidents (as a percentage of GDP, Republican Presidents have 90% higher budget deficits than Democratic Presidents).

- ***Total Democratic Budget Deficit:
\$3,887.6 billion***
- ***Total Republican Budget Deficit:
\$7,807.2 billion***
- ***Average deficit under Democratic Presidents: 2.1% of GDP***
- ***Average deficit under Republican Presidents: 3.98% of GDP***



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Federal Spending

Republicans are NOT FISCALLY CONSERVATIVE

“

Federal spending has increased twice as fast under Republican Presidents than under Democratic Presidents

- ***Democratic President's annual spending increased by an average of \$35.3 billion per year***
- ***Republican President's annual spending increased by an average of \$70 billion per year***

”

From www.PresidentialData.org

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Trade Agreements

Currently under legislative consideration is a trade agreement called Trans-Pacific Partnership (TPP). Joseph Stiglitz comments on the TPP and in general on trade agreements and their history in *The New York Times* on 3/16/2014:

“Let’s tackle the history first. In general, trade deals today are markedly different from those made in the decades following World War II, when negotiations focused on lowering tariffs. As tariffs came down on all sides, trade expanded, and each country could develop the sectors in which it had strengths and as a result, standards of living would rise. Some jobs would be lost, but new jobs would be created.

Today, the purpose of trade agreements is different. Tariffs around the world are already low. The focus has shifted to “nontariff barriers”, and the most important of these—for the corporate interests pushing agreements—are regulations. Huge multinational corporations complain that inconsistent regulations make business costly. But most of the regulations, even if they are imperfect, are there for a reason: to protect workers, consumers, the economy and the environment.

What’s more, those regulations were often put in place by governments responding to the democratic demands of their citizens. Trade agreements’ new boosters euphemistically claim that they are simply after regulatory harmonization, a clean-sounding phrase that implies an innocent plan to promote efficiency. One could, of course, get regulatory harmonization by strengthening regulations to the highest standards everywhere. But when corporation call for harmonization, what they really mean is a race to the bottom.”

Trade Agreements

This agreement will cost America jobs and enrich the wealthy at the expense of workers.

Ed Schultz on the Ed Schultz TV Show stated in July, 2014:

“We can have a degree of protectionism and still have free trade. But, free trade must be fair trade.”

This summarizes my view.

However, trade agreements are so complicated. We should be *very transparent and have some level of citizen’s involvement and review.*

Minimum Wage

The Problem

The minimum wage is \$7.25. This rate has not been changed in 5 years. Germany's minimum wage is \$11.60. I think we should start with a minimum wage increase to \$10.10 as suggested by Obama and the Democrats. This should be adjusted upward by a \$0.50 a year for 4 years and after that adjusted for inflation.

In addition to the minimum wage, the earned income tax credit (EITC) would be increased by 40% and \$2500 added for individuals without children. "Currently, the earned income tax credit is almost solely for individuals with children paying up to \$3,250 with one qualifying child, \$5,372 with two children and \$6,044 with 3 or more children. The EITC in 2013 cost the US Government \$56 billion."¹

The EITC has the effect of not pushing up prices on international competition as it is paid for by the government. And, in this business model mainly by the wealthy out of their tax increase.

With the minimum wage increase and the EITC, a large number will be lifted out of poverty and other wages will be adjusted upward.

When minimum wages are raised the economy grows faster. Why is this? This gives low income individual's more to spend. Low income individuals spend their money quickly. Typically, right away. The wealthy may put much of their money in the bank in a savings or other accounts. The economy grows quicker when there is more income in the hands of the poor and middle class.

1. Wikipedia, 7/28/2014

Minimum Wage

Expectations

Some states have already raised the minimum wage. These states overall have seen a faster growth in their economy, than the states who have not raised their minimum wage.

The minimum wage increase will have the effect of pushing up the middle class income.

The wealthy have had an increase in income of 266% while the middle class and poor have had no increase in income in 35 to 40 years.

Richest Nation Can Feed Its People

The House Republicans on 9/20/2013 voted to (coupled with other votes in October and November) to cut \$4.5 billion per year from Food Stamps. The average food stamps allowance is \$1.40 per meal. John Boehner allowed a bill to be voted on 2-11-2014 and the cut of the 4.5 billion in food stamps was restored.

More on inequality—who are we as a nation that we cannot feed our people. Forty seven million rely on Supplemental Nutrition (SNAP) i.e. food stamps. Many of these recipients are disabled, elderly, along with 20 million children and 177,000 veterans. Of these recipients, 69% are part of a household with 2 working parents. It is not hard to understand why 47 million are on some level of SNAP with a minimum wage of \$7.25 per hour. Is this the America we have been and claim to be? And, we can't even feed our veterans.

With inadequate nutrition or food insecurity, how can these children achieve in school? As we know, inadequate food as a child affects one's health for life—more medical costs, less creativity and productivity—less American leadership!

Richest Nation Can Feed Its People

An estimated 25% of our population has food insecurity part of the time. With the increase in net income of the wealthy of 1.46 trillion (page 2) we can afford to feed our people.

Two or three percent of this amount(\$1.46 trillion), or \$30 to \$40 billion annually would come close to eliminating food insecurity.

A new minimum wage will also reduce this food insecurity.

Social Security History

Social Security, a retirement program for the elderly was introduced:

In 1935 under the guidance of Democratic President Franklin D. Roosevelt.

Social Security Results

Social Security results include:

***“Reduces the number of elderly living in poverty
from 47.6% to 11.9%”¹***

1. Congressional Budget Office April 8, 1999

Healthcare-History (More Democratic leadership)

Medicare was passed under the leadership of Democratic President Lyndon Johnson in 1965

Medicaid was passed under the Democratic President Lyndon Johnson in 1965

Affordable Care Act (ACA) was passed under Democratic President Barack Obama in March, 2010.

Healthcare Results (More Democratic Leadership)

“In 2010 Medicare provided health insurance to 48 million Americans – 40 million people age 65 and older and 8 million people with disabilities.”¹

Medicare along with Social Security is responsible for reducing the number in poverty, and extending life expectancy

“Medicaid is a social health care program for families and individuals with low income and resources. In 2008, the Medicaid program provided health care services to approximately 49 million low-income children, pregnant women, elderly people, and disabled people.”²

ACA is succeeding. On 7-26-2014 on the Melissa Harris Perry Show on msnbc, the following results were announced:

- **26% less uninsured**
- **13% in total now uninsured**
- **10.3 million Individuals insured under new ACA programs**

1. Wikipedia on 7-26-2014

2. Wikipedia on 7-26-2014

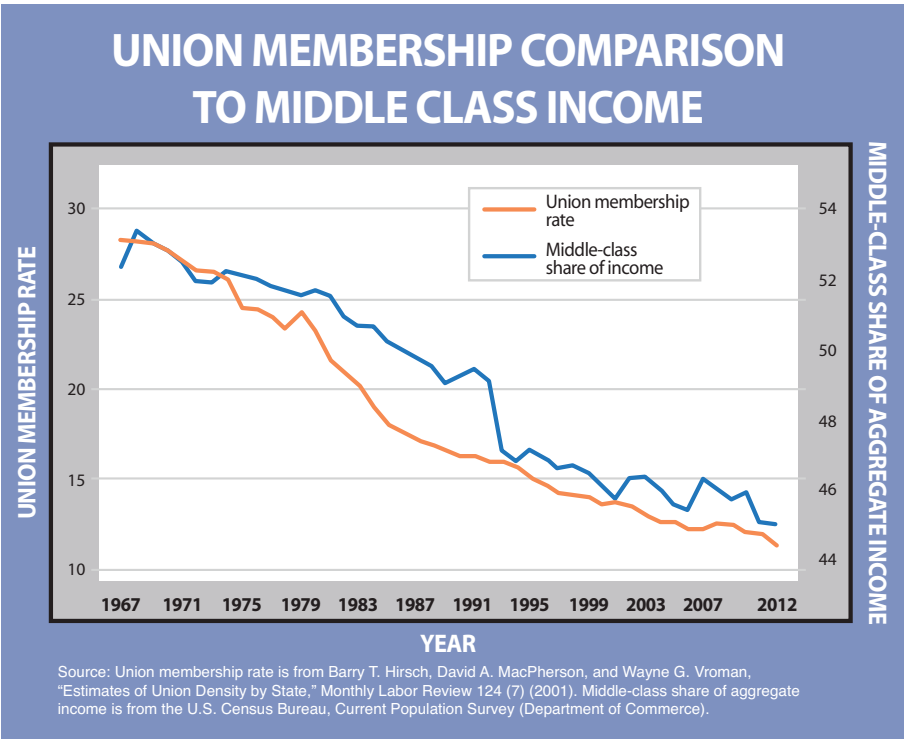
Weaker Labor Unions

The wealthy and the big corporations have worked hard at weakening the labor unions. This has helped keep wages at a zero growth for the middle class for 35 to 40 years.

Paul Krugman wrote in *The New York Times* on 11-14-2012:

“We’ve forgotten something important namely, that economic justice and economic growth aren’t incompatible. America in the 1950’s made rich pay their fair share: it gave workers the power to bargain for decent wages and benefits: yet contrary to rightwing propaganda then and now, it prospered. And we can do that again.”

Weaker Labor Unions



Union membership is down from 1 in 5 in 1967 to 1 in 10 in 2012. This is a key factor in middle class income dropping from 53% to 45% of total national income.

Education

In developing the education aspect for Understanding America's arithmetic, we looked at several sources including *Reign of Error* by Diane Ravitch, *The Smartest Kids in the World* by Amanda Ripley, *Back to Work* by former President Bill Clinton, *Beyond Outrage* by Robert Reich, and *College* by Andrew Delbanco. We will present some brief comments on each source as follows:

According to President Clinton in *Back to Work*

"Declining graduation rates of college is from incomes being flat or declining and the cost of college increasing 75 percent".

Robert Reich comments in *Beyond Outrage* (copyright 2011):

"Others say we couldn't have reversed the consequences of globalization and technological change. Yet the experiences of other nations, like Germany, suggest otherwise. Since the mid-1990s, Germany has grown faster than the United States, and the gains from that growth have been more widely spread. While Americans' average hourly pay has risen only 6 percent since 1985, adjusted for inflation, German workers' pay has risen almost 30 percent. At the same time, the top 1 percent of German households takes home about 11 percent of all income-the same as in 1970. And although in 2012 Germany was hit by the debt crisis of its neighbors, its unemployment was still below where it was when the financial crisis started in 2007... Germany has done it mainly by focusing like a laser on education (with regard to math scores, German students continue to extend their lead over American students)."

Amanda Ripley's book *The Smartest Kids* developed her book as follows:

Tracked 3 kids who went to school in 3 different countries with the highest ranking countries in the PISA international test for math, reading, and science. America finished 16th, 17th, and 12th in their 3 categories respectively. The top 3 countries in the World were Finland-1st, South Korea-2nd, and Poland-3rd.

Ripley writes:

"Finland was desperate to modernize, and the country's leaders agreed that education was the only thing that could save their country from being left behind.... All Finnish teachers were required to get a master's degree, which meant something very different than it did in the United States. ...For one full year of her master's program, Stara (a Finland trained teacher) got to train in one of the public schools in the country. She had three teacher mentors there, and she watched their classes closely. When she taught her own classes, her mentors and fellow student teachers took notes. Afterward, she got feedback, some of it harsh, in much the way medical residents are critiqued in teaching hospitals.... Ten out of ten new Finnish teachers had graduated in the top third of their high school classes; only two out of ten American teachers had done so....In all the education superpowers, teachers' incomes were closer to the salaries of other college-educated professionals than they were in the United States. In most cases, classes were also larger than they were in the United States, making the cost of the salaries more manageable.... He, be that, a teacher in Sallisaw, Oklahoma was earning about \$49,000 per year, which was more than the typical salary in Sallisaw Oklahoma but still not a lot. Across the Atlantic Ocean, Stara was earning about \$67,000. The cost of living was higher in Finland but Stara's salary was still higher. And her salary was closer to what other college graduates earned in Finland than Bethel's Oklahoma salary was in the United States."

Education

Diane Ravitch's writes in *Reign of Error*:

"Poverty is highly correlated with low academic achievement.... Poverty is not an excuse. It is a harsh reality....schools alone cannot create equality or eliminate poverty."

"The best schools value quality over cost. They honor experienced teachers. They do not judge them by the students' scores on tests. They do not substitute computers for teachers. Nor do they subject their students to multiple bouts of standardized testing. Nor are they focused on data. The best schools in the nation have small classes, experienced teachers, ample resources, a rich curriculum, well-maintained facilities, many opportunities for students to engage in the arts, and daily physical education. These are ideal conditions for a good education. This is what we should want for ALL children."

"A citizen of democratic society must be able to read critically, listen carefully, evaluate competing claims, weigh evidence, and come to a thoughtful decision. In their hands will be the most important responsibilities of citizenship; choosing our leaders and serving on juries. One determines the fate of our nation and the other determines the fate of other humans."

"More testing does not make children smarter. More testing does not reduce achievement gaps. More testing does nothing to address poverty and racial isolation which are the root causes of low academic achievement. More testing will, however, undermine the creative spirit, the innovative spirit, the entrepreneurial spirit that have made our economy and our society successful. There is a place for some testing but only as a diagnostic tool and not as a reward or punishment."

Andrew Delbanco writes in *College*:

"If you are the child of a family making more than \$90,000 per year, your odds of getting a BA by age twenty-four are roughly one in two; if your family's income is between \$60,000 and \$90,000, your odds are roughly 1 in four; if your parents make less than \$35,000, your odds are one in seventeen."

"Affluent families are four times more likely to attend a selective college than students from poor families with comparable grades and test scores."

Education

Education is the key to remaining competitive and the approach could emphasize the following:

- Reducing Poverty.
- Selecting smart teachers with exceptional practical advanced education such as done in Finland.
- Implement national pre-kindergarten in all schools.
- Paying teacher more in line with comparable private industry professionals.
- Provide the same quality of education in low income and higher income localities.
- Supplementing public universities and colleges with funds to help lower income students reduce costs. Consider some light level of public schools price controls.

Allocating Spending The \$400 Billion Dollars

Teachers’ salaries- grades 1-12, national pre-k, supplement public colleges and universities for lower income households, and upgrade schools in poorer neighborhoods	100
Infrastructure	50
Incentivize speed up of renewable energy	150
Added research and development	50
Added food budget and unearned income tax credit	50
Total expenditures per financial model	400

Infrastructure Spending Well Past Due

For three years since the 2010 election, spending increase has been at a 30 year low. The reason for this is the Tea Party/Republican is blocking new expenditures for education, renewable energy, new research and development and infrastructure. I assume they are doing this to slow down growth in the economy and employment in hopes of competing in the 2016 presidential election. Infrastructure has always until 2010 been bi-partisan.

The Republicans when they hold the Presidentials office have not been as fiscally conservative as Democrats. See page 20 and 21 of this booklet.

On July 7, 2013, Robert Frank wrote in The New York Times, "Austerity won't work if the roof is leaking... indebted family to postpone fixing a leaky roof until it pays off all its debt... would only make the repair grow more costly... but the cost would mount in the interim. According to American society of Civil Engineering the nation has a \$3.6 trillion in overdue infrastructure maintenance." Idle labor, very low interest and relatively low material costs make it overdue to get going on Infrastructure.

Taxes are at the lowest in over 50 years. The wealthy income is up 266% and their total Federal taxes down from 47% to 31%. It's time for the Republicans/Tea Party to join with the democrats to take a vote and get this infrastructure spending started.

Government is Small

Hard to believe the Federal Government is small compared to similar times in recent history. For instance, total Federal Government employees represent about 2% of total employment. This compares to 3.2% of total employment in 1970.

Barack Obama has been very careful in adding expenditures. He has the lowest percentage increase in federal expenditures compared to any of the prior 5 Presidents in the prior 28 years.

Economic Performance under President Bill Clinton

President Clinton at the 2012 Democratic commented on how he was able to have a surplus for 2 years. He said “it is the arithmetic.”

Clinton raised taxes in 1993 as a part of a policy that created the largest sustained growth in recent history. Not a single republican voted for this bill.

Impact of Economic Performance under Bill Clinton

Median family income up \$6000 from 1993 to 1999

Most new jobs ever created under a single administration

Economic growth of 4% a year

Unemployment at its lowest level in 30 years

7 million fewer living in poverty

President Bill Clinton was a Democrat

Damage Overhang from 2010 Election

The Republican/Tea Party Obstruct American Progress

The cost starting with the 2010 election to this country from the Tea Party/Republican winning the majority in House of Representatives, shutting down the government and threatening to default on debt is far greater than the \$24 billion tossed around in the media. This is the loss directly to the U.S. economy for 17 days.

Paul Krugman wrote in The New York Times on October 19, 2013...unemployment in America would be far lower than it is if the house majority hadn't done so much to undermine recovery... Macro Economic Advisors, an economic consulting firm, which estimated crisis-driven fiscal policy subtracted 1% of the U.S. growth rate for the past three years. This implies cumulative economic losses (the value of goods and services that America could have and should have produced, but didn't) of around \$700 billion. The firm also estimated that unemployment is 1.4% higher than it would have been in the absence of political confrontation.

What could we do with the \$700 billion loss from this obstructionism of the Tea Party/Republicans 2010 elections? A lot, we could have invested in infrastructure, a good return on investment for our country. We rank 24th out of 142 countries on infrastructure (Back to Work by Bill Clinton). Education has been the biggest loser, yet the most important. "In 1995, we led the world in college graduation rates and we ranked 16th in 2009 for the 25 to 34 year olds with college degrees" (President Bill Clinton book Back to Work). We are behind most leading industrial countries in actions on climate change. While we have made progress, we need to be the leader. One way to do this is to incentivize heavily the already wealthy oil companies to move to sun and wind. And, as suggested earlier to measure this progress by a renewable energy index.

There are a lot of ways to invest in the future despite this \$700 billion we have lost from the Tea Party/Republican obstructionism of the last 3 years. One change that we could make to mitigate these types of actions is public financing of elections. The cost of this would be small compared to the \$700 billion lost in obstructionism.

America is still the richest country in the world. We can continue to be the world leader if we choose smart government. This will have to be supplemented with asking the wealthy to pay a decent share of taxes similar to the 1950's.

More on Damage Overhang from 2010 Election

1.4% unemployment reduction on 140 million employed individuals in this country means 1.96 million are now unemployed because of the Republican Tea Party obstructionism. These 1.96 million unemployed are part of the 47 million receiving food stamps. So this is costing the government. Many of these individuals have already been unemployed 6 months.

This is very hard for me to understand. Republican/Tea Party friends and acquaintances I know are good Samaritans. Yet, their representatives in congress act so different.

Comparison to Past Wealthy's income tax What is a decent share?

In the half century from 1959 to 2009, the average effective tax rate of the richest 1% of Americans including all deductions and tax credits dropped from 51% to 26%.¹

With the wealthy's share of 21% of income totaling 2.7 trillion, this reduction in taxes of 25% (51%-26%) equals \$675 billion per year.

Corporations What do they really pay?

The official corporate tax rate is 35%. 25% of corporations pay this rate. 25% of corporations pay zero. "Corporations actually paid taxes of 25.6% of corporate profits in 1987 versus 12.6% in 2008."¹

Corporations are setting up a lot of off-shore headquarters, where they really don't do any business, just to avoid taxes.

1. Robert Reich-writes in his book *Beyond Outrage*

What Is a Decent Share? Wealthy's Income Tax Discussion of decent share

We are asking a decent share of taxes from the wealthy with a \$400 billion increase in income taxes. After tax income of the upper 1% is \$1.86 trillion, up \$1.46 trillion, an increase of 365% per year since 1979.

"The wealthy have had a 266% increase in before-tax income between 1979 and 2007"¹ and the middle class no increase in income for 35 to 40 years (see page 2).

There is only so much national income. "The wealthy got 21% of the national income in 2011 compared to 9% in 1970." Germany's upper 1% get 11% of national income.

Corporations Closing Loopholes

"By tightening the rate on foreign income, and other loopholes, it should be possible to raise another 1% of GDP. This equals 160 billion per year."²

1. CBO report 10-12-2012

2. In *The Price of Civilization* by Jeffery Sachs

Vote. Vote In Your Interest
Jobs/Income

Democrats create more jobs

During Democrat Presidents, Income grows faster

Vote for a Democrat!

Vote. Vote In Your Interest
Retirement/ Healthcare

***Under a Democrat President Franklin Roosevelt,
social security was passed***

Democrats will protect your social security

***Under Democratic President Lyndon Johnson and
Barack Obama, Medicare, Medicaid, and the
Affordable Care Act (ACA), were passed.***

***Healthcare is on its way to being available
and affordable for every citizen.***

Vote for a Democrat!

Moving America Forward

Our citizens must understand we are not asking too much of anybody including the wealthy and the corporation

Moving America forward will require:

- ***Taxing the wealthy and corporation at a decent share.***
- ***Investing in Education, Renewable Energy, Infrastructure, and Research and Development.***
- ***Investing in our people upgrading their skills, education, providing healthy food for all, increasing minimum wage (including earned income tax credit) and continuing/improving healthcare and social security.***
- ***Moving deliberately and as quick as possible to renewable energy.***
 - ***We must lead in renewable energy including a plan to assist other countries when needed***

What are the Obstacles?

Our citizens must understand we are not asking too much of anybody including the wealthy and the corporation

- *The big money lobbying in Washington D.C. for lower taxes when taxes on the wealthy and corporations should be going up.*
- *Moving off of carbon energy with carbon based energy producers paying for big lobbying in Washington D.C.*
- *This will take a lot of courage and involvement by our citizens.*
- *It will take a lot of understanding of the arithmetic.*

Biographies

Robert Reich

An American political economist, professor, author and political commentator. He served in the administrations of Presidents Gerald Ford and Jimmy Carter and was Secretary of Labor under President Bill Clinton from 1993-1997.

Book: *Beyond Outrage*

Jeffery Sachs

An American economist and Director of the Earth Institute at Columbia University. Sachs became known for his role as an adviser to Eastern European and developing country governments during the transition from communism to a market system or during periods of economic crisis

Book: *Price of Civilization*

Timothy Robert Noah

An American journalist and author. He writes the "TRB from Washington" column for *The New Republic*. He wrote for *Slate* for a dozen years, and previously worked at the wall street journal. A couple of many quotes on his book cover:

"An instant classic I've quoted it many times. Essential reading"

- Arianna Huffington

"This book is profoundly fascinating and important. The growth of income inequality over the past three decades has caused a contentious partisan debate based more on ideology than fact. Timothy Noah provides a clear, dispassionate look at what has (and has not) caused this trend and what we can do about it. Everyone who cares about the future of America's middle class should read it."

- Walter Isaacson, author of Steve Jobs, Einstein, and Benjamin Franklin and president of the Aspen institute

Book: *The Great Divergence*

Paul Krugman

An American economist, Professor of Economics and International Affairs at the Woodrow Wilson School of Public and International Affairs at Princeton University. Krugman is known in academia for his work on international economics.

Paper: *The New York Times*

Book: *End this Depression Now*

Diane Ravitch

A Research Professor of Education at New York University and a historian of education. From 1991 to 1993, she was Assistant Secretary of Education and Counselor to Secretary of Education Lamar Alexander in the administration of President George H.W. Bush. From 1997-2004, she was a member of the National Assessment Governing Board, which oversees the national Assessment of Educational Progress, the federal testing program.

A native of Houston, she is a graduate of the Houston public schools. She received a B.A. from Wellesley College in 1960 and a Ph.D. in history from Columbia University's Graduate School of Arts and Sciences in 1975.

Book: *Reign of Error—The Hoax of the Privatization Movement and the Danger to American's Public Schools*

William Jefferson “Bill” Clinton

An American Politician who served from 1993-2001 as the 42nd President of the United States. Inaugurated at age 46, he was the third-youngest president. He took office at the end of the Cold War, and was the first president from the Baby boomer generation.

Clinton left office with the highest end-of-office approval rating of any U.S. President since World War II. Since then he has been involved in public speaking and humanitarian work.

Book: *Back to Work*

Albert Arnold “Al” Gore

An American politician, advocate and philanthropist, who served as the 45th Vice President of the United States (1993-2001), under President Clinton. He has founded a number of non-profit organizations, including the *Alliance for Climate Protection*, and has received a Nobel Peace Prize for his work in climate change activism.

Book: *The Future*

Thomas Piketty

A French economist who specializes in the study of economic inequality. He taught at MIT (1993-1995) and currently teaches at Paris School of Economics. He is also the author of recent best-selling book *Capital in the 21st Century*.

Emmanuel Saez

A Professor at University of California Berkeley, tracking incomes of poor, middle and wealthy around the world (working with Thomas Piketty). His work shows that top earners in the United States have taken an increasingly larger share of overall income over the last 3 decades, with almost as much inequality as before the Great Depression.

Joseph Stiglitz

An American economist and a professor at Columbia University. He is the 4th most influential economist in the world today based on academic citations, and in 2011, and he was named by *Time Magazine* as one of the 100 most influential people in the world. He headed President Bill Clinton council of economic advisors
Book: *Price of Inequality*

Andrew Delbanco-Dr. Andrew H. Delbanco

(Born 1952) is Director of American Studies at Columbia University and has been Columbia's Julian Clarence Levi Professor in the Humanities since 1995. He writes extensively on American literary and religious history.
Book: *College*

Amanda Ribley

An American journalist and author. Amanda Ripley writes about human behavior and public policy for *Time Magazine* and *The Atlantic*.^[1] She is currently an Emerson Fellow at the New America Foundation.
Book: *The Smartest Kids*

Bill White

Former mayor of Houston. He was the Deputy Director of Energy during Bill Clinton's time as President. Recent author of *America's Fiscal Constitution – It's Triumph and Collapse*.

Possibly the world's best known bond traders Bill Gross and Mohamed A. El-Erian of PIMCO quoted in Time Magazine, November 26, 2012 state "Growth Killing inequality is rising." And "the rich aren't paying enough taxes... the US won't have the mojo to grow beyond 2% anytime soon." They believe "inequality is the biggest headwind." They further state "over the last several decades, companies have taken profits at the expense of individuals... any annual growth of less than 3% limits our national wealth and well being."

