Author Note

When U.S. economic historians of the future look back at the late 20th and early 21st centuries, two trends will stand out: (1) the massive and growing gap in wealth between the rich and poor and (2) the soaring national debt.

From 1980 to 2022, the wealthiest 1 percent of Americans saw their average wealth grow about $14.4 million (2022 constant dollars), from $3.2 million to $17.6 million.[1] The wealth of the top 10 percent increased $2.7 million, from $900,000 to $3.6 million.

Meanwhile, the bottom 50 percent of working-class Americans saw their wealth grow a paltry $11,000, from $2,212 to $13,374. Even the middle class (the 40% to 90% category) only saw its wealth grow $93,110, from $47,245 to $140,355.

From 1980 to 2023, the national debt grew 36-fold, from about $900 billion to $33.2 trillion. Each American living today technically owes about $100,000 to the creditors of the United States, who hold treasury bills, notes and bonds.

In 2023, the federal government raised only $4.4 trillion in taxes, which was $28 trillion less than the debt. At this rate — and without

[1] World Inequality Database, retrieved February 6, 2024 from <https://wid.world/country/usa>. This database is considered one of the most sophisticated and accurate in terms of measuring economic inequality. For more information about the WID methodology, see <https://wid.world/methodology>

additional tax revenues — the debt will grow to $73.2 trillion in a decade, adding another $100,000 to each American's debt load.

If future historians dig deeper, they will find that the wealthy are getting wealthy largely because of a series of tax cuts over the past four decades. Those cuts also explain why the national debt is growing. Tax revenues have not kept up with spending, so here's the bottom line:

> *The national debt is funding the greatest transfer of wealth to the wealthy in American history.*

Naturally, historians of the future will have many questions, among them:

1. How could the wealthiest country in the world continue to spend more money than it raises through taxes?
2. How could a nation allow two–thirds of its wealth to concentrate in the hands of fewer than 10 percent of population while half of the population struggles to pay everyday expenses?
3. Why didn't people of today see the connection between the transfer of wealth, tax cuts, and the national debt?
4. How could the wealthiest country in the world allow 45,000 of its citizens to die every year because they can't afford health insurance or expensive health care?[2]

I suspect historians of the future will judge contemporary U.S. political and economic elites using the same adjectives that most of us

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[2]David Cecere, "New Study Finds 45,000 Deaths Annually Linked to Lack of Health Coverage," *The Harvard Gazette* (September 17, 2009), retrieved 2/28/24 from <https://news.harvard.edu/gazette/story/2009/09/new- study-finds-45000-deaths-annually-linked-to-lack-of-health-coverage>. Here is the original study: Andrew P. Wilper, Steffie Woodhandler, Karent E. Lasser, Danny McCormick, David H. Bor, and David U. Himmelstein, "Health Insurance and Mortality in US Adults," *American Journal of Public Health, 99*: 2289-2295 (December 2009).

use to judge feudal lords and monarchs of the Middle Ages — cruel, barbaric, arrogant, callous.

The purpose of this book is to answer those four questions before historians of the future do, because there may be no future to study the past. The national debt now exceeds the gross domestic product (GDP) — a condition that many economists predicted would trigger out-of-control inflation and/or a major recession or depression. That hasn't happened (yet), perhaps because investor faith in the economic power of the United States may be more important than actual conditions. But no economist today would argue that a country can continue to pile up debt without severe consequences at some future point in time.

And if the wealth gap continues to expand — and it will if there is no intervention — the United States will become a plutocracy, ruled by the wealthy, not its citizens. In fact, some policy wonks already argue that America has earned that unsavory appellation. As evidence, they point out that every member of Congress is now in the top 10 percent in terms of income (their $174,000+ federal salaries put them there) and half of them are members of the wealthiest top 10 percent (they have average assets of $3 million)[3] — and most of them (yes, the Democrats, too) have supported and have benefited from the tax cuts, although no doubt most would deny they did so to enrich themselves.[4]

These facts should not lead one to the conclusion that all wealth gaps should be eliminated. Quite frankly, they can't be. No society in history

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[3]Half of the representatives in Congress are in the top 10 percent in terms of wealth and all of them are in the top 10 percent in terms of income. The minimum income to be classified as part of the top 10 percent of wage earners is $173,176. Members of Congress earn $174,000 a year for serving the public (2023 salary). Sources: Karl Evers-Hillstrom, "Majority of Lawmakers in 116th Congress Are Millionaires," Open Secrets (April 23, 2020), retrieved 2/29/24 from <https://www.opensecrets.org/news/2020/04/majority-of-lawmakers-millionaires>

[4]Whenever tax cuts are proposed, politicians always throw a bone to the working and middle classes, who end up with very small benefits compared to the wealthy. More to come on this later in the book.

has ever had an equal distribution of wealth. That includes communist and socialist systems, which often have greater disparities in wealth than capitalist countries.

Not all gaps are bad.

When they are caused by individual motivation, hard work, education, and good judgment, most of us can agree they are good. Gaps can motivate people to work harder and make them more productive. Meritocracy is good.

But gaps that stem from discrimination, greed, anti-labor laws, and lack of access to education and jobs are not good. They drive a wedge between people, increase feelings of unfairness, and foment conditions that can lead to social instability and violence.

Eliminating biases in the tax codes that benefit the wealthy (such as removing the low tax rates for capital gains) would help reduce wealth gaps. But even if every bias were eliminated today, wealth gaps would still exist, because some of them stem not from self-serving actions but from the nature of a free market economic system itself.

A good example is what economists call *barriers to entry*. To start a business or buy a rental property, an investor needs money, and raising capital is a very difficult task for most non-wealthy people. In contrast, wealthy people have a lot more resources to start or fund businesses, which enables them to build their wealth faster. Economies of scale also give big companies advantages over smaller ones. They can buy raw materials in greater quantities and get lower prices, making it more difficult for smaller companies to compete.

Of course, economic incentives could be created to lessen barriers to entry and economies of scale — incentives that would give working and middle classes more opportunities to grow their wealth. But there is a downside to attenuating these structural causes of wealth gaps: The economic system likely would be far less efficient.

So, even without greed, there is a tendency for the wealthy in free-market systems to amass greater wealth. Or, more formally, I propose that

> *As wealth into a community or society increases, people and organizations with greater wealth tend to acquire more wealth at a faster rate than those with less wealth, which creates gaps in wealth that adversely affect democratic ideals and the health of the population.*

I call this *Wealth Gap Hypothesis*, but much of the credit goes to my Ph.D. advisor and his colleagues, George A. Donohue and Clarice N. Olien, who, working at the University of Minnesota during the latter half of the 20th century, created the *Knowledge Gap Hypothesis* to explain why information tends to be unequally distributed in a society. The original knowledge gap hypothesis was phrased as follows:

> *As the infusion of mass media information into a social system increases, segments of the population with higher socioeconomic status tend to acquire this information at a faster rate than the lower status segments, so that the gap in knowledge between these segments tends to increase rather than decrease.*[5]

In other words, people with high levels of education, income and job status tend to acquire knowledge at a faster pace than those with lower levels, which in turn fuels inequality and threatens democratic ideals. They offered five reasons or explanations for the increasing gaps. I will present these later, as well as the reasons and causes for wealth gaps.

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[5]Phillip J. Tichenor, George A. Donohue, And Clarice N. Olien, "Mass Media Flow and differential Growth in Knowledge," *Public Opinion Quarterly, 34*(2): 159-179 (1970), p. 166.

In addition to exploring the origins of wealth gaps, I also intend to look at the effects of the gaps and the national debt. This includes their impact on health care and death rates, the environment, democratic processes, and everyday life.

Just to be clear, I do not assume that wealth should be equally distributed. Individual incentive is crucial for a free marketplace to thrive. But I do assume that some causes of gaps threaten democratic processes and ideals, and understanding these threats is crucial to protect our way of life.

In my opinion, an ideal distribution of wealth is one where gaps stem mostly from individual motivation, hard work and moral decision-making, not from birthright, race, ethnicity, gender, nepotism, greed, or privilege. At the end of this book, I will provide suggestions to mitigate the impact of wealth gaps and correct the inequities that exist in America's tax system.

In terms of methodology, I focus mainly on wealth, not income, even though both are considered. Following general accounting procedures, I define wealth as *assets minus liabilities*. The biggest source of wealth for most middle-class Americans is the equity in their homes and their retirement portfolios. Although a high income can make one wealthy, people who consume what they earn, regardless of income, do not accumulate assets. Thus income can be fleeting, whereas wealth is more stable and, in my opinion, a better measure of economic inequality.

The data analyzed in this book comes from a variety of sources, including the U.S. Census Bureau, the Federal Reserve, and the World Inequality Database, which draws raw data from government records and survey research data. The sources of information are footnoted.

This book is divided into four parts.

In Part One, I provide a brief history of wealth gaps, with special emphasis on how the decisions of our politicians have created these gaps.

What is most befuddling is that our politicians continue to transfer wealth to the wealthy even though the assertions that lower tax rates on the wealthy will stimulate the economy and generate more tax revenues has been thorough discredited by scientific research. Trickle-down theory also does not work.

In Part Two, I address the effects of wealth gaps. This includes estimates of the number of people who die because they do not have access to health care. Wealth gaps also affect the environment and many aspects of our everyday life.

In Part Three, I formally present the Wealth Gap Hypothesis and explain why some of the gaps exist. As noted earlier, this includes a wide range of psychological and social phenomena, including greed, barriers to entry, and economies of scale.

Finally, in Part Four, I talk about how wealth gaps threaten democratic processes. My arguments are not new. Nearly two centuries a number of scholars warned that capital tends to concentrate and centralize in free markets. Some even argued capitalism contains "the seeds of its own destruction."[6] I will provide some suggestions for reducing gaps, even though I am not overly optimistic the political system will listen.

Once tasted, wealth is not easy to regurgitate.

Just ask those who paid $7,000 to sit in front of the stage when the Eagles performed in concert in 2024.

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[6]Karl Marx and Frederick Engels, "Address of the Central Committee to the Communist League," London (March 1850), retrieved April 6, 2024, from <https://www.marxists.org/archive/marx/works/1847/communist-league/1850-ad1.htm>.

1

Rock Concerts and Wealth Gaps

Ticket prices were only $5 when the folk-rock band Eagles performed July 7, 1974, at Memorial Coliseum in Fort Wayne, Indiana.

Nearly fifty years later, when the band played in late January 2024 in Phoenix, a seat in front of the stage was $7,000. Prices decreased in denominations of $1,000 as seats receded from there. The cheapest seat I could find was $300 in the nose-bleed section.

That $7,000 ticket price was 1,400 times higher than the $5 ticket.

To reach the $7K threshold, that $5 ticket would have had to have grown at a compounded rate of 15.6 percent per year. That's five times faster than average inflation rate and twice as fast as the average annualized return in the S&P 500 Index, which is 7.5 percent.[7]

The $300 ticket price also grew faster than the inflation rate. It was 60 times higher than the $5 price and reflected an annualized rate increase of 8.5 percent, nearly three times greater than inflation.

I am not a wealthy man.

I live off social security and the rental income from one of two properties I own. I could have purchased a $300 ticket, but to me that money was better spent replacing the front door on my rental home.

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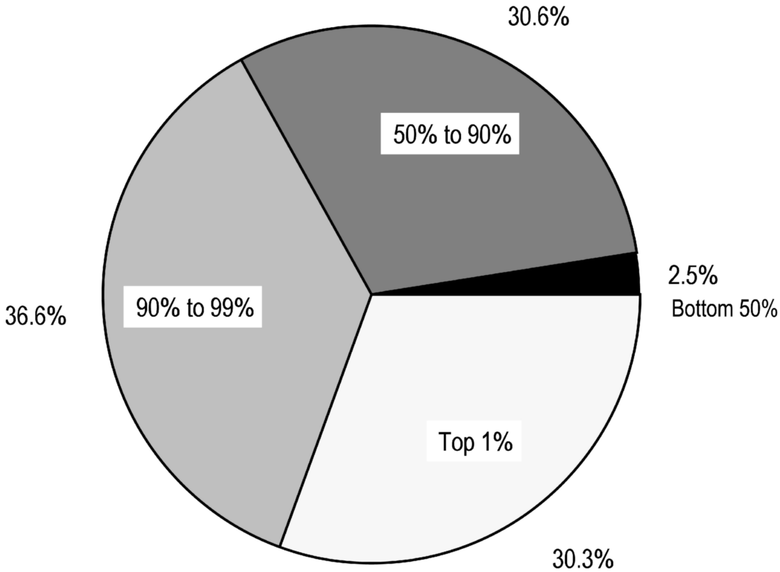
[7]The stock market has increased at an annualized rate of 7.5 percent since 1970. See David Demers, *TAP YOUR A$$ETS: How You Can Achieve Financial Freedom in Two Years with One Rental Property* (Phoenix: Marquette Books LLC, 2024), p. 32.

Figure 1.1 - Distribution of Wealth in America



Source: Federal Reserve, 4th Quarter 2023

The concert-ticket incident faded in my memory for a couple of weeks, until I saw a pie chart similar to the one in Figure 1.1.[8] The wealthiest 1 percent of families own nearly a third of the nation's wealth (30.3%) — almost as much as the bottom 90 percent — while the bottom 50 percent collectively own only 2.5 percent.[9] The top 10 percent owns two-thirds of the wealth (30.3% + 36.6%), and the remaining 40 percent (the 50% to 90% category) owns 30.6 percent of the wealth.

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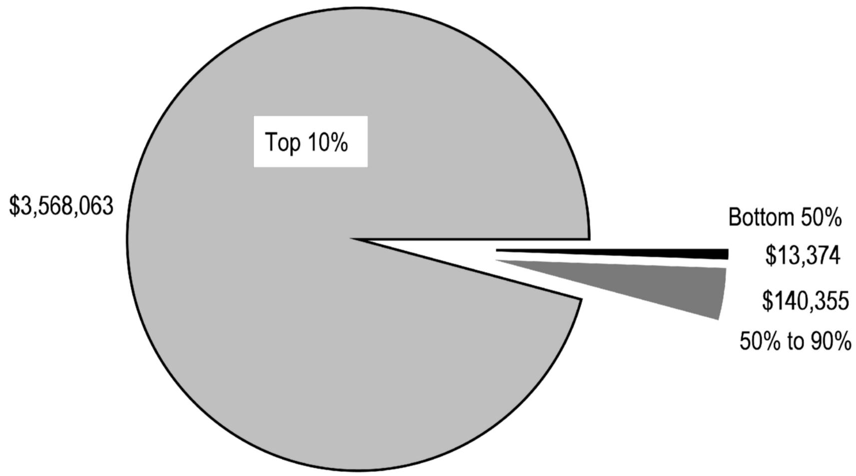
[8] "Distribution of Household Wealth in the U.S. since 1989," Federal Reserve (2023), retrieved 2/25/24 from <https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/table/#range:2008.3,2023.3;quarter:136;series:Net%20worth;demographic:networth;population:1,3;units:shares>.

[9] In Census data and other studies, wealth is measured as assets minus liabilities.

Figure 1.2 - Average Net Personal Wealth in USA in 2022



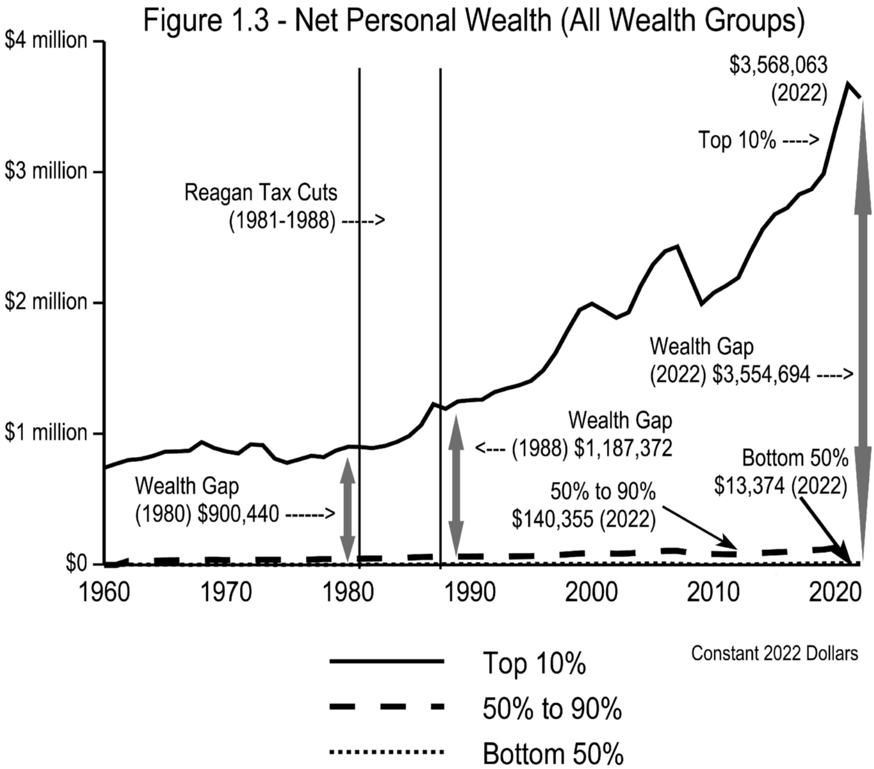
Source: World Inequality Database

So what does concentrated wealth have to do with the price of concert tickets?

Everything, because you can't sell a $7,000 ticket if your market can't afford it — and 10 percent of Americans (34 million people) are wealthy.

Figure 1.2 above shows that taxpayers in this high-asset group have an average net personal wealth of $3.6 million.[10] This is substantially higher than the bottom 50 percent, who have only $13,374 in assets, and the as well as those in the 50 percent to 90 percent category ($140,355). The bottom 90 percent (combining the lowest two categories) has

[10]The average for the top 10 percent includes the top 1 percent. I break out the 1% category for analysis in subsequent chapters.



average of $69,810 in assets.[11] And the top 1 percent, by the way, has a whopping $17.6 million in assets (not shown in the pie chart).

Much ado about nothing, you may be thinking. *Everyone knows there's a massive gap in wealth in America. It's always been that way.*

Not exactly.

Figure 1.3 shows that prior to the 1980s,[12] income and wealth gaps between the rich and poor were much narrower and more stable.[13]

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[11]The $69,810 amount was derived using the following formula: ([$140,355 × 4] + [$14,374 × 5]) ÷ 9.

[12]Data for Figure 1.3 was downloaded from the World Inequality Database at <https://wid.world/country/usa>.

[13]The data for the bottom 50 percent of American families is so minuscule that it does show up on the chart during these early years.

Between 1962 to 1980, the top 10 percent had average assets of $856,499 (2022 dollars), compared to $38,657 for those in the 40-to-90 percent wealth group and $2,002 for those in the bottom 50 percent. In 1980, the wealth gap between the top 10 percent and bottom 50 percent was $900,440 ($902,652 – $2,212).

The assets of the top 10 percent began to increase at a *superlinear* (faster than linear) rate after 1980. The wealth gap in 1988 was $1,187,372 ($1,193,060 – $5,788), which represented a 32 percent increase over 1980.

By 2022, the top 10 percent had assets of $3,568,063 versus $13,374 for the bottom 50 percent. The difference ($3,554,689) reflected a 295 percent increase over 1980.

So what happened in the 1980s to stimulate the massive increases in wealth gaps? And why is there such a large wealth gap in the United States?

2

Tax Cuts and Wealth Gaps

Seventy-seven-year-old President Ronald Reagan warmed up his audience with a joke about his age and Christopher Columbus.[14]

"When Columbus discovered America, I can't believe that he got as warm a reception as you've given me. And I doubt there was a delicious plate of baked ziti waiting for him, either. Now, contrary to what you may have heard, however, I was not with Columbus on that trip."

It was Columbus Day, October 12, 1988.

The "Great Communicator" was speaking in West Orange, New Jersey, before the Italian-Americans of Essex County, who claim Columbus was an Italian.[15] But at that Republican fund-raiser, Reagan had a lot more to say about the Democrats than Columbus.

"[I]n Washington, the liberals already are saying they want to raise taxes, and they have all kinds of inflationary spending programs in the works. Well, I think the people of New Jersey know what to do with tax-and-spend liberals. All you need to do is just walk into the polling booth, put your hand on the lever, and say 'read my lips: no new taxes!'"

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[14]Remarks made in West Orange, New Jersey, Ronald Reagan Presidential Library (October 12, 1988), retrieved 3/29/24 from <https://www.reaganlibrary.gov/archives/speech/remarks-columbus-day-dinner-west-orange-new-jersey>.

[15]Other evidence suggests he was Spanish. See Charles J. Merrill, *Colom of Catalonia: Origins of Christopher Columbus Revealed* (Spokane, WA: Demers Books LLC, 2008).

In his speech, Reagan took credit for reducing unemployment, inflation, interest rates and taxes. But he failed to mention two crucial consequences of his decisions.

The first was that his tax cuts created a $1.6 trillion debt — the largest peacetime increase in the national debt in history and one that he never repaid. Second, the tax cuts did little to boost the incomes of the middle-class members of the audience. Instead, they created conditions for a massive windfall for the wealthy that continues to this day.

The Kennedy Tax Cuts

But Reagan wasn't the first president to cut tax rates.

Democratic President John F. Kennedy did so two decades before.[16]

When he won the election in 1960, wealthy individuals paid a 91 percent tax on earned income above $2 million (in today's dollars) for single taxpayers and over $4 million for couples.[17] That hefty tax rate helped pay off the massive debts created during the Second World War.[18]

In 1963, Kennedy supported legislation that reduced the top tax bracket to 77 percent — a change that, by the way, benefited his wealthy family.[19] A year later, the tax rate was reduced again, to 70 percent.

But the Kennedy tax cuts were modest compared to what Reagan did during the 1980s.

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[16] Kenney's father, Joseph Patrick Kennedy Sr., made his fortune as a stock and commodity market investor and later invested much of his money into real estate and private businesses. He was not a bootlegger, as many stories claim.

[17] Then as now, the wealthy found ways to mitigate this high tax rate. See Ron Elving, "The Democratic Push to Tax the Rich More Is 40 Years in the Making," National Public Radio (September 16, 2021), retrieved 3/30/24 from <https://www.npr.org/2021/09/16/1036853972/biden-democrats-tax-the-rich-reagan-trump-reconciliation>.

[18] Ibid.

[19] Kennedy was assassinated in November 22, 1963, so he was never able to personally profit from the income-tax cut.

The Reagan Tax Cuts

Shortly after being elected in 1980, Reagan introduced legislation (The Economic Recovery Tax Act of 1981) that cut the top bracket earned income tax rates from 70 percent to 50 percent for families earning over $136,000 (today's dollars) and cut the capital gains tax from 28 percent to 20 percent.[20] The wealthy benefited most from the capital gains reduction, because half of their income comes from capital gains and only 15 percent from earned income.[21]

To justify these tax cuts, Reagan introduced a relatively new economic theory to the public: *supply-side economics*.[22] This theory asserted that if the government lowered taxes, decreased regulation, and promoted free trade, the economy would grow and generate more tax revenue to make up for the tax cuts.[23]

But that never happened.

In fact, just the opposite occurred.[24]

Virtually all of the wealth created by tax cuts went to the wealthy, and the federal deficit ballooned 161 percent ($1.6 trillion) under Reagan, creating the highest relative increase ever posted by a non-

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[20]Sam Pizzigati, "Tax the Rich? We Did That Once: A Little History Might Just Inspire Us to Try that Taxing Again," Inequality.org (December 02, 2022), retrieved 2/22/24 from <https://inequality.org/great-divide/tax-the-rich-we-did-that-once>.

[21]Robert Frank, "Where the Rich Make Their Income," CNBC.com (April 9, 2015), retrieved 3/31/24 from <https://www.cnbc.com/2015/04/09/where-the-rich-make-their-income.html>.

[22]Jude Wanniski, *The Way the World Works: How Economies Fail and Succeed* (New York: Basic Books, 1978).

[23]To legitimize his tax-cut plan, Reagan cited a 1981 book titled *Wealth & Poverty*, which was written by his friend George Gilder, a staunch Republican who was program director of the International Center for Economic Policy Studies. See George Gilder, *Wealth & Poverty* (New York: Bantam Books, 1981).

[24]In a 2012 poll of leading economists, none agreed that reducing the federal income tax rate would result in higher annual tax revenue within five years. See Kent A. Clark Center for Global Markets, Laffer Curve Survey (June 26, 2012), retrieved 3/17/24 from <https://www.kentclarkcenter.org/surveys/laffer-curve>.

wartime president to this day.[25] Only Woodrow Wilson and Franklin D. Roosevelt posted higher relative debts, because they served during the two world wars, respectively, when the country was forced into going into debt.[26]

Both Republican and Democratic legislators supported Reagan's tax cuts, even though Reagan's economic advisors pointed out beforehand that these cuts would increase the national debt.[27]

And they did.

The national debt ballooned (see next chapter).

So what did Reagan and the legislators do?

They cut the maximum earned income tax rates again in 1987 and 1988, from 50 percent to 38.5 percent and then to 28 percent, respectively. This was a gargantuan windfall for the very wealthy (top 1%), who just years eight years earlier were paying 70 percent.

Figure 2.1 shows that during the Reagan years, the average income of the top 1 percent grew 58 percent, from $3,334,355 in 1981 to $5,252,353 in 1988 (2022 dollars). By the year 2022, the average wealth of the top 1 percent had grown to $17,611,520, which was 1,317 times more than the assets of the bottom 50 percent. The gap between was five times greater than it was in 1981.

Note, too, that the wealthiest 1 percent have been accumulating assets much faster than the top 10 percent, who in turn have been gaining faster than the bottom 50 percent. The annualized growth in wealth for the top 1 percent from 1986 to 2022 is 4.1 percent, compared with 3.4

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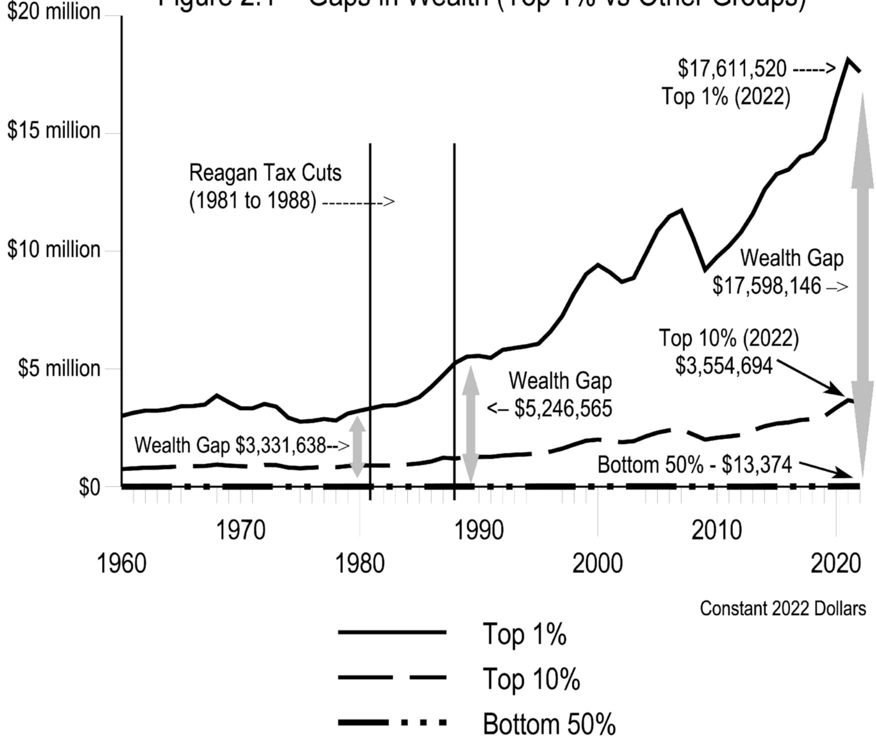
[25]Hiranmayi Srinivasan, "U.S. Debt by President: Dollar and Percentage," Investopedia (January 04, 2024), retrieved 3/20/24 from <https://www.investopedia.com/us-debt-by-president-dollar-and-percentage-7371225>.

[26]In 2017, President Donald Trump also used supply-side economics to support his $1.5 trillion tax cut, most of which went to the wealthy. His policies added $6.7 trillion to the national debt, a 33 percent increase. Source: previous footnote.

[27]David Wessel, "What We Learned from Reagan's Tax Cuts," Brookings Institution (December 8, 2017), retrieved 4/5/24 from https://www.brookings.edu/articles/what-we-learned-from-reagans-tax-cuts>.

Figure 2.1 - Gaps in Wealth (Top 1% vs Other Groups)



percent for the top 10 percent, 2.4 percent for the 40 to 90 percent wealth category, and 3 percent for the bottom 50 percent.[28]

The Bush Tax Cut Pullback

When George H. W. Bush accepted the Republican nomination for president in August 1988, he promised: “Read my lips: no new taxes.”

Famous last words.

The national debt under Reagan had tripled, from about $1 trillion to $3 trillion. Bush couldn’t keep his promise, because if the debt were not

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[28]These figures are based on 2022 dollars and, thus, control for inflation.

cut, another law required mandatory cuts to the budget that would have been more painful. So he negotiated a compromise with the Democrats, who controlled both chambers.

On November 5, 1990, Bush signed the Omnibus Budget Reconciliation Act of 1990, which increased the maximum individual income tax rate from 28 percent to 31 percent, raised the individual alternative minimum tax rate 3 percentage points, increased payroll and excise taxes, and restricted some itemized deductions for high-income earners.[29]

But the new taxes were so modest that they did little to reduce the debt, which increased another $1 trillion during Bush's presidency. His popularity waned after the tax cuts and bounced back up during the Gulf War of 1990. But Bush nonetheless lost the 1992 election, some say because he violated his promise not to raise taxes.

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[29]The Act left the long-term capital gains tax rate at 28 percent, which increased from 20 percent in 1986.

3

Tax Cuts and the Debt

The steep rise in the national debt was well underway when billionaire Ross Perot announced in March 18, 1992, that he was running for president of the United States as a third-party candidate.

"We're $4.1 trillion in debt," he said during a half-hour televised commercial broadcast on NBC. "That's a staggering burden to pass to our children. It's unconscionable."[30]

Ross blamed the debt on supply-side economics but never mentioned former President Ronald Reagan in the broadcast. Ross simply said: "Trickle-down economics didn't trickle." Ross blamed the debt on a lack of jobs. This resonated with most Americans, because the unemployment rate had inched back up over 7 percent.

But Ross apparently failed to see the connection between the debt and Reagan's tax cuts, or perhaps he didn't want to go there. After all, as a billionaire, he personally benefited from them.

Ross never won over a majority of voters and eventually dropped out of the race. Still, he deserves credit for drawing attention to the massive national debt, which continued to grow in every administration since then.

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[30]Perot Campaign Commercial 1992, recorded at NBC studios on October 15, 1992, and broadcast the next day, retrieved 4/1/24 from <https://www.c-span.org/video/?33206-1/perot-campaign-commercial-1992>.

The Budget Surplus Under Clinton

When Clinton took office in 1993, the national debt had climbed to $4.1 trillion. During the election, he hammered the Reagan tax cuts and said he would make the wealthy pay their fair share of taxes.

So the Tax Reform Act of 1993 was one of the first laws he signed. The goal of the Act was to cut the federal deficit by increasing taxes and reducing spending. It upped the top earned income tax bracket to 39.6 percent (from 31%), which was still substantially lower than 70 percent rate just before Reagan took office.

The Act also eliminated the cap on Medicare taxes, increased taxes on Social Security benefits, and raised gasoline taxes. It curtailed itemized deductions. Corporate tax rates remained about 35 percent for larger companies.

These tax increases and others eventually worked. In 1998, the federal government produced its first budget surplus since the 1960s.

But this did not put an end to the growing deficit.

The Taxpayer Relief Act of 1997 cut the top capital gains bracket from 28 percent to 20 percent again, which represented another windfall for the wealthy.

More Tax Cuts Under Bush

The budget surplus of 1998 was short-lived.

George W. Bush took office in 1999 and five years later the tax cuts he promoted boosted the federal deficit by another $8 trillion.[31] Some of

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[31]Bobby Kogan, "Tax Cuts Are Primarily Responsible for the Increasing Debt Ratio," American Progress (March 27, 2023), retrieved March 29, 2024 from <https://www.americanprogress.org/article/tax-cuts-are-primarily-responsible-for-the-increasing-debt-ratio>.

this stemmed from the Economic Growth and Tax Relief Reconciliation Act of 2001, which lowered the top capital gains rate to 18 percent for assets held for five years or more. Two years later the Jobs and Growth Tax Relief Reconciliation Act reduced the top capital gains tax rate to 15 percent.

Bobby Kogan, senior director of Federal Budget Policy at American Progress, noted the Bush "tax cuts lowered personal income tax rates across the board, both for labor income and for capital gains, and they significantly increased the untaxed portion of estates and lowered the estate tax rate. These changes were enormously tilted toward the rich and wealthy[32]. ... [T]he total package ... also made the U.S. tax code significantly more regressive."24

In 2013, a substantial part of the Bush tax cuts were made permanent with bipartisan support. This included lower tax rates and estate taxes.25 These changes boosted the budget deficit even more.

Tax Revenues and the National Debt

Figure 3.1 shows the gaps between federal tax revenues the national debt since 1960. The differences between the two were much smaller from 1960 to 1980 — so much so, that they barely show up in the graph.

The debt began growing during the early years of the Reagan administration (1981 to 1984), after the first round of tax cuts. In 1983, the debt was twice as much as tax revenues ($1.4 trillion vs. $601 billion). In 1986, the debt was three times higher ($2.1 trillion vs. $769 billion).

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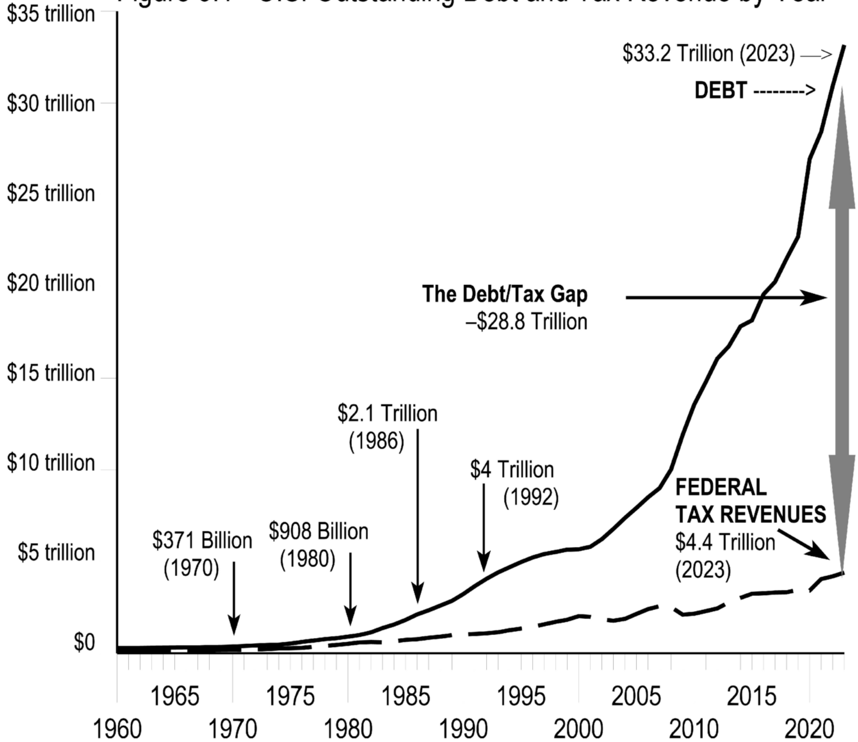
[32]For this comment, Kogan cites Emily Horton, "The Legacy of the 2001 and 2003 'Bush Tax Cuts,'" Center on Budget and Policy Priorities (2017), available at <https://www.cbpp.org/research/federal-tax/the-legacy-of-the-2001-and-2003-bush-tax cuts>.

Figure 3.1 - U.S. Outstanding Debt and Tax Revenue by Year



As noted in the introduction to this chapter, the debt reached $4.1 trillion in 1992. The debt remained about three times higher than tax revenues through the year 2001, which coincides ...