Real Private Sector Economic Growth Reduced to Zero
By Federal Tax Cuts, Fiscal, and Economic Policy Since Reagan Era Began

Decade	Real Economic Growth (Net of Federal Deficit Spending)	Highest Personal Marginal Tax Rate as Decade		Share of Wealth Held by Bottom 90%	Labor Productivity Index	Median Family Income Index	Shelter Cost Index	Principal Changes in Tax Laws and Economic Policy
		Begins	Ends	Begins				
1960-1969	6.1%	91%	77%		100	100	100	End of Korean War. Transition from World War II economy is complete.
1970-1979	7.7%	72%	70%		132	142	136	
1980-1989	3.5%	70%	28%		157	142	304	Reagan supply side tax cuts mark the beginning of persistent federal deficits stimulating the economy. Wall Street's aggressive asset stripping and flipping practices, including equity stripping by paying dividends enabled by leveraged lending in private equity firms and hedge funds becomes a predominant form of investing
1990-1999	3.7%	28%	40%	40.1%	185	151	545	Reagan tax cuts reversed by Bush 41 beginning 1990
2000-2009	0.9%	40%	35%	37.2%	231	164	762	Bush 43 tax cuts. Wall Street mortgage and regional land speculation meltdown (such as Las Vegas). The Federal Reserve lowers interest rates to historically low levels to prevent massive asset price deflation from Wall Street systemic mortgage and AIG derivatives insurance crisis risk. Housing construction collapses after speculative boom in certain markets which had been targeted by failed Wall Street firms.
2010-2019	-0.2%	35%	37%	32.9%	300	154	992	Trump 2017 tax cuts increase federal deficit. Federal spending grows to stimulate pre-Covid economy which has no private sector net growth.
2020 to present				32.0%	321	175	1,294	Covid pandemic prompts emergency flooding of economy with liquidity during shutdown, dramatically raising deficit and total federal debt load. The Federal Reserve hikes interest rates to reduce post-Covid shutdown inflation which results from exogenous supply chain shocks. This suppresses housing construction and bakes in more regional housing shortages. These widespread regional housing shortages in major employment regions add more stress to shelter cost inflation long term. Economic growth relies on federal deficit spending for economic growth. State budgets continue being stressed by excessive health care costs, inflation, and chronic public sector pension underfunding which result from overly generous real investment return assumptions used to raise pension benefit levels for public employees.

Data sources: Federal Reserve, Bureau of Economic Analysis, and US Census data.

Overall Conclusion: Lower marginal income and capital gains tax rates for the wealthiest, enacted beginning in the 1980s "supply-side revolution," have spurred more short-term speculation instead of building real long-lasting businesses. This short-term speculative thinking (five year and shorter timeframes for investments) has reduced 6%-7% real economic growth in the 1960s and 1970s to less than 0% real economic growth in the US private sector economy. The nation's economic growth has been propped up - since about 2010 - entirely by unsustainable federal deficits and borrowing. The size of the federal debt has grown from about 30% of our total economy in the early 1980s and will soon be over 130% of our total economy. The interest cost to borrow this money crowds out other needed services and investments. Without profound structural, economic, and tax policy reforms, which must be enacted over the next decade, a future debt crisis awaits. The cost of borrowing will skyrocket as the nation's credit rating declines, similar to a family in financial trouble experiences when they have to use payday lenders instead of bank lenders to support basic household expenses. This debt crisis will reduce employment options for all Americans. **An immediate dramatic federal budget cut would trigger a deep recession. We must grow the private sector economy and reform expensive, unwieldy systems like our wildly overpriced health care system and solve housing finance, zoning, and construction issues to provide a sufficient supply of housing in regional employment centers.**

THE DETAILS – 1980s Tax and Economic Policies Have Reduced Business and Economic Growth Rates

Reduced investment holding periods since the 1980 supply side tax reforms which substantially lowered top tax rates, have reduced real economic growth in the private sector from 6-7% in the 1970s to zero over the past fifteen years. These lower tax rates make exiting investments less expensive, which encourages more frequent exits. Shorter investment holding periods encourage more speculation and depress long term investments in innovation and in developing products and markets over the long time horizons needed to build sustainable businesses. Speculative bubbles form as ever larger pools of capital in the hands of fewer people chase high short-run returns due to lower tax rates when exiting investments. The bursting of these speculative bubbles, which result from fewer people with more money chasing speculative price action, leads to Federal Reserve liquidity and interest rate rescues of the overall economy by repeatedly flooding it with more liquidity to prop up asset prices. This added liquidity in the hands of the few who chase speculative price action leads to the next speculative bubble, and the cycle repeats.

Meantime, shelter cost inflation has raised rents about 6 times faster than incomes have risen, sapping trillions from other consumer spending every year. Together with about $2 trillion of excess health care costs each year as compared to other advanced economies, these facts, and Congressional failures to reform these segments of our economy, have conspired to rob the rest of the economy of its vitality. Perennial affordable housing shortages have driven shelter cost inflation, the direct result of the Savings & Loan industry collapse after interest rate deregulation (1980s), and the housing construction industry collapse in 2008, consume an ever increasing share of less wealthy household budgets. When your best customers, the American consumers who comprise 70% of all spending, are not prospering, your business (and our overall economy) suffers. Health care costs are about 2.5 times the expenditure level in other developed economies, with 2-4 years lees life expectancy. Shelter and health care costs, affordability, and access have also constricted our birth rate. Our 1.6 live birth rate has fallen below the 2.2 replacement level, so the population is aging. This requires even more health care expenditures per person, which burdens the rest of the economy due to the already excessive cost rates per person.

The net overall effect of Congressionally adopted tax and economic policies since 1981 (the so-called supply side revolution, which has actually masked near permanent and ever larger federal fiscal deficits) has been and is to reduce private sector real economic growth to zero. Federal deficits (an ever increasing rate of borrowing by the federal government to prop up the economy) have been used to mask the failure of Congress to make much needed reforms to the economic and tax policies. Returning our nation to an economy which is driven by private sector economic growth instead of ever larger federal borrowing at an unsustainable rate is absolutely essential to our nation's financial health and long term security for American families. Essential reforms include:

- Tax policy to incentivize the long-term growth of businesses over short-term financial engineering and exploitation. Income and capital gains rates must be raised both to raise federal tax revenue and to incentivize long term economic growth rather than today's all too common short term financial engineering used to strip equity and replace it with debt for short term returns and speculative investing. Higher tax rates for high incomes and capital gains tax rates which phase down over 20 years - instead of the current simple one year holding period – will incentivize long term investing for innovation and growth. The giant retailer Walmart was built over decades as was Amazon. Short term thinking, financial manipulations to artificially boost short term returns by avoiding longer-term investments, and speculative bets on rapid price action speculation, are the result of tax rates which have incentivized today's short holding periods.

- A system which provides greater rates of return for private sector investments in housing finance over other investments is needed to expand private sector housing financing resources and construction rates to improve affordability and access in growing regional employment markets. The 1980s destruction of the Savings and Loan industry was the key policy decision which has led us from a modest housing surplus in the late 1970s to a 5-7 million unit housing shortage across the US today. This affordability crisis crowds out consumer spending on other consumer products and services.
- The US has the world's least affordable health care system among major countries, with extremely high costs, around 2.5 times other advanced economies. It is simply unaffordable for many lower income families with jobs which do not provide health care benefits. As a result, life expectancy is 2-3 years shorter than in peer countries, productivity and wages are lost due to untreated preventable illness among workers, particularly in those lower-paid careers, and more than half of all families are one substantial medical emergency away from a financial disaster. About 300,000 families are being financially wiped out by medical bankruptcies each year in the richest country on the planet.
- In the 1960s and 1970s the productivity increases in our companies were shared more or less evenly with workers. This began to change in the 1980s. Economic productivity has improved over 140% while real wages have risen only about 26% for most workers Far more of the benefits of improved productivity in the US economy have gone to investors and to senior executives over the past forty years. The net impacts on the US economy and on the American Dream are (i) that American consumers have far less money to spend than if the productivity benefits and profits their work brings to businesses were shared more evenly with them as it was in the 1960s and 1970s, and (ii) they must spend a far greater share of income on housing costs and on health care costs than if long stalled Congressional policy reforms were made in these areas. Since 70% of our US economy is consumer spending, the failure to make these essential reforms, and to share productivity and profit increases with workers, is effectively a huge drag which taxes both overall economic growth and business growth.

THE DETAILS – Senate Rules Are Used To Sabotage Tax and Economic Policy Reforms, Benefitting A Few People Over All Others

The perception that the American Dream is fading is accurate – the failure of Congress to make very specific needed reforms to the American tax and economic system are the very specific reasons for this reality. Policy sabotage in the US Senate is the primary obstacle to these essential reforms. The Founder's vision for both the House and the Senate was of legislative bodies which decided policy and law by majority vote. Senators were given longer terms (6 years) than members of the House of Representatives (2 years). They intended Senators, who would not face voters as often and would do so at the state level, rather than in the smaller districts with narrower business and economic interests of House members to act as a moderating force on short-term impulses of the moment and to give the less populous states a voice which was the same as the most populous states. Federalist 22, written by Alexander Hamilton, a military aide to General Washington during the revolutionary War who later became the first Treasury Secretary, laid out this vision in 1787, during the Constitution's ratification process, which was completed in mid-1788.

Excerpts:

> "FEDERALIST No. 22. The Same Subject Continued (Other Defects of the Present Confederation). From the New York Packet. Friday, December 14, 1787.

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> IN ADDITION to the defects already enumerated in the existing federal system, there are others of not less importance, which concur in rendering it altogether unfit for the administration of the affairs of the Union……
>
> **…..Congress,** from the nonattendance of a few States, **have been frequently in the situation of a Polish diet, where a single VOTE has been sufficient to put a stop to all their movements**. A sixtieth part of the Union, which is about the proportion of Delaware and Rhode Island, has several times been able to oppose an entire bar to its operations. This is one of those refinements which, in practice, has an effect the reverse of what is expected from it in theory. The necessity of unanimity in public bodies, or of something approaching towards it, has been founded upon a supposition that it would contribute to security. But **its real operation is to embarrass the administration, to destroy the energy of the government, and to substitute the pleasure, caprice, or artifices of an insignificant, turbulent, or corrupt junto, to the regular deliberations and decisions of a respectable majority……"**

Hamilton described above what the Founders clearly intended the Senate to be, a body which decided policy by majority vote. But what we have today are Senate rules (filibuster, hold, blue slip) which effectively give one single Senator, who can be elected with as few as 250,000 votes in one of the less populous states, a veto over <u>any</u> national policy changes they want to block in Congress. Members of the Senate want to get reelected, so they favor and reward party loyalty (and the money to get reelected) over the will of the majority of the approximately 160 million US voters who collectively elect the Senate, even when 70% or more of the American people favor a particular policy change.

This anti-majority reality in Senate rules has been true since the sore loser Vice President Aaron Burr proposed changes to Senate rules in the early 1800s. As President (the presiding officer) of the Senate, a role assigned to the Vice President in the Constitution, he was working to sabotage President Thomas Jefferson during his erm in office. He had lost the Presidency to Jefferson in the House on the 37th ballot after the Electoral College was tied. He had been awarded the Vice Presidency as his consolation prize, believed he had been cheated, and was alienated from Jefferson, who never trusted his political rival Burr. Politics was a heated affair then as now. While Burr was Vice President, he assassinated his main New York political rival Hamilton in an 1804 duel in Weehawken, New Jersey, a rowboat ride across the Hudson River from Manhattan. The New Jersey Supreme Court rejected his indictment, so he was never tried for this fatal duel even though it was illegal under state law. He then tried to mount an insurrection in 1806-07 using the Army. He contacted General Wilkinson, who led the Army stationed in New Orleans, which was there to protect the mouth of the Mississippi River. New Orleans controlled President Thomas Jefferson's Louisiana Purchase, the newly acquired doubling of American territory. Burr was charged with treason but never tried as courts repeatedly blocked the trial. While some historians have called the Senate rules changes Burr proposed "accidental," there is no doubt about Burr's intent, and that of his political allies in the Senate who despised Jefferson as Burr did, to change the Senate's rules to block and try to humiliate Jefferson while Burr was Vice President.

The Senate honors the saboteurs spirit of New York's Aaron Burr and his insurrectionist allies to this day. Those anti-majority rules have remained in place since that time, with very few changes. After the 1861-65 Civil War, the anti-majority rules were used by southern Senators for 100 years to block the civil rights legislation needed to fully implement the 13th, 14th, and 15th Amendments (equal civil rights and voting rights for all Americans). In modern times, those same Senate rules (primarily the filibuster, hold, and blue slip) are used to block reforms across a wide variety of critical economic policy issues in an ever expanding way.

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There is always some interest group which will reward a single Senator for blocking the will of the vast majority by helping their reelection campaign. Since the two parties reward party loyalty with campaign contributions, and have tacit agreements to back each other's blocking moves, it is the entrenched interests which benefit from the status quo who repeatedly win out over those who want reforms, even when backed by 70% or more of the American People. A single Senator becomes the roadblock to the overwhelming will of the American People as the rest of the Senate stands around and watches the will of the People being watered down or killed by what is effectively an aristocratic, imperial, sometimes extremist, and often anti-democratic Senate.

THE DETAILS – History Teaches Us Some Tax and Economic Policy Reforms Will Restore Growth, While Others Will Destroy Growth

Four hundred years of American colonial and United States history show that reducing tariffs, and increasing immigration when needed to fill available jobs, are key tools of economic progress and prosperity for all of us. The details:

Tariffs are paid by consumers, not by manufacturers or retailers. Tariffs act to limit consumer choices and to subsidize domestic competitors of the products to which those tariffs are applied. Protecting a few industries with protectionist tariffs, such as autos, will keep prices higher for all such products, which reduces spending on other goods and services, reducing overall economic growth. It also typically results in retaliatory tariffs, which will harm domestic producers, such as farmers, aircraft manufacturers, and others who export goods and services. **Adding tariffs to already burdened consumers who are (i) paying wildly excessive prices for shelter and health care due to past Congressional and Presidential policy failures, and (ii) who have not been sharing equitably in the productivity increases in our economy, will increase consumer prices and will decrease overall consumer purchasing power. With less money to spend on everything else consumers need or want, tariffs will further slow private sector (business) economic activity, reducing private sector jobs and employment.**

The private sector and employment MUST grow in order to supply the tax revenue which is needed to reduce the federal budget deficits. Spending more than the federal government takes in adds to our overall debt, and to the rising yearly costs of interest payments on that debt, which these days is paid by borrowing still more money. The rising cost of our federal borrowing will eventually crowd out most other government spending and a debt crisis will be the result. An abrupt end to this federal government borrowing will then force extreme cuts in federal spending. Those extreme cuts would cause an employment and economic crisis. The economic damage would dramatically hurt middle and lower income employment and consumers.

Job multiplier effects show us that filling jobs creates more jobs. The chart on page 7 below shows how the job multiplier effect works to grow jobs and career opportunities for everyone. People who are employed buy goods and services which expand job opportunities for the people needed to provide those goods and services in a virtuous cycle of growth.

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THE DETAILS – Immigration Reforms Are Essential To Restoring American Economic Growth

But we only have 0.8 workers available in the US to fill each of the more than 8 million jobs available today. Since we are short of workers in the US, we do not individually benefit from the prosperity which would come if those jobs could be filled, which in turn would create still more jobs. **And, common sense tells us that not every available worker can fill every available job.** Filling these jobs requires workers with the rights skills, who live in or are willing to move to the right place, can find local housing they can afford (so they don't get jailed for being employed and homeless), and are willing to accept the pay and health care benefits being offered. We need more workers in the right employment centers and in parts of rural America for agriculture and other industry related jobs. Not everyone wants to or can relocate. Typically, newly arrived immigrants are more mobile and more readily accept lower skilled jobs to gain entry to the labor market since they have fewer of the mobility and flexibility issues. More rapid processing of immigrants to employable status is essential - six months or more is typical now, six weeks would be practical and relieve the burden on state and local government budgets which should be borne by the federal government in any case. This policy change and processing cycle time reduction will provide more workers, a needed boost to private sector economic growth, and in turn creates more final demand for goods and services. More final demand requires still more workers, creating more employment opportunities for everyone - a virtuous cycle.

Around 180 million people visit the US in a typical year, not just 8 million at our southern border. While this rate has been temporarily lower since the Covid pandemic (around 140 million last year), about 6 billion people have traveled to and entered the US from other places over the past few decades. About .002% have remained illegally. Most of these 0.002% of people who remain arrived at an international airport and then overstayed their visa. While they should not be here illegally, Congress' decades of failure to make meaningful immigration reforms since the 1980s, when Congress and President Reagan granted amnesty to 3 million immigrants as part of that reform package, have led to the current problem. The immigrant crime rate is the same as America's overall crime rate, which is slightly above the world average. And even illegal immigrants contribute to the US economy with spending, taxes paid, and receive few public benefits as they are ineligible for most government programs, such as Social Security retirement and disability benefits.

Removing 5 to 8 million taxpaying (albeit illegal based upon current laws) workers and their families out of our private sector economy, which is already short of workers, would be extremely economically detrimental to American citizens and families, and to government revenues and costs. The job multiplier effect also works in reverse - when the number of available workers shrinks, business revenue and government tax revenue shrink, so this multiplier effect destroys other jobs held by Americans, just as it creates them when overall economic activity is rising. Obviously, fewer goods and services are purchased by people who don't have jobs and income. When other consumers have little or no income to spend, American workers get laid off across many industries, and then state and local government tax revenues fall, so cops, firefighters, and teachers get laid off too. Immigration, managed properly, is a tool of prosperity and growth in an economy which is short of workers.

THE DETAILS – Economic and Tax Policy Sabotage In Congress Are What Got Us Here, With Constructive Policy Changes We Can Do Better

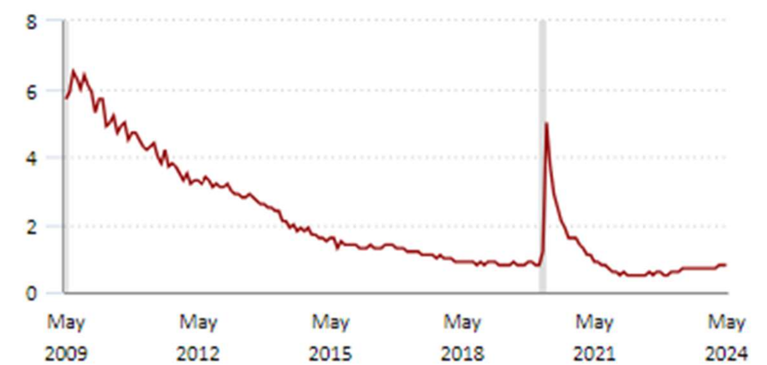
Sabotaging much needed reforms to shelter costs, health care costs, and other progress essential to our nation, and our planet for political purposes is an "us versus them" talking point (some people might us the term "b..s…" here). We all win when we all win. With 70% of our economy based upon consumption, we all lose when middle and lower income consumers are being priced out by costs which are well above peer nation's costs for the same goods and services – be it shelter, health care, cars, toys, or dog food. This is not good economic policy, and it hurts the people that support that particular talking point just as much as anyone else. And, blaming some other country (and the benefits of the lower prices for consumer goods from that country) for our country's failure to solve our own economic problems will never solve a single one of our economic problems – such as the housing shortages and wildly overpriced health care, for example, which have resulted from policy failures and sabotage, which is mostly caused by our own elected Senators and Representatives in Congress.

TABLE 1

Employment multipliers per 100 direct jobs, by major private-sector industry group

Major industry group	Direct jobs	Supplier jobs*	Induced jobs**	Total indirect jobs
Agriculture, forest, fishing, and hunting	100	93.6	134.8	228.5
Mining	100	224.0	166.0	390.0
Utilities	100	515.4	442.2	957.7
Construction	100	88.0	138.1	226.1
Durable manufacturing	100	289.1	454.9	744.1
Nondurable manufacturing	100	184.8	329.5	514.3
Wholesale trade	100	107.3	128.0	235.3
Retail trade	100	46.7	75.4	122.1
Transportation and warehousing	100	112.8	163.3	276.0
Information	100	252.0	321.1	573.1
Finance and insurance	100	149.7	214.7	364.4
Real estate and rental leasing	100	396.6	483.1	879.7
Professional, scientific, and technical services	100	142.1	276.2	418.3
Management of companies	100	144.4	255.4	399.9
Administrative and support services and waste management	100	45.5	89.1	134.5
Educational services	100	63.8	129.9	193.7
Health care and social assistance	100	69.4	136.2	205.6
Arts, entertainment, and recreation	100	123.3	255.2	378.5
Accommodation and food services	100	53.8	107.4	161.2
Other services (except public administration)	100	70.7	139.6	210.3

Number of unemployed persons per job opening, seasonally adjusted



Hover over chart to view data.
Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

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LATEST NUMBERS

RSS

8,140,000(p) **Latest Job Openings Level:** in May 2024

3.6%(p) **Latest Hires Rate:** in May 2024

Source: https://www.epi.org/publication/updated-employment-multipliers-for-the-u-s-economy/ and https://www.bls.gov/jlt/home.htm