

Chapter 1

The Con

The media and the politicians have failed in their duty of protecting the American public. Neither has acted in the best interests of the people. Some in the media have been apologists, while many of our elected officials have been active coconspirators in a fraud. The net effect has been disastrous. As a result, many citizens have suffered, and the rich, particularly, have paid a heavy financial price.

In this era of stock market scandals and executive malfeasance, it is hard to imagine more disquieting news. The fallout from the scandals has caused more economic suffering than the 9/11 terrorist attacks. Yet, the stock market scandals are small change when compared with the greatest fraud perpetrated on Americans during the latter part of the twentieth century. The perpetrators of this massive fraud have conned the rich out of hundreds of billions of dollars by shifting tax cuts from the majority to a tiny, well-connected group. This fraud has had a more devastating effect on American well-being than any terrorist attack could have, short of a nuclear explosion in a major metropolitan area (God forbid).

By the year 2000, America had enjoyed a period of unprecedented economic expansion. Yet, most taxpayers felt that they

had received little or no benefit from this phenomenal growth. How about you? Did you really do better? Before you answer, consider that factors such as inflation change the value of money over time.

How could this fraud have occurred? Abraham Lincoln said, “It is true you may fool all the people some of the time; you can even fool some of the people all the time; but you can’t fool all of the people all the time.”¹ Certain forces have succeeded in employing Madison Avenue techniques to fool just enough people to stay in office. They have conned the rich into actively supporting programs that are not in their best interests. It has been said that in the absence of an overriding issue, Americans will vote their pocketbooks. This is not entirely true. Rich Americans vote for candidates who they believe will be best for their pocketbooks. The data presented indicate that most of the rich have been naive in their beliefs. A review of the historical data proves that the people whom the rich have voted into office have consistently sold them out by promising one thing and doing another. It is staggering how much money the rich have lost.

We need a new way of looking at the progress made by each income group within our country. The government tracks the progress mainly by looking at each quintile (20 percent of the population) and the top 1 percent. One of the major divides in 2000 was \$50 thousand.* There are several reasons why the demarcation was \$50 thousand. First, the government reports still divide the population into rather large categories.† Using

* Unless explicitly stated otherwise, data are based on a comparison between the years 1976 and 2000. The year 1976 was the last in which the American public forced Congress to do something about tax loopholes in our Federal income tax system. The year 2000 was the most recent tax data available when the information in this book was compiled. In this book, *income* is defined as adjusted gross income. This was the amount you entered onto line 34 on IRS Form 1040 for the year 2000.

† The Internal Revenue Service (IRS) issues an annual report on collection activities. Taxpayers are divided into large, arbitrary income ranges such as \$40 thousand to \$50 thousand and \$50 thousand to \$75 thousand.

the \$50 thousand-plus range, we can analyze the top 28 percent of the population. If we narrowed the range to taxpayers with incomes over \$75 thousand, we would be looking at less than 15 percent of the population. Second, since nearly 72 percent of the population is making less than \$50 thousand, those making over \$50 thousand are doing much better than the other three-quarters of their fellow Americans. Third, only those making above \$50 thousand had any increase in after-tax income during the period between 1976 and 2000 after adjusting for inflation. Everyone else lost ground in terms of real buying power.

The previous facts bear repeating. After more than two decades of tax reform, nearly three-quarters of all taxpayers have less real after-tax income than they had back in 1976. This fact belies the widely held belief that “a rising tide raises all boats.”

In this book, the 72 percent of the population who make less than \$50 thousand are lumped together and are referred to as the *Nonrich*. This is not to disparage the group but, rather, to keep the information narrowly focused. Figure 1 illustrates what happened to the income of each group once the income for each was adjusted for inflation. The other three groups will be discussed in chapter three. Some might claim that the modest gains of the rich and the poor showing of the *Nonrich* are just the unfortunate byproduct of our free enterprise system. The facts will prove otherwise. Hidden forces have exacerbated the normal migration of income and wealth.

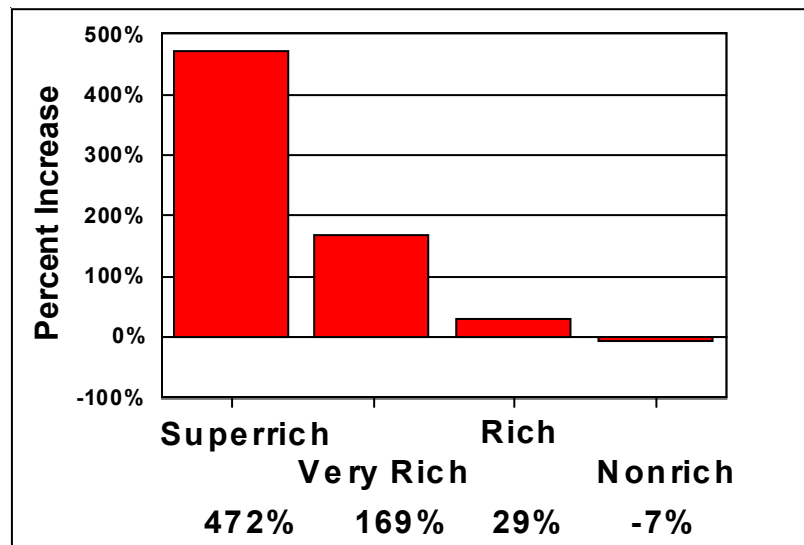
On the surface, the data seem pretty cut-and-dried if we simply divide the taxpayers into the rich and the *Nonrich*. The after-tax income of the *Nonrich* decreased by almost 6 percent, while the after-tax income of the rich increased by 52 percent. The increase in after-tax income for the rich seemed reasonable given that the taxes for the rich increased by an average of 9 percent during the same period that the taxes of the *Nonrich*

decreased by over 10 percent. As it is, the rich are paying 86 percent of the income taxes. If we only look at the information in this simplistic light, it is no wonder why the rich tend to want to hide their wallets each time they hear a politician lament about the hardships of the working poor, the middle class, or any other subgroup of the Nonrich Americans.

The fact remains: Most taxpayers in the rich group believe that they are not making much headway, even if the statistics claim that their after-tax income has increased by over 50 percent. They are correct. As impossible as it seems, most of the rich have only made modest gains despite twenty years of tax cuts. If the rich continue to ignore the facts, they are going to be shamelessly bled by those whom they trust.

Few of us enjoy wading through reams of data. While we cannot present this subject without supporting data, the first

Figure 1: **Change in Adjusted Gross Income, 1976-2000**



Sources: Author's own calculations derived from data in *The World Almanac and Book of Facts 1979*, p. 62 (Individual Income Tax Returns for 1976). The *Internal Revenue Service Statistics of Income — 2000, Individual Income Tax Returns*, pp. 12, 23-34, and the *High-Income Tax Returns for 2000*, p.11.

sixty-five pages of the book limit the amount of statistical detail presented to provide a clear overview.

Frankly, it might not be worth the time to determine if this massive income redistribution is the result of a carefully orchestrated fraud by a small group of conspirators or a perfect storm of shortsighted greed and legislative incompetence. There are certainly many politicians in both parties who, to paraphrase the classic words of Desi Arnaz, “have some splainin’ to do.”

Seriously though, it is vital that we understand what is occurring in time to reverse the trend and to correct the hemorrhaging which is destined to get much worse over the next decade.

Figure 2: **Nation's Adjusted Gross Income
(In 2000 Constant Dollars)**

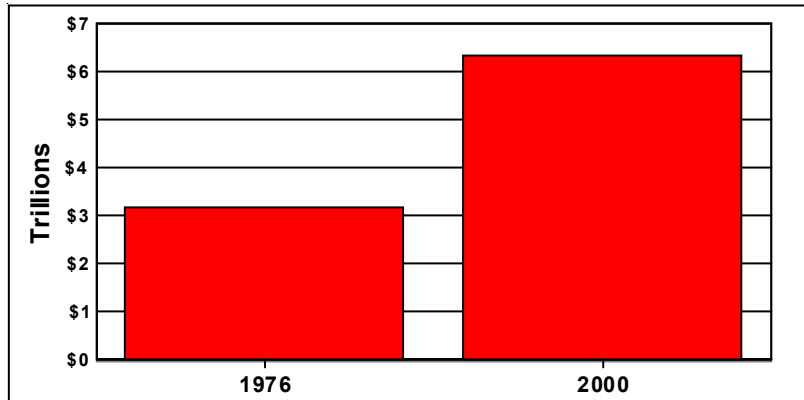
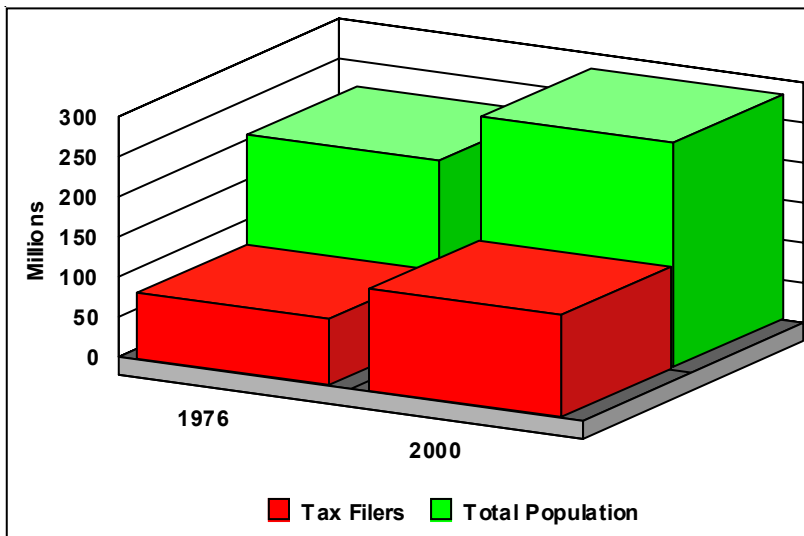


Figure 3: **Total Population Growth vs.
Number of Tax Returns Filed**



Tax Filers Increased by 53% Population Increased by 30%

Sources: Figure 2 — Author's own calculations derived from data in *The World Almanac and Book of Facts 1979*, p. 62 (Individual Income Tax Returns for 1976). The *Internal Revenue Service Statistics of Income — 2000, Individual Income Tax Returns*, pp. 12, 23-34, and the *High-Income Tax Returns for 2000*, p. 11.

Figure 3 — Author's own calculations of data from *Figure 2* sources and *U.S. Census Bureau, Statistical Abstract of the United States: 2003*, Table 2, p. 8.