

Tax cutting away the middle class

by Juan Carlos Ordóñez

Take the word of a man willing to stake a million dollars on it: the U.S. tax system has been turned upside down. In a recent interview with NBC's Tom Brokaw, billionaire investor Warren Buffett disclosed the results of a voluntary survey of his employees. They reported paying an average of 32.9 percent of their income in federal payroll and income taxes last year, compared to the 17.7 percent paid by Buffett, America's second richest man. "The taxation system has tilted toward the rich," Buffett concluded. He offered a million dollars to anyone on the Forbes 400 list of wealthiest Americans who could show they paid a higher rate than their receptionist. So far, he's had no takers. Buffett's experiment is a dramatic example of how three decades of tax cutting has bled the fairness out of our system. The tax structure built by America's Greatest Generation -- to borrow Brokaw's phrase -- was highly progressive, with marginal tax rates during the Eisenhower years above 90 percent. The strongly progressive system was a key factor in creating America's broad middle class. But that was then. Today, the top marginal federal income tax rate is 35 percent, the lowest level since the early days of the Great Depression, except for the years 1988 to 1992. Add the rise in federal payroll taxes that disproportionately burden low- and middle-income taxpayers and the system loses much of its progressiveness. This year, Social Security taxes are paid only on income up to \$97,500. Thus, Buffett will pay only a minuscule percentage of his income on Social Security taxes compared to just about everyone else, especially middle- and low-income workers. Factor in as well the slashing of taxes on capital gains to the current 15 percent level and you get the absurd situation where a multi-billionaire pays a lower tax rate than his secretary. It is a topsy-turvy world indeed when money earned from work is taxed at a higher rate than money earned from non-work, the appreciation of investments. The \$2 trillion in tax cuts pushed through by the current administration, in particular, have been highly skewed toward the well-off. While middle-income earners received an average tax cut of \$744, the top 1 percent of income earners on average got over \$44,000. More stunning still, the top one-tenth of 1 percent (0.1 percent) of income earners -- the richest of the rich -- banked over \$230,000 on average. The Bush tax cuts were not only massive but also highly regressive. According to the Tax Policy Center, the tax cuts represented only 2.5 percent of income for middle-income taxpayers but amounted to 5.4 percent of income for the top 1 percent of income earners. In other words, those at the top got more than twice as large a tax cut in percentage terms as those in the middle. The overall tax system is still progressive, but much less so than it used to be. Middle- and low-income Americans today are carrying burdens sloughed off by the rich over the last few decades. As the tax system has tilted toward the well-off, income inequality has returned to levels not seen since before the Great Depression. Today, the wealthiest 1 percent of Americans receives about 19 percent of all income, compared to about 9 percent in 1980, thereby shrinking everyone else's share of the pie. Rather than a trickle-down effect, the drive to cut taxes on the wealthy has seemingly created a geyser effect that shoots income upward. As the narrow group up top showers with more and more of the nation's income, the broad middle-class society of the post-war years dries up. Unless our political leaders take bold steps to reintroduce a more progressive tax system, as Buffett has urged, the middle class will continue its downward spiral. You can bet a million bucks on it. Juan Carlos Ordóñez is the communications director at the Oregon Center for Public Policy. He can be reached at jcordonez@ocpp.org.

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