



AMERICA: **WHO REALLY** **PAYS** **THE TAXES?**

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Authors of America: What Went Wrong?

Also by Donald L. Barlett and James B. Steele

America: What Went Wrong?

Forevermore: Nuclear Waste in America

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AMERICA: WHO REALLY PAYS THE TAXES?

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BY DONALD L. BARLETT
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*For America's librarians—a dedicated group of people who
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CHAPTER 1



WHERE DID ALL THE MONEY GO?

The Two-Tax, Two-Class Society

So you have a feeling that you're paying taxes at a higher rate than a lot of millionaires?

That when politicians start talking about how they are going to tax the rich they mean—you?

That for your struggling family, the overall tax bill—local, state, and federal—has gone up, while for your more affluent friends it's gone down?

You have a feeling that your children are paying out a larger share of their income in federal, state, and local taxes than you did at their age—and aren't living nearly as well?

That the Social Security tax being withheld from your paycheck is going to someone whose income far exceeds yours?

That when members of Congress talk about cutting entitlements they mean yours—not theirs?

You have a feeling that as a single working parent you're paying a larger share of your income in taxes than some wealthy foreign investor who buys up American companies and eliminates jobs?

That the small business you run pays a higher percentage of its revenue in taxes than a *Fortune* 500 company?

That you and your spouse are paying comparatively more in

real estate taxes on your three-bedroom home than the couple across town in the six-bedroom, six-bathroom mansion?

Are those your feelings?

If so, trust them.

For over thirty years, members of Congress and Presidents—Democrats and Republicans alike—have enacted one law after another to create two separate and distinct tax systems: One for the rich and powerful—call it the Privileged Person's Tax Law; another for you and everyone else—call it the Common Person's Tax Law.

As a result, they have transferred the tax burden:

- From people who can most afford to pay to those less able to pay.
- From corporations to individuals.
- From foreign corporations to domestic corporations.
- From foreign investors to American workers.
- From multinational companies to medium-sized and small businesses.
- From the federal government to state and local governments, whose taxes already fall most heavily on those in the middle and at the bottom.

They have provided tax incentives for corporations to close plants in this country and export the jobs offshore. They have provided tax incentives to foreign corporations operating in the United States that they have denied to U.S. businesses. They have provided tax incentives to encourage corporate takeovers and restructurings that eliminate jobs. They have given foreign governments veto power over state tax laws. And they have exempted select corporations from payment of any income tax.

In short, they have taken tax and economic policies that once nurtured the growth of history's largest middle class, and replaced them with policies that are driving the nation toward a two-class society, eroding living standards for most Americans, and causing—for the first time since the Great Depression—a decline in the population sandwiched between the haves and the have-nots.

The people in Washington, as might be expected, would have you believe otherwise. To this end, they have crafted tax laws

so complex that only the powerful and the influential can use them to their advantage. At the same time, that complexity enables the defenders of moneyed interests to confuse, mislead, and, when necessary, lie to citizens about the consequences of those laws.

Along the way, the politicians have created one tax myth after another:

- That they are soaking the wealthy.
- That those at the top of the economic pile are paying stiffer taxes than ever before.
- That corporate America is hobbled by an onerous tax load.
- That hefty taxes are discouraging investment and job-creation.
- That high taxes are undermining individual initiative.
- And, finally, that there is a desperate need for shared sacrifice.

Don't believe it.

If you are called upon by lawmakers and policymakers to make a shared sacrifice for the good of the country, you may fairly assume that this means a strengthening of the two tax systems, with comparatively little or no sacrifice for the privileged and yet more for you.

If you are a member of America's shrinking middle class—no matter whether you are a married wage earner, a single parent, an unmarried worker, a small-business owner, or whatever—you may fairly assume that you are paying taxes at a substantially higher rate than your parents or grandparents did—and have less money left over for housing, food, clothing, and other essentials.

If you are among the 91 million individuals and families who earn less than \$75,000 a year and derive most of their income from a weekly paycheck, you may fairly assume that you are picking up a disproportionate share of the nation's tax burden.

And if you have just left high school or college to enter the job market, or will do so in the next few years, you may fairly assume that you will pay taxes at a higher rate than those starting out in any preceding generation since the turn of the century.

Nonetheless, the myths persist, fostered by both political parties, each playing to longtime constituencies. Such was the case during debate over President Clinton's budget bill in the summer of 1993. Opponents said the bill would cruelly soak the rich; its supporters said no, it would just make the tax code fair once again.

"The President and my Democrat colleagues are proud, even ecstatic, over the progressivity of [the] tax structure in this bill. . . . It is, in fact, nothing less than the politics of envy," said Rick A. Lazio, Republican representative from New York.¹

"I make no apology for the fact that we are finally getting the wealthiest 1 percent in this country to pay their fair share for a change, no apology whatsoever," said David R. Obey, Democratic representative from Wisconsin.²

In fact, when measured in historical terms, neither was true.

Which might help to explain the rising level of frustration expressed by citizens everywhere. On August 6, 1993, as the Senate prepared to vote on the budget bill, reporters for *CBS Evening News* interviewed people at random on city streets, asking what they thought would happen if the measure was approved. One earnest woman, wearing a pained expression, stared into the camera and said:

"I don't know who to believe any longer."

Indeed.

With those eight words she summed up the feelings of millions of Americans. For today, when it comes to the interwoven issues of the American economy, the budget deficit, and the federal tax system, no one seems trustworthy. Democrat or Republican. Incumbent or challenger. Economist or bureaucrat. Member of Congress or President.

And there are solid reasons for the distrust.

For instance:

In 1986, when Congress passed that year's Tax Reform Act, overhauling the Internal Revenue Code, the Joint Committee on Taxation, the congressional committee that oversees all tax legislation, offered this explanation:

"After extensive review of virtually the entire prior tax statute, Congress concluded that only a thorough reform could assure a fairer, more efficient, and simpler tax system. Congress believed that the act, establishing the Internal Revenue Code of