Taxes, tax breaks and the primary beneficiaries

Prepared by Peter Wedlund for Bluegrass Indivisible August 18, 2017

INTRODUCTION

It has often been said the only two certainties in life are "death" and "taxes", and that has certainly been the case for most working Americans today. However, not everyone faces the same taxes or experiences the same pain of paying them. It has recently been reported thousands of people who earn more than $1 million/yr paid no taxes at all.[1-2] Even some billionaires manage to pay a far smaller percent of their earned income in taxes than many individuals who make far, far less money.[3-4] It is worth examining why this is the case, because the answers to who pays, how much and who are the real primary beneficiaries of tax breaks may just change how you feel the next time your Congressman complains about corporate taxes, death taxes and the high marginal rates on the top wage earners.

BRIEF HISTORY OF TAXES:

It is worth beginning with a brief introduction to the major federal taxes that fund government, why and when they arose, their original purpose and how they have changed since their introduction.

Income Tax is perhaps the best known of all federal taxes because nearly everyone will have to pay it at some point in their lives. Originally this tax was began during the Civil War when it was called the Revenue Act of 1861 to raise revenue to pay for the cost of the war. However, it was repealed 10 year later. Then in 1894 Congress passed a flat rate income tax, but that was ruled unconstitutional by the US Supreme Court.[5] The federal income tax was passed by Congress in 1909 and ratified by the final State to become Constitutional Amendment #16 on February 3, 1913. It states, ***"Congress shall have the power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration."***[6-8] Conservatives in the Republican Party opposed the income tax and thought by agreeing to a constitutional amendment the idea would finally die when states refused to ratify it. It was progressives in the Republican Party and Democrats who pushed the income tax forward and ended any means for the Supreme Court to rule it "unconstitutional" as they had done with the prior effort to establish a flat rate federal income tax.[6-8] The income tax has undergone many modifications over the years, but when it was initially implemented, the tax was levied only on the most well-to-do Americans. Even then, loopholes in the 7% tax rate, allowed most to pay only 1% on their annual incomes.

The Estate Tax has an even older history than the income tax, going back to 1797. At that time, it was called the Stamp Act and it imposed a fee on wills and other documents related to the transfer of property. It was abolished by Congress in 1802. No estate or inheritance taxes were passed again until the Civil war, when an inheritance tax on personal property greater than $1,000 in value was instituted to help pay for the war. It was abolished in 1870 after the war. The first actual Estate tax was enacted in 1898 to pay for the Spanish American War, and quickly repealed in 1902 after that war ended. Teddy Roosevelt proposed both the income and the Estate tax in the early 1900's specifically to redistribute income and wealth. Teddy Roosevelt was aware of how certain titans of industry established monopolies, accumulated wealth and in some cases ruthlessly used their power to garner wealth. The first world war again brought the need for additional federal revenue and the reinstatement of the Estate Tax. This time, the tax was not repealed after the war and it remains in effect today, although modified significantly from its original version.[9] The Estate Tax is a tax on the Estate before it is inherited. It does not tax the estate of the spouse of a deceased. Also, exclusion limits are placed on what actually gets taxed today. Currently, only assets above $5.49 million per deceased person, or $10.98 million per deceased couple are taxed at 40%. Those exclusion limits mean than only 0.2% of all Estates are actually taxed today.[10] The Estate Tax has been the primary means of taxing accumulated wealth on untaxed "assets" (property, stocks and other assets) of the deceased.

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Although some talk about the high statutory 40% tax on estates, because the first $5.49 million is actually excluded, the effective tax rate on Estates is closer to 17%.[10] There is also hyperbole about Estate Taxes being Death Taxes and that people should not have to visit the funeral director and the tax man on the same day. First, these are taxes imposed "after the death" of very wealthy individuals. Only the top 0.2% of the wealthiest estates are taxed. These taxes are designed to prevent "wealth stagnation" primarily by preventing untaxed assets from being passed onto heirs as "free instant wealth". Even such people as Andrew Carnegie and Warren Buffet have supported Estate Taxes as a means of redistribution of wealth accumulation.[11]

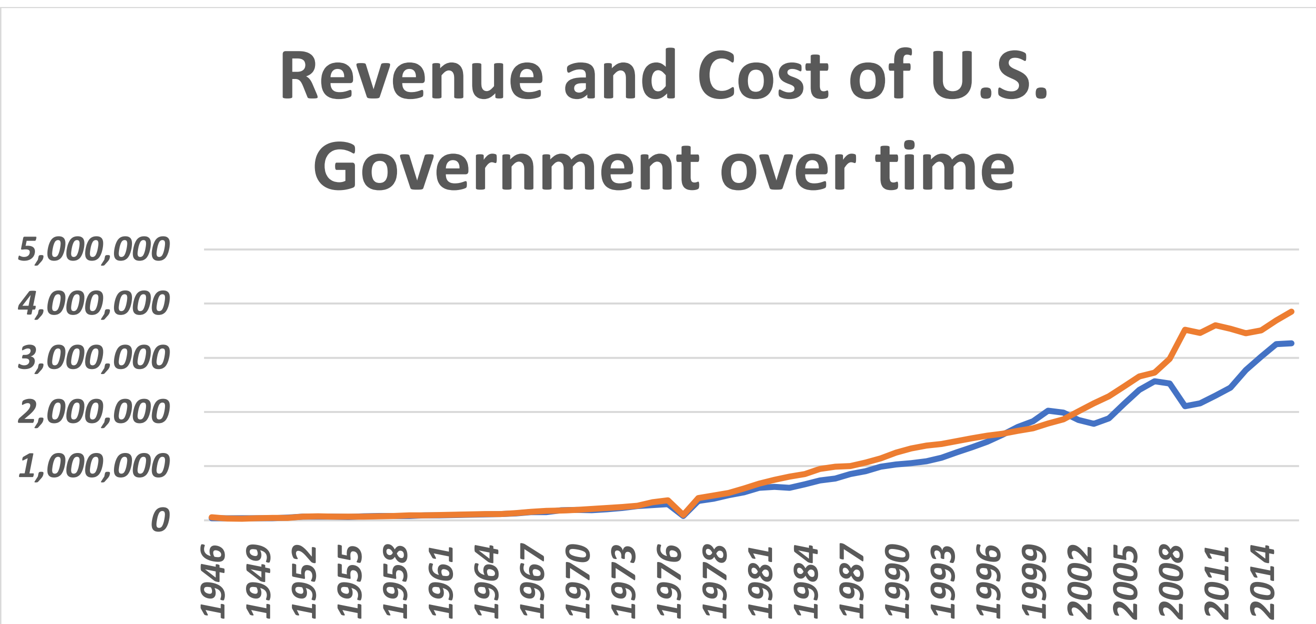
Inheritance taxes are placed on what a beneficiary or heir actually receives (e.g. after the estate is distributed). Some states (like Kentucky) still tax inheritances although most states have fairly generous exclusions. For example, Kentucky has an inheritance tax, but not if you are "the son or daughter" of the deceased. Inheritance remains a primary means by which a large portion of the total wealth in the US continues to account for persistent income inequality. It is because of "wealth stagnation" that inheritance taxes have been imposed on beneficiaries.

Corporate taxes were first enacted in 1894 but declared unconstitutional before going into effect. Congress enacted an excise tax on corporations based on income (essentially the beginning of the corporate income tax) in 1909 and with the 16th amendment, this excise tax became the corporate income tax. [12] As Mitt Romney was fond of saying, "corporations are people", and with regard to corporate taxes their tax rates are similar, varying from 15 to 35%. Also like most people, few corporations actually pay the highest marginal tax rate on their earnings.[13] The average tax rate among 350 of the S&P500 companies was (like with wealthy tax payers) around 24%, and some of the largest, wealthiest corporations have paid no taxes at all.[14-16] To be fair, many corporations pay no taxes due to prior losses and what most would consider legitimate tax deductions.[17] The claim of unfair corporate taxes and how corporate taxes are "forcing companies" to leave the US and export jobs to foreign countries, may sound like reasonable justification for cutting corporate taxes. However, once you consider corporations are as much or more the beneficiaries of the social resources all taxpayers provide through their taxes, one should question that logic and the need for corporate tax credits (taxpayer corporate welfare) for some of them. It was not by chance that the excise tax on corporations was instituted years before the income tax. This was done after large railroad, oil, bank, steel and other monopolies had dominated the US industrial age, accumulated massive wealth and used their power to crush their competition and suppress workers' rights.[18-19]

The Gift tax was passed in 1924.[20] Gift taxes are a tax on the transfer to an individual, directly or indirectly where full consideration is not received in return (i.e. not equivalent remuneration for the gift). When a taxable gift in the form of cash, stocks, real estate or any other tangible or intangible property is made, a tax is imposed on the amount in excess of $14,000/giver or $28,000/couple per recipient. Due to consolidation of Gift and Estate Taxes, there is a 40% tax on amounts over these limits, but no tax on gifts up to these limits. One can avoid this tax, even by gifting amounts in excess of $14,000, but it requires one to decrease the limit on the Estate by an equal amount of the excess gift. Thus, one could give and extra $100,000 as a gift, but only if you filed a gift tax form with the IRS and subtracted that additional $100,000 from the Estate limit of $5.49 million exclusion. If you stay under the $14,000/yr/person limit, there is no need to reduce the Estate limit of $5.49 million regardless of how many years to gave a person this gift amount. Since few people have this type of wealth to dispose of on a yearly basis, the gift and Estate taxes only really apply to the most wealthy Americans.

Excise taxes and the right to impose them is stated directly in the US Constitution. This law gave the federal government the authority to tax and Congress the power to "lay and collect taxes, duties, imposts and excises to pay debts and provide for the common defense and general welfare of the United States."[21] Excises taxes were imposed after the Revolutionary War to pay off the debts and cost of the federal government. After the First US Congress passed a law approving the collection of excise taxes on alcohol, Washington signed the law into effect on July 4, 1789, taxing alcohol. It was not popular, and the Excise Tax then went through a series of repeals and re-institution until the Civil War when additional federal revenue was needed to first help pay for the war and then pay for rebuilding after the civil war. It fell to essentially zero with prohibition, but when prohibition ended, and in order to help fund government during the Great Depression, it was reintroduced in the 1930's. The Excise Tax ultimately providing nearly 1/3rd of federal revenue during the 1930's. Excise taxes are paid on specific goods and services and since the Great Depression those goods and services have expanded and contracted. Like a sales tax, the excise tax is a consumption tax paid on the purchase for a range of specific goods and services typically by the manufacture or retailer so their cost is hidden in the price the consumer pays. Today, federal excise taxes are collected on gasoline, tobacco, alcohol, firearms, telephone, gambling, air fare, air cargo, vaccines, coal and oil, tires, luxury autos, heavy trucks, health insurers tax, import of prescription drugs, medical devices and tanning salons, to list many of the more common ones.[22-23]

Summary of Tax History
These taxes represent the bulk of those collected by the federal government to pay for the cost of federal government operations. Most of these taxes were initially introduced to help raise revenue to cover the cost of war, and then repealed after the war when all or a major portion of those costs were paid. In that sense, Congress was far more responsible with regard to taxes during the early years of this country, by ensuring revenues balanced out our operating expenses. Since the Civil War, WWI, the Great Depression and then WWII, that policy has not been followed as closely. While some of the debt from these more difficult economic times was retired, not all of it. Between 1945-2016 the cost of federal government operations have mostly exceeded its revenues by a several percent each year.[24] It has been this protracted period of mismatch between revenues and cost of operating the federal government that is currently responsible for our now nearly $20 trillion US deficit.



The ***Orange*** line represents federal costs and the ***Blue*** line federal revenues. The mismatch between these two lines, particularly during the last 35 years has been responsible for the ballooning of the federal deficit. Data come from the current White House historical data.[25]

While some politicians argue that the problem is the cost of government, not its revenues, that position makes little sense when the US government revenues are the lowest as a percent of GDP among all Western industrialized nations,[26] and in our 230+ year history the cost of government/citizen has increased from about

$1/person to $10/person, in spite of a massive increase in the US population and GDP during that time period. The belief taxes cannot be raised (as they have multiple times in US history to pay for rising debts) is just an untenable position. Thus, the issue is not, can taxes be raised but which taxes should be raised to address our deficit. That will be addressed later.

An equally relevant question has to do with the frequently stated position of cutting taxes to stimulate greater GDP growth and allow us to grow our way out of our fiscal debt. Since the end of WWII, the federal tax revenue has varied between just under 15% to just over 20% of GDP with an average of 18.3% of total GDP over this time period. In other words, as GDP grows, federal tax revenue will grow at less than 1/5th of the rate of GDP growth. That means, for every dollar cut from federal revenues, GDP will have to grow by more than $5.5 dollars, just to balance the lost federal revenue if no further change is made in who pays taxes. Even the most optimistic of economists know GDP will not grow fast enough to make up the lost federal revenue as was demonstrated after the Reagan, GW Bush and Obama tax cuts in the 1980's, early 2000's and 2009, where the orange and blue lines diverge most. Tax cuts that stimulate the economy are generally short-lived effects. They may serve to stimulate the economy, but such a short-term stimulus makes more sense when the economy is in a tailspin and the need to do something to try and reverse those economic woes is required. It makes far less sense when the economy is growing at a steady rate, even if that rate of growth is rather anemic, since it will directly (and has) added to the deficit without solving our longer term economic issues. In fact, there are good reasons the US economy has been growing at an anemic rate over the last couple decades, and lowering certain taxes is unlikely to change that reality (see later).

Part of that reason begins with understanding the shift in "who pays" for the cost of our federal government over the last century. After the passage of the federal income tax, the major source of federal income by design came from wealthy corporations and the wealthiest Americans. Today, personal income taxes still account for a major portion of federal revenues but it is now shared by lower income families in addition to the wealthiest ones. Personal income taxes are followed in importance by social insurance taxes paid in part by workers and in part by the companies they work for, corporate income taxes, all other taxes (tariffs, estate, etc.) and excise taxes. A remarkable shift has been the decline in how much of our federal revenue comes from corporate income taxes between 1945 (35.4%) and today (10.7%) in spite of GDP growing almost 100 fold during that time period. This decline has been matched by a similar increase in Social insurance taxes to federal revenues between 1945 (7.6%) and today (33.5%).[27]

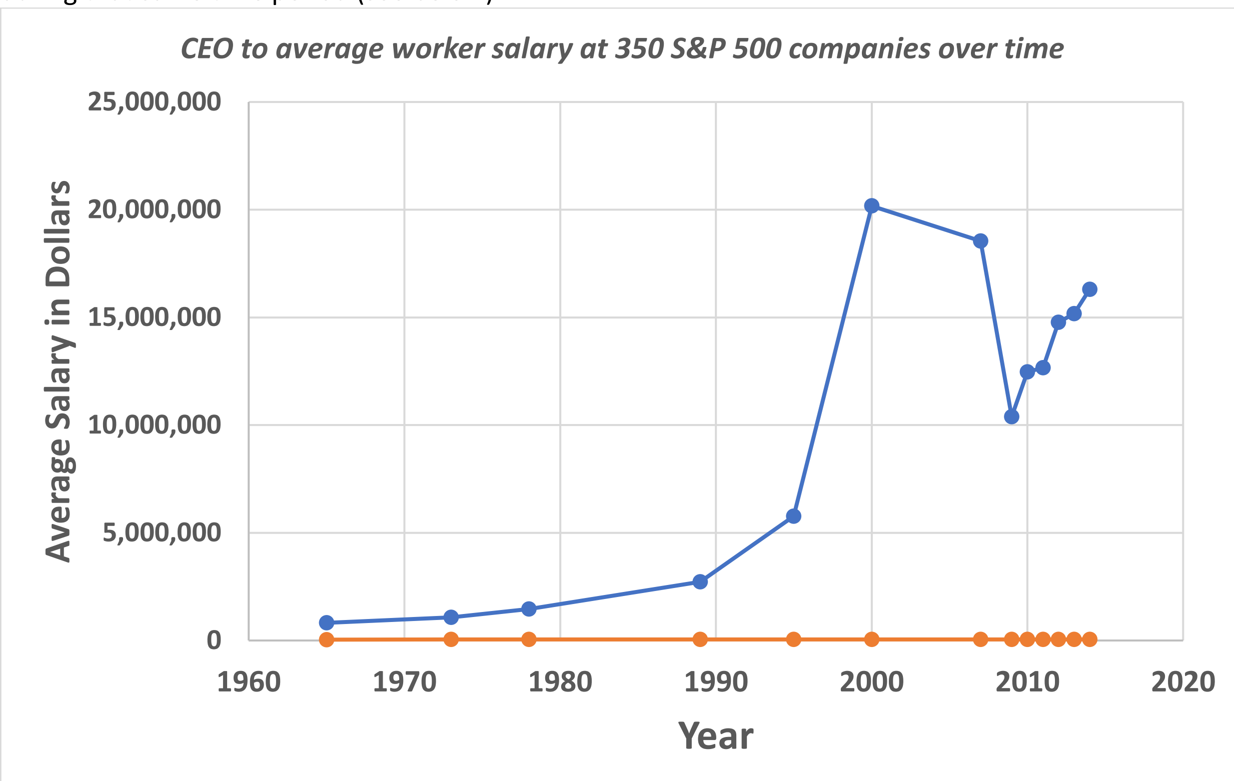
<u>SUPPLY SIDE VERSUS DEMAND SIDE TAXATION -- WHO BENFITS?</u>

To listen to GOP leaders and Trump, it appears that high personal taxes are killing individual incentive, preventing business investment and resulting in jobs going overseas. If only we cut taxes further, gave people more of their own money back and let them decide how best to use it instead of having it wasted by big government which just taxes and spends, our economy and GDP would grow substantially and jobs would improve. The solution to your feeling left out of the economic recovery, stagnant wage growth and falling further behind, is to let the GOP have its way and lower taxes so you keep more of what you earned. Sounds great, doesn't it? That is the concept behind supply side economics. It is based on a better-known philosophy of "build it and they will come". Which is just a modification of "trickle-down economics" in which if the wealthy do well, so will everyone else, ***eventually***.

There are just a few minor problems with that assessment and approach. First, corporate taxes are not driving businesses out of this country. Most business are way too small to even consider moving outside the US for any tax advantage that might provide. The top marginal corporate tax rate is 35%, but the average corporate tax rate is closer to 19% and extremely competitive with other countries in the world.[13] Lower corporate taxes are not creating more jobs because jobs are driven by "demand for products and services" not "taxes on profit margins".

Thus, when American workers do better and have more money to spend, demand for manufactured goods and services increases. When American workers are hurting financially, have less disposable income, they will produce less demand and this will lead to lower GDP growth. So the real question should be, how are American workers doing these days? Is their disposable income increasing so they have more money to spend on products and services? Perhaps even more importantly, are the relevant investments being made by the Federal government to ensure a healthy economy?

Workers versus wealthy where have the benefits gone?
One look at the average worker's wages over the last 35 years leaves little doubt that American workers have not made much progress in terms of improving their income. The average worker's income has increased about 11% from 1978 to 2015. However, the average salary of CEO's has done remarkably better, increasing nearly 1000% during that same time period (see below).[28]



The **Blue** line in the chart above represents the average CEO salary among 350 of the 500 S&P 500 companies with a steady presence in the S&P 500 index. The **Orange** line in the chart above represents the average American worker salary. In 1965, the **blue** line was 30 times the value of the **orange** line. By 2014 it was 303 times the value of the **orange** line. The average CEO Salary has increased almost 1000% since 1978 while the average worker salary has increased only 11% during that same time period.

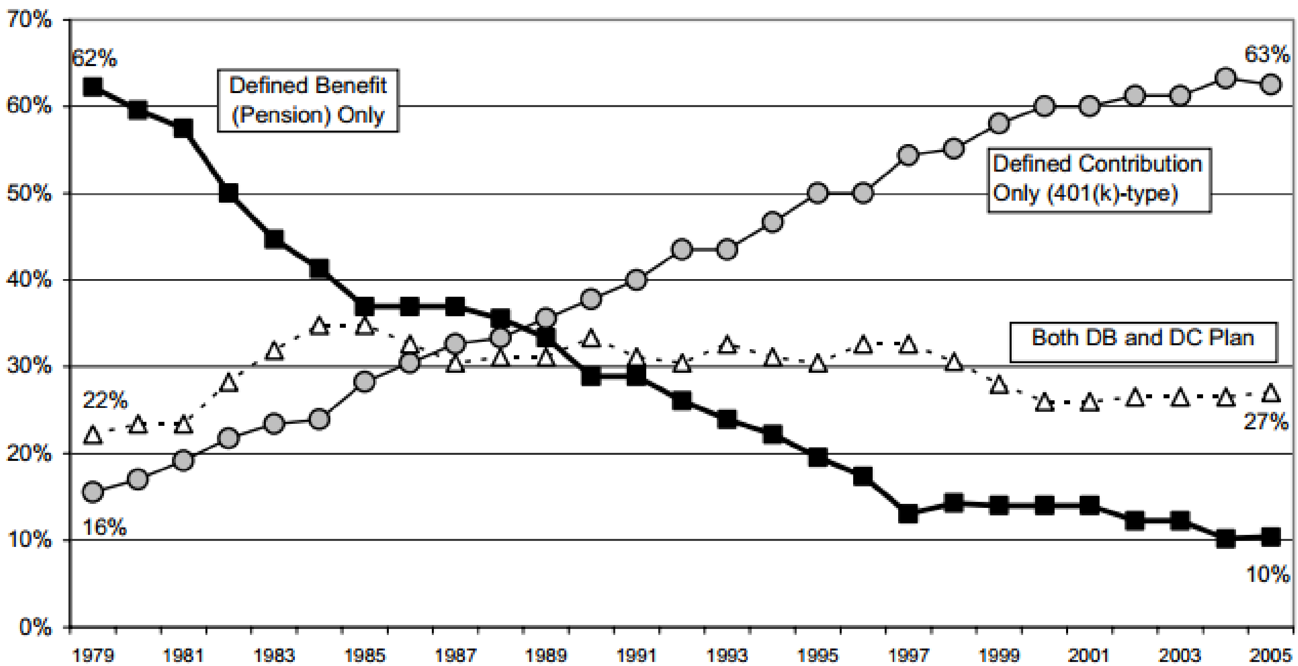
There have been many attempts to explain this dichotomy in wage growth, including a recent view that wages have remained more stagnant because retiring baby boomers are being replaced by younger workers who are paid less, keeping the cost of wages down. However, baby boomers did not even start to retire in any significant numbers until 2008 when the oldest of them turned 62 (which is nearing the end of this plot) and the bulk of the baby boomers will not start retiring for at least a few more years, after 2015. Others have suggested the shift from a manufacturing economy to a lower wage service economy may be responsible for the failure of worker's wages to improve. That is likely to be at least a rational answer to this issue, but then one must ask: ***why hasn't the government done more to improve opportunities for workers so they at least received some of the benefits***

from the growing US economy, in which GDP increased from $710 Billion (1965) to over $17 Trillion (2014), a more than 20 fold increase? Other reasons for the stagnation in wage growth attributes it to women entering the work force in larger numbers after WWII. Back in 1950 about 29% of the labor force was made up of women and by 2000 it was 46%, an increase of 13%.[30] Since women have historically been paid less than men, that would explain some, but not the major basis for worker wage stagnation. One also should not equate a failure to address inequality in worker treatment by business as justification for worker wages not increasing. Most businesses care more about their bottom line, and will seek to minimize their costs at the expense of workers so long as our government stays silent.

The problem is even more complicated than the federal government failing to respond to the need of working Americans. During this same time period when American worker's salaries demonstrated a "***great stagnation***", other additional factors were impacting their quality of life. For example, after 1974 and the passage of legislation allowing the creation of 401(k) retirement accounts, companies started shifting from a pension based to a defined contribution based retirement system, eliminating all corporate responsibility for employee retirement.[31]

Retirement Plan Trends: Participation by Plan Type

Distribution of Private-Sector, Active-Worker Participants, 1979–2005



Source: U.S. Department of Labor, *Form 5500 Summary Report* (Summer 2004); EBRI estimates for 2002–2005.

It is worth noting that there has never been more than about 1/3rd of the American work force with ANY type of retirement plan (pension or 401(k)) over the last 35 years. It is also worth noting that company provided pension plans which use to make up the bulk of worker retirements, fell from 62% of all plans in 1979 to 10% of plans today. This reflects a shift from companies having a responsibility and commitment to their workers, to one in which companies only provide a limited contribution to worker retirement plans and only so long as employees are employed by the company. Worker retirement today, is dominated by the worker being responsible for managing their own retirement financial details, often with limited financial expertise.

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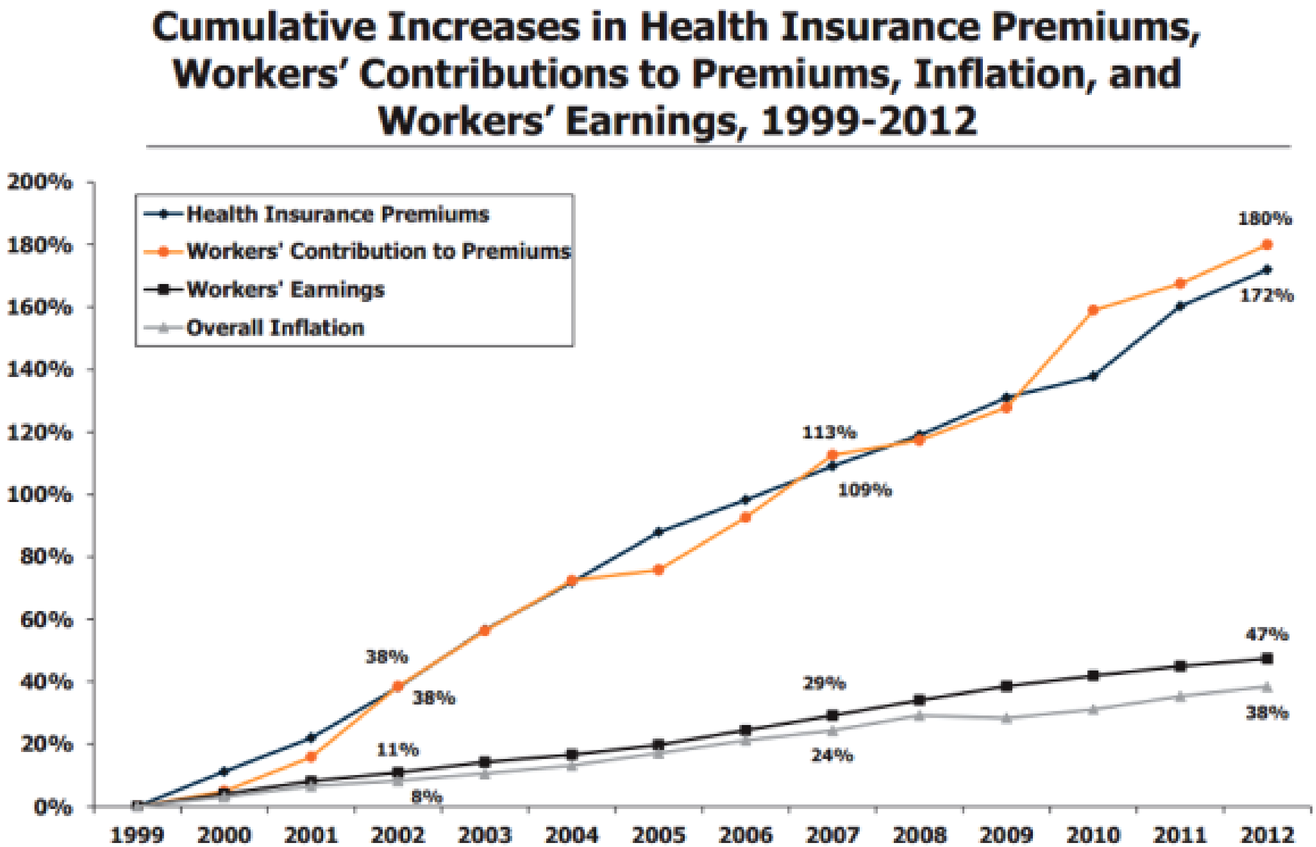
If that was the only change during the last 35 years, the problem of shifting from pension to contribution retirement plans would not be the worst thing in the world for workers. However, in addition to this change, other economic changes were also afoot that have seriously cut into workers disposable income. One is rising health care costs. Health care expenditures have increased from $1,100/person/yr in 1980 to over $9,990/person/yr in 2015, an almost 10 fold increase over a period of time in which worker incomes remained fairly stagnant. [29] Much of that increase in cost has been borne by passing rising costs onto workers (see below).[31]



In addition to rising health care costs, college tuition costs have risen even more precipitously, from $428 in 1971 to $9,420 in 2015, a 3,698% increase in cost.[32] At a time in which changing economic conditions have resulted in a shift away from a less education dependent manufacturing industrial base to a greater education dependent technologically driven economy, investments to make college education more affordable were not being done. Instead, during the last 30 years cuts to higher education to avoid raising taxes have actually made higher education much less affordable for most families. Today, over 70% of all college students leave college with debt and that total student debt now exceeds $1.3 trillion.[33-34] College graduates entering the work force with lots of student debt have less disposable income to buy products and services that fuel GDP growth, even if they do make a decent income.[35-37] Evidence is accumulating that student debt is impacting auto, home and other large purchases by adults after college.[38-39] As resources shift away from social investments, to tax cuts for businesses and the wealthy, the real driver of economic growth and GDP– the demand for goods and services has shown a mediocre rise.

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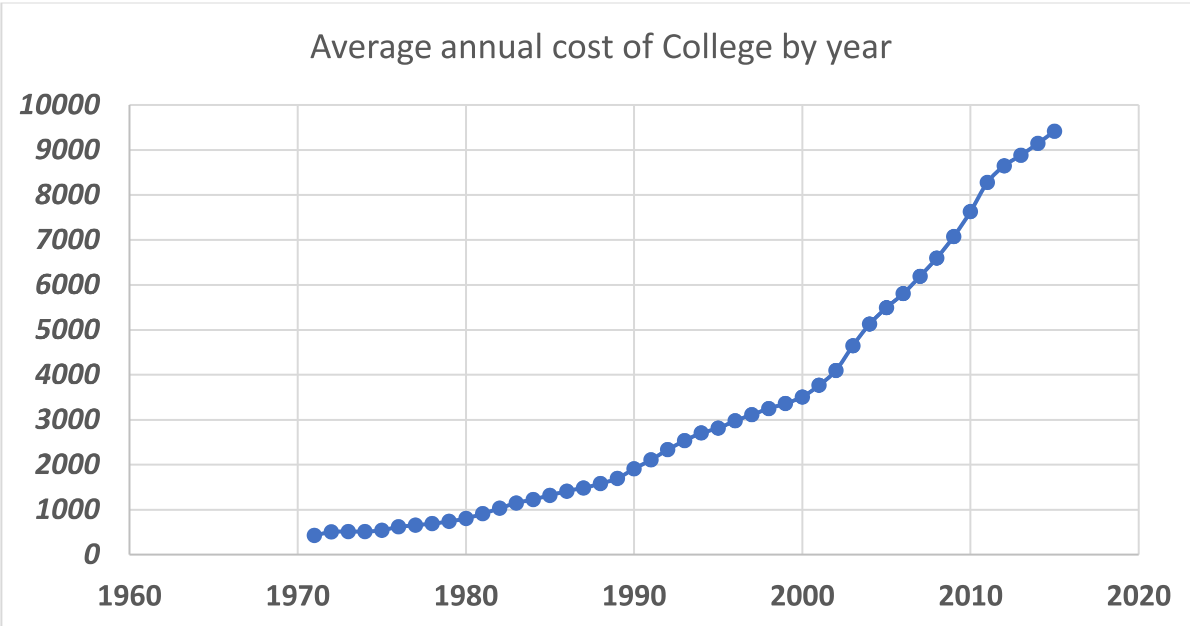

College tuition costs have grown steadily since 1971 to the present, as states have continued to cut the percent of the State's contribution to the cost of operating most public institutions of higher education. In the face of less state support, Universities and Colleges have raised tuition to make up for both the State budget shortfalls and the increasing operating costs associated with running these institutions. The end result, is a rise in tuition costs that has far outpaced the rate of inflation.

From the perspective of the average American worker, their income has not increased much over the last 30 years. Not only have their wages stagnated, many of their costs for living have risen far more rapidly than their incomes, particularly health insurance, college tuition, retirement expenses and housing. This has left them with less disposable income, less job security, greater family stress on their finances and a far less optimism or hope about their future. Faced with rising costs and a stagnant wage problem, consumer debt surpassed disposable income in 2001.[41]

If the greatest asset of any nation is its people and their ability/talent, the last half-century in America has shown most working Americans, the Federal government has grown less and less willing to make much of an investment in them. As manufacturing jobs left the States for foreign countries, little was done for the workers left without jobs besides providing food stamps and minor economic assistance. As coal mines closed and miners went without work, the only attention paid them was by politicians with slogans about "war on coal" instead of real solutions to their unemployment. The US has not built any new shopping malls in America for nearly a decade now and older malls are closing across America as retail customers like Sears, JC Penny, The Limited, Payless Shoes, American Apparel and others close their doors and lay off employee's by the hundreds of thousands. Victims of the shift to on-line sales, the workers displaced have all been forgotten by their politicians and government when they are most needed. Outsourcing of jobs to foreign countries and even hiring of H-1B visa applicants to replace college educated and trained US workers by US companies to cut costs has happened facilitated by our own federal government.[40] Instead of helping by investing in the education of the next generation, the state and federal government have cut support and conveyed the message to most Americans, ***pay for it yourself***. As average working Americans struggle, it is worth looking at who has benefitted from the rising productivity and increasing GDP produced by American workers over the last 30-40 years.

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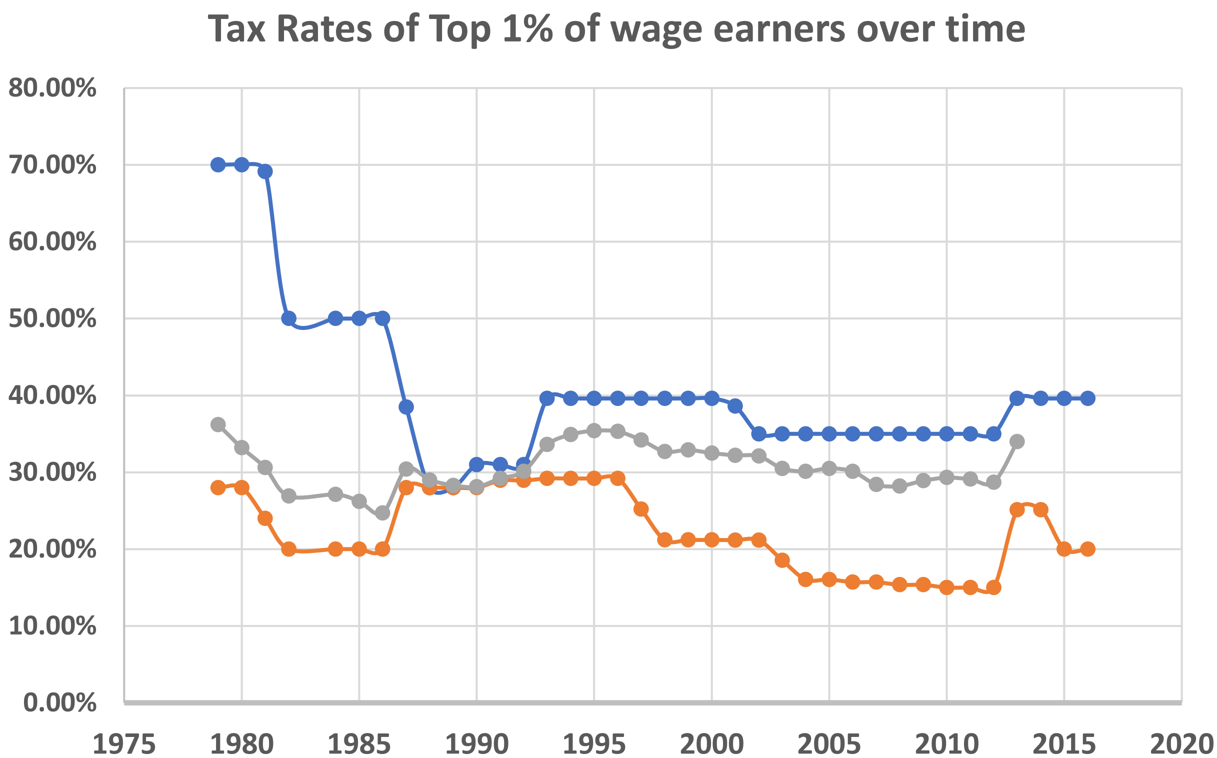
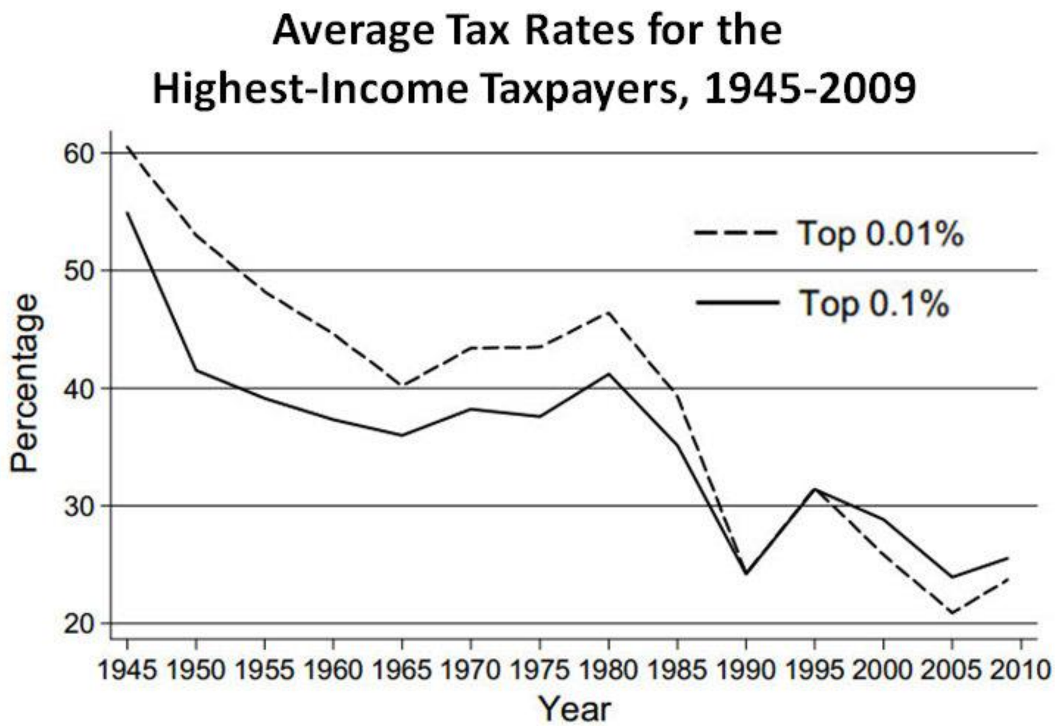
The wealth dividend refers to the massive redistribution of wealth from working Americans to the wealthiest Americans. This transfer resulted from multiple and repeated actions that reduced taxes on the wealthiest Americans while it raised taxes on poor and middle-class Americans, all the while claiming how unfair our progressive tax system was.



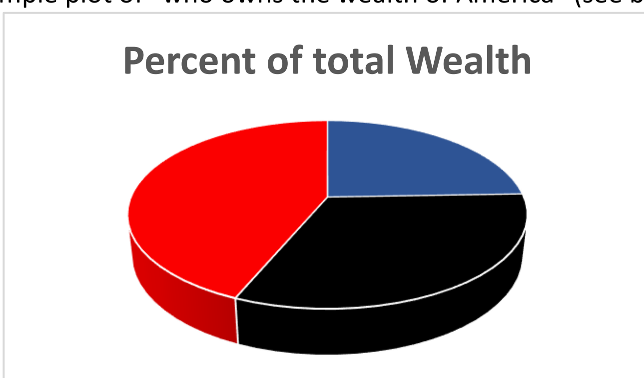
Taxes on wealthiest 1% of Americans from 1979 to 2016. The top ***blue line*** is the ***top marginal tax rate*** for the wealthiest Americans. The bottom ***orange line*** is the tax on ***capital gains and dividend income*** for the wealthiest 1% of Americans. The middle ***gray line*** is the ***effective tax rate*** paid by the wealthiest 1% of Americans. Because the wealthiest Americans receive a larger portion of their income from capital gains and dividends, their federal tax is affected more by these other taxes than it is for most Americans.

The effect of tax cuts on the top 1% of American tax payers seems modest over the 35-year time span examined because while the effective tax rate varied, it seems to stay within a reasonably narrow range of 25-35%. What is noteworthy, is that the "effective tax rate" for the top 1% of American wage earners was never as high as the highest marginal tax rate that politicians so often complained about being excessive.

The situation becomes more telling when one examines the tax burden on the extremely wealthy Americans, those within the top 0.1% to 0.01%. These taxpayers receive the largest portion of their income not from any salary, but from capital gains and dividends on investments. Thus, changes in the taxes on those investments have a much larger impact on their tax liability as shown below. The next plot makes it far more obvious who have been the largest beneficiaries from changes to the tax laws. The richest Americans have seen their tax liability decline by more than 50% in the last 60 years, receiving a significantly larger benefit from tax changes than the entire top 1% of wealthiest Americans. While federal revenues have not kept pace with costs, revenues have remained fairly constant as a percent of GDP (around 18.3% average since WWII). If the wealthiest Americans pay far less in taxes, but revenue as a percent of GDP have not changed significantly over time, someone had to make up the difference. The taxes on working Americans (primarily social insurance taxes) have replaced the lost revenue that use to come from taxing corporations and the wealthiest Americans.



As a result of tax policies favoring the wealthiest American's, the idea that a rising tide would lift all boats, or increasing GDP will eventually trickle down to working Americans, turns out not to be the case. It was more a situation of a rising tide lifts the huge yachts, which then swamp out the smaller boats and sink them. This is most easily grasped from a simple plot of "who owns the wealth of America" (see below).



The portion in ***RED*** represents the 54% of total US wealth owned by the top 3% of wealthiest Americans. The portion in ***BLACK*** represents the 21% of total US wealth owned by the next 7% of wealthiest Americans (91-97% in wealth). The portion in ***BLUE*** represents the remaining 25% of total US wealth owned by all the other remaining Americans who make up the bottom 90% of US households. Higher incomes and lower taxes on wealth means a greater and greater share of US wealth is held by a smaller and smaller portion of the population. ***It also means as GDP grows, the primary beneficiaries of that growth are those who own that wealth, not those who don't.*** This concentration and "stagnation of wealth" were issues Thomas Paine, Andrew Carnegie and Warren Buffett have all warned against, and used as their justification for supporting higher taxes on the wealthy.
https://www.cbpp.org/research/poverty-and-inequality/a-guide-to-statistics-on-historical-trends-in-income-inequality

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SOCIAL PROBLEMS AND SOCIAL INVESTMENTS

Listening to one side of the political spectrum, it appears the federal government has a serious debt problem. The debt continues to get worse. The only solution is to cut "entitlement programs" or "privatize" them before they drive the US government debt well past a point of no return. These points are often made in conjunction with plots that show that if we do nothing, the debt problem will soon overwhelm our ability to pay or meet essential government services. Then, instead of discussing how best to raise revenue to cover the shortfall between revenue and costs as has been done numerous times in our history, these same politicians talk about cutting taxes to stimulate GDP and growth. What is not discussed by them is how that action will primarily benefit those who "***already own most of the US wealth***" and not the average working American. Meanwhile, there is never a discussion about social problems or the need for further social investments, which are regarded as socialistic, undesirable and counterproductive. The idea of increasing taxes to raise revenue and end the coming apocalyptic financial disaster is met with incredulity.

Faced with such resistance to raising taxes, has made it near impossible to address critical social problems that also need to be addressed and continue to grow worse with time. For example, the US currently spends nearly three times as much as the average for all countries in the Organization for Economic Cooperation and Development on a per capita basis for health care, only to achieve a far less favorable health outcome.[42-44] Americans live shorter lives, have more serious diseases, have higher mortality rates from preventable diseases and we are the only developed industrialized nation with no paid maternity leave.[44-45] The cost differential in American health care isn't due to greater use of medical services (we actually use less and have fewer), but rather due to a far higher cost for what we get.[45] Based on the success of universal health care in other industrialized nations, its significantly lower total cost and better overall outcomes, one would anticipate politicians would jump at the chance to both improve outcomes and lower costs. The reasons for not doing that are nearly as endless as the rhetoric related to why taxes cannot be raised to address the budget deficit. Even though tens of millions of Americans do not make enough to pay for health insurance, these same politicians would rather these Americans go without any health coverage. For them, any support of a system in which the U.S. government has its hand in making sure poorer Americans are provided with basic health coverage (see repeal and replace the PPACA efforts with AHCA and BCRA bills voted on in Congress, 2017) is just another entitlement program that will ultimately lead to bigger deficits AND higher taxes. So, the result of refusing to ask the wealthiest Americans to pay more taxes to expand health care access, means the poor and middle-class Americans should do without. Those who cannot afford to pay can just suffer poorer health and shortened life spans, while all the rest pay far more for whatever health care they can afford.

The same philosophy has permeated rhetoric on increasing access to higher education for all Americans. For decades funding for public institutions of higher learning has been cut to avoid increasing taxes to pay for the increased expense of their operation. The funding shortfall was addressed instead by shifting the cost onto students and their families. Rather than investing in the next generation and providing them with greater future opportunities and earning potential, the attitude has been, "***pay for it yourself***". Social investments cost money and in education, like healthcare, the focus has been on containing costs, lowering taxes and avoiding making any social investments. Unfortunately, social problems don't disappear simply because one refuses to acknowledge they exist. Ignoring social problems only makes them worse and more expensive/difficult to resolve later. However, these and other social problems (judicial sentencing for non-violent crimes; racial inequality; infrastructure and inner-city investments; retraining unemployed workers; gun regulations; etc.) remain festering blights on our social psyche. They may not explode into full-fledged social unrest yet, but one cannot continue to ignore them and expect they will just disappear and go away. Nor should we assume the pain and suffering caused by them will not have a lasting impact on those affected.

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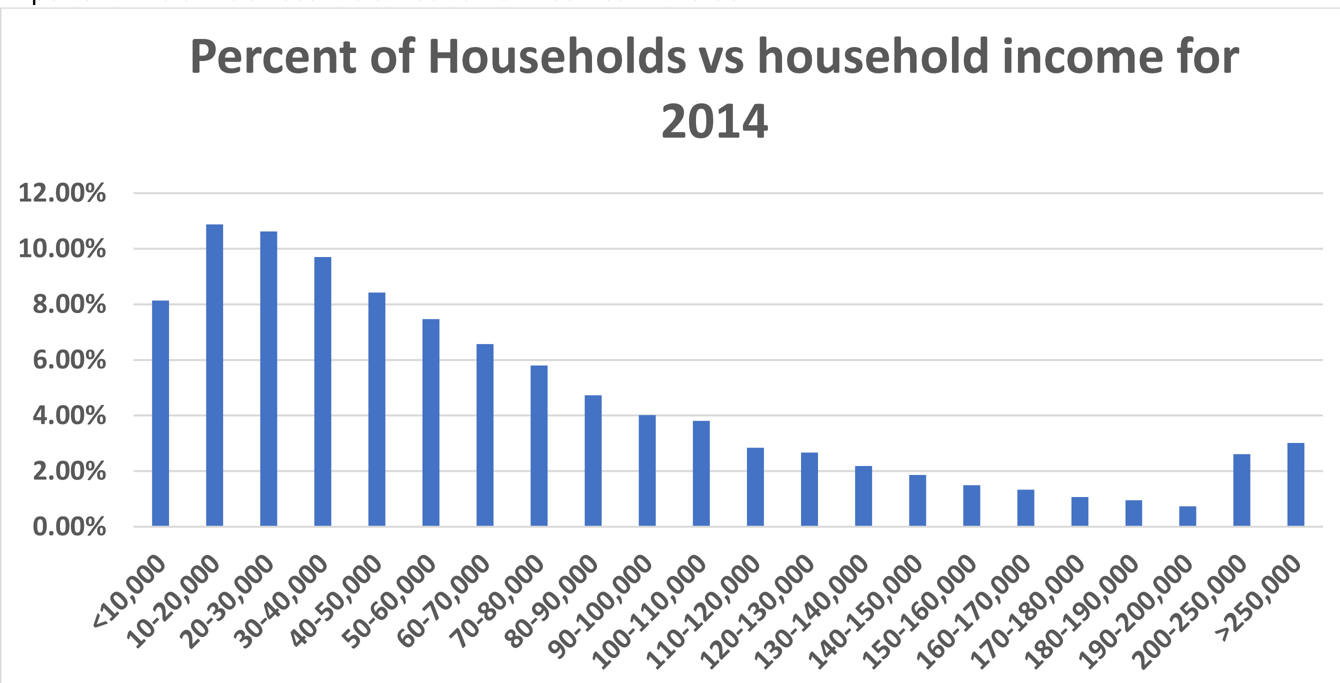
As a nation, we make social investments in part to maintain social peace and justice and to promote the general welfare of the all citizens of these United States. The founding fathers of this country recognized the importance of promoting the general welfare of the public and made it an obligation of Congress to do so, by writing those specific words directly into our own US Constitution (Preamble and Article I, section 8).[46-47] Social problems encourage greater conflict, divisions, distrust, discrimination, inequality, abuse, violence, hate, fear and crime. All these outcomes alienate rather than unify our society. They push even peaceful people to eventually engage in greater and greater acts of desperation. In that light, the idea that social investments cost money and should be avoided makes little sense. Eventually, continuing that policy will come home to haunt us by its slow, methodical, painful and destructive wearing away at the very fabric holding our society together.

What is often forgotten in the discussion of social problems and social investment is who it helps and why that is important. Below is a recent distribution of incomes in the US.



Approximately 30% of American households had incomes less than \$30,000 which places them at or near the poverty level. It also makes efforts to save for retirement, pay for college and health insurance, housing and transportation rather problematic. Fifty-five percent of households make less than \$60,000 with an average household size in this 55% having 2.2 family members. Household income is a very skewed distribution with the majority of households at the low end of the income spectrum and the wealthier households tapering out to incomes reaching \$1 billion or more per year. From US Census data as reported by: https://en.wikipedia.org/wiki/Household_income_in_the_United_States

Huddled in that collection of low income workers are single moms trying to raise their kids alone on a minimum wage salary. Recently released, non-violent felons, struggling to make their way back into society by getting the only job they can find. It includes displaced workers, attempting to try and get a leg up after being laid off from their prior good paying job in manufacturing. It includes workers in their twenties and thirties who never went beyond a High School degree because a college education just seemed beyond their reach. It includes High School drop outs, whose dysfunctional family life, led them to believe there was no security at home and little hope anyone else could understand what they were going though or even wanted to try. It includes, the forgotten faces and maligned individuals accused of being lazy, drug idled sponges and leeches, looking for a handout by those who wish to justify ignoring them and lack any real interest in understanding the lives or problems they've faced.

Look closely at this plot. The vast majority of working Americans are not at its top end, or even in the middle, they are lumped at the lower end of this population distribution. They are the thread that holds our society together. They are the food services workers you see every time you go into a fast food restaurant, but probably never paid much attention to how many are now older folks trying to supplement their meager retirement incomes. They are the hair stylist who cuts your hair, still struggling to pay her bills and trying to decide whether it's better for her to put off going to the doctor for that pain that has been bothering her, or just put up with it awhile longer so she can buy her food this week. It is the baker who rises at 2:00 am every morning to cook that artisan bread you enjoy, but doesn't know how he will ever save enough with all his bills to ever get ahead and open his own bakery. It is the hotel maid who cleaned the room you stayed in last week, but who is so dogged tired by her shift's end the only thing she wants to do is go home and sleep. It includes the aspiring actor waiting tables and sleeping in his car while he waits patiently for that audition that will launch his career. It encompasses that artist who continues painting each day, hoping to sell enough of his work this week to cover his rent due next week and still wondering when or if his life will get better. It contains the musicians and aspiring writers who dream of making it big, but mostly struggle just to make it through the week on their limited incomes.

Many have dreams and aspirations, hopes and desires just like everyone else. It is so easy to categorize, dismiss, ignore and belittle them when you don't really know who they are. It is so simply to blame them for their lot in life when you don't understand their circumstances, the reason for their choices or their struggles. Most of them just want a better life for themselves and their children like everyone else. They want to serve as role models in their families and to be contributing members of our society. How we treat them is as much a reflection of who we are (or aspire to be) as it is about who they are. When we as a society tell the most displaced, in need, struggling and destitute, ***tough luck but your problems are not my problems***, we have forgotten the true essence of what a society is and should be, a collection of people who are bound together for their ***joint benefit***. When we decide not to make social investments that at least gives people a chance for success, these threads that hold our society together each day become a bit more threadbare and the fabric of our society a bit more unraveled.

<u>SUGGESTED WAYS TO ENHANCE FEDERAL REVENUES TO ADDRESS THE DEFICIT AND SOCIAL PROBLEMS</u>

There are many ways to raise revenue to both balance the budget and to address the growing social problems in this country.

First, address "***wealth stagnation***" by closing loopholes in the Estate Tax and raising the tax rate on Estates of over $5-10 million. If an heir cannot live on and inheritance of $5-10 million, perhaps they need to speak to some older individuals who have worked their entire lives, raised families and never made that much during their entire careers, let alone having it handed to them as one lump sum. It is hard to be sympathetic to those to whom much is given, that still believe even more is deserved. That is what a ***real entitlement*** is.

Second, let's stop giving tax credits and tax breaks to profitable companies paying little or no corporate taxes. Every profitable company should be paying "some tax" and for publicly held companies, that tax should be directly proportional to their own annual profit report. If companies are not including executive compensation in their evaluation of their profits to shareholders, they should not be allowed to deduct it when they file with the IRS.

Third, let's raise the top marginal rate on capital gains and dividends. Those who receive this type of income do not have to do any hard labor to obtain it, so why should they be given massive rewards attributable to the hard work and efforts of others? This will impact only the wealthiest 0.1% of the population significantly.

Fourth, let's eliminate the cap on social security taxes. Instead of asking employees to pay ever more tax into this social insurance and lowering their disposable income further, let's take the cap off who pays for social security. This would make social security solvent at least until 2060, well beyond the lives of most current workers in America.

Finally, let's make sure we keep and strengthen the Alternative Minimum Tax (ATM) and raise its top marginal rate, so that even if the wealthiest attempt to create loopholes in the tax code, they will never walk away with the vast majority of huge incomes totally untaxed as has been happening.

If we do just these 4 things, the federal government could eliminate the difference between revenue and outflow in the federal budget and begin paying down our national debt. It would even provide sufficient additional revenue to begin making social investments to address some of the many social issues within the general population.

Concluding remarks

Anyone who dares to suggest we need to raise taxes to make social investments will be labeled a socialist, a communist or worse by those who oppose such actions. However, this is about pragmatism and responsibility. There is nothing wrong with wealth or being rich in America. We should all applaud those who are successful. But, wealth should be defined by differences in an individual's ability, talent, drive and persistence to succeed in America. That is precisely why is should not be something which is handed to someone as a condition of their birth or made into a birthright.

Every individual in our society should have at least a reasonably similar opportunity to succeed or fail and to compete on an equal footing with their peers. That equality of right, is what is threatened by our failure as a society to provide greater social opportunity to those at the lowest levels of the economic ladder in this country. Nearly everyone has dreams, hopes, aspirations and desires. Not everyone may achieve them, or have the talent, drive and ability to realize them. However, everyone at least deserves that chance in life to try.

It is way past the time to end nonsense that taxing the wealthiest more is unfair, unjust and a punishment for their success. No it's not. Taxes are a "social responsibility and obligation" we all have to contribute to this society. Paying more tax because of a larger income only means you share a larger ***responsibility and obligation*** to this society, because your rewards from our society have been far greater than most. No one is preventing people from "becoming wealthy". Whether you do or do not should be entirely dependent upon yourself. If we actually gave everyone a similar opportunity to be successful, perhaps we would discover many talents and abilities currently prevented from being expressed, driving our economy forward into a new age.

It is to our detriment as a society that we do not give everyone in it more of a chance for success by social investments that would provide them greater social opportunity. Instead, we have put in place of a policy of ***wealth entitlement***, in which being wealthy is simply assumed to be synonymous with talent, ability, drive and ambition. In reality, many of the wealthier Americans today may in fact have none of these key attributes in significant abundance. The only reason it is assumed otherwise is because "when you are rich, they think you really know".

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