Friends of the Middle
Newsletter #118 — Apr. 17, 2012

Welcome to always lively political discussion and whatever else comes up.
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The Rich Are 'Different'

(posted by Steven W. Baker / SteveB, Apr. 17, 2012)

I don't know why I like this topic so well, but I find I've become dedicated to trying to squeeze a little more juice out of the rich. From what I understand, even a lot of the greedy rich are starting to get behind the notion. Things just ain't as fair as they used to be and that's not conservative! What do you think?

"The Rich Are Different from You and Me -- They Pay Lower Taxes" by Bill Moyers and Michael Winship, Huffington Post

Apr. 16, 2012, (http://www.huffingtonpost.com/bill-moyers/the-rich-are-different-fr_b_1428812.html)

Benjamin Franklin, who used his many talents to become a wealthy man, famously said that the only things certain in life are death and taxes. But if you're a corporate CEO in America today, even they can be put on the backburner -- death held at bay by the best medical care money can buy and the latest in surgical and life extension techniques, taxes conveniently shunted aside courtesy of loopholes, overseas investment and governments that conveniently look the other way.

In a story headlined, "For Big Companies, Life Is Good," the *Wall Street Journal* reports that big American companies have emerged from the deepest recession since World War II more profitable than ever: flush with cash, less burdened by debt, and with a greater share of the country's income. But, the paper notes, "Many of the 1.1 million jobs the big companies added since 2007 were outside the U.S. So, too, was much of the $1.2 trillion added to corporate treasuries."

To add to this embarrassment of riches, the consumer group Citizens for Tax Justice reports that more than two dozen major corporations -- including GE, Boeing, Mattel and Verizon -- paid no federal taxes between 2008 and 2011. They got a corporate tax break that was broadly supported by Republicans and Democrats alike. Corporate taxes today are at a 40-year-low -- even as the executive suites at big corporations have become throne rooms where the crown jewels wind up in the personal vault of the CEO.

Then look at this report in the *New York Times*: Last year, among the 100 best-paid CEOs, the median income was more than $14 million, compared with the average annual American salary of $45,230. Combined, this happy hundred executives pulled down more than two billion dollars.

What's more, according to the *Times* "... these CEOs might seem like pikers. Top hedge fund managers collectively earned $14.4 billion last year." No wonder some of them are fighting to kill a provision in the recent Dodd-Frank reform law that would require disclosing the ratio of CEO pay to the median pay of their employees. One never wishes to upset the help, you know. It can lead to unrest.

That's Wall Street -- the metaphorical bestiary of the financial universe. But there's nothing metaphorical about the earnings of hedge fund tigers, private equity lions, and the top dogs at those big banks that were bailed out by tax dollars after they helped chase our economy off a cliff.

So what do these big moneyed nabobs have to complain about? Why are they whining about reform? And why are they funneling cash to super PACs aimed at bringing down Barack Obama, who many of them supported four years ago?

Because, writes Alec MacGillis in *The New Republic* -- the president wants to raise their taxes. That's right -- while ordinary Americans are taxed at a top rate of 35 percent on their income, Congress allows hedge fund and private equity tycoons to pay only pay 15 percent of their compensation. The president wants them to pay more; still at a rate below what you might pay, and for that he's being accused of - hold onto your combat helmets -- "class warfare." One Wall Street Midas, once an Obama fan, now his foe, told MacGillis that by making the rich a primary target, Obama is "[expletive deleted] on people who are successful."

And can you believe this? Two years ago, when President Obama first tried to close that gaping loophole in our tax code, Stephen Schwarzman, who runs the Blackstone Group, the world's largest private equity fund, compared the president's action to Hitler's invasion of Poland.

That's the same Stephen Schwarzman whose agents in 2006 launched a predatory raid on a travel company in Colorado. His fund bought it, laid off 841 employees, and recouped its entire investment in just seven months -- one of the quickest returns on capital ever for such a deal.

To celebrate his 60th birthday Mr. Schwarzman rented the Park Avenue Armory here in New York at a cost of $3 million, including a gospel choir led by Patti LaBelle that serenaded him with "He's Got the Whole World in His Hands." Does he ever -- his net worth is estimated at nearly $5 billion. Last year alone Schwarzman took home over $213 million in pay and dividends, a third more than 2010. Now he's fundraising for Mitt Romney, who, like him, made his bundle on leveraged buyouts that left many American workers up the creek.

To add insult to injury, average taxpayers even help subsidize the private jet travel of the rich. On the *Times*' DealBook blog, mergers and acquisitions expert Steven Davidoff writes, "If an outside security consultant determines that executives need a private jet and other services for their safety, the Internal Revenue Service cuts corporate chieftains a break. In such cases, the chief executive will pay a reduced tax bill or sometimes no tax at all."

Are the CEOs really in danger? No, says Davidoff, "It's a common corporate tax trick."

Talk about your friendly skies. No wonder the people with money and influence don't feel connected to the rest of the population. **It's as if they live in a foreign country at the top of the world, like their own private Switzerland, at heights so rarefied they can't imagine life down below.**

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20120416-01	08:30	SteveB	"In Denial About Debt Crisis"

"In Denial About Debt Crisis" by Joe Scarborough, Politico

Apr. 16, 2012, (http://www.politico.com/blogs/joe-scarborough/2012/04/in-denial-about-debt-crisis-120730.html)

With George Soros warning of a growing European crisis, the economic clouds that have been forming over Washington for years are growing darker by the day. While Soros fears that Europe's austerity measures will lead to a financial meltdown in the EU, at least European governments are trying something, anything, to stem the debt crisis.

Stateside, today's events in Congress show just how ill-equipped our government is to face the coming debt crisis.

President Obama pushed for a Senate vote today on the Buffett Rule as a way to get rich Americans to pay more taxes. Of course, the president always knew the rule was more gimmick than economic panacea. He also knew it would never pass out of the least productive Senate in 20 years.

Not to be outdone, House Republicans will push tomorrow for a vote on a tax cut for businesses with less than 500 employees. Like the Buffett Rule, the Eric Cantor-backed tax cut has no chance of passing both chambers and ending up on the president's desk.

The Washington Post summed up the parties' political gimmickry this afternoon:

> In a gridlocked Congress, passage was never the point. Instead, both parties aim to force their opponents into the politically uncomfortable position of killing proposals they are convinced are broadly popular.

To drive home the point that legislating is now little more than campaigning by different means, New York Sen. Chuck Schumer used the occasion of today's vote to suggest the provision's name should be changed to "The Romney Rule" because the presumptive GOP nominee is so rich.

With all the game playing that is going on inside the Beltway, it is fair for voters to ask whether any adults are left working in a town that is always concerned with winning the next election rather than the new century.

20120416-02	09:35	SandyI	"Tennessee Senate Approves Bill to Warn Students That Hand-Holding Is a 'Gateway Sexual Activity'"

My nomination for the most wasteful time spent by a state legislature…

And are state funds provided to monitor the behavior of these state senators, since they choose to spend their time monitoring and legislating others?

YIPES, we are really on the road to amuck!!!

"A life is not important except in the impact it has on others' lives." —on the tombstone of Jackie Robinson

"Tennessee Senate Approves Bill to Warn Students That Hand-Holding Is a 'Gateway Sexual Activity'" by Scott Keyes, ThinkProgress

Apr. 15, 2012, (http://www.care2.com/causes/tennessee-senate-approves-bill-to-warn-students-that-hand-holding-is-a-gateway-sexual-activity.html)

Like any state legislature dealing with 8 percent unemployment and thousands of its residents facing disenfranchisement, the Tennessee Senate is targeting the menace of underage hand-holding.

Last week, the Senate passed SB 3310, a bill to update the state's abstinence-based sex education curriculum to define holding hands and kissing as "gateway sexual activities." Just one senator voted against the legislation; 28 voted in favor.

Since the bill specifically bans teachers from "demonstrating gateway sexual activity", educators would be prohibited from even demonstrating what hand-holding is. Breaking these laws could result in a lawsuit, as Hunter from Daily Kos notes:

> If your teacher teaches you anything about sex that isn't specifically on the approved curriculum, like demonstrating "holding hands" for the class instead of quietly tsking about the dangers it poses, they can be sued.

Still, this anti-hand-holding push may only be the second-worst bill passed in Tennessee this month. Nearly a century after the Volunteer State played host to the Scopes Monkey Trial, the legislature has now enacted a new law allowing educators to teach creationism alongside evolution.

20120416-03	09:48	SteveB	Fw: Shut It Down!

from Nation of Change:

Worldwide, May 1st is traditionally a 'Workers' day – a day of Labor Solidarity, and a public holiday. It's a day to celebrate and march in support of im/migrant rights. In protest against the corruption of the worldwide marketplace, which has led to illegal foreclosures, mass unemployment, low wages, high taxes and a penalization of all those who do not own the '99%' of the world's resources, and in solidarity with the im/migrant movements of May 1st, we along with Occupations across the country decided to declare May 1st, 2012 a People's General Strike.

Instead of calling upon unionized Labor to make a specific demand (illegal under Taft-Hartley), we are calling upon the people of the world to take this day away from school and the workplace, so that their absence makes their displeasure with this corrupt system be known.

In addition to this General Strike, we are joining activists at Occupy Los Angeles in a massive demonstration. We are organizing around a "4 Winds" People's Power Car and Bike Caravan through the urban sprawl of Los Angeles that will culminate in Direct Action in and around the Financial District of downtown LA. People from all sectors of the city will have a chance to plug in to the routes from any corner of the city, helping to shut down the flow of capital while addressing the 99%'s major grievances.

If you can afford to help, we are now raising funds for critical elements of the Los Angeles action. Your tax-deductible donation will help us obtain transportation to and from the event, flyers and other print materials, food and critical supplies for the protesters, and the multimedia technology necessary to broadcast our message to the world.

Join us in Solidarity on May 1st and if you can afford it, support our action now.

https://secure.nationofchange.org/mayday/?ref=email

Thank you for all that you do.

Respectfully Yours, Donna Luca, Board President

20120416-04	09:57	Dale	"Wealthy Already Lining Up Ways to Skirt Buffett Rule"

"Wealthy Already Lining Up Ways to Skirt Buffett Rule" by Bloomberg News

Apr. 13, 2012, (http://www.investmentnews.com/article/20120413/FREE/120419962#)

(The highest-earning U.S. households have ways to escape President Barack Obama's Buffett rule with tax-planning techniques that would limit their liability and undermine the proposal's purpose.)

Those affected taxpayers -- the fewer than 0.5 percent of Americans with annual incomes exceeding $1 million and tax rates of less than 30 percent -- could take advantage of tax-free investments such as municipal bonds to escape the Buffett rule's bite. They also could time asset sales for maximum tax benefits, engage in transactions that don't result in taxable income and make charitable contributions that yield deductions.

"Largely, the Buffett rule is going to be manageable," said David Miller, a partner at Cadwalader, Wickersham & Taft LLP in New York. "That is, with tax planning, people will be able to avoid it."

The proposal would deny high-income taxpayers many deductions and other breaks they use to drive down their average tax rate without closing out the tactics employed by the wealthiest, most sophisticated taxpayers.

The Buffett rule, named for billionaire investor Warren Buffett, would require that taxpayers with at least $2 million in adjusted gross income pay a minimum rate of 30 percent and would impose the increase on a sliding scale for those with income between $1 million and $2 million.

Buffett Rule Calculator

Obama has been campaigning for the proposal in advance of an April 16 procedural vote in the U.S. Senate. He had television interviews yesterday in four states with one Republican senator. Also, the White House website posted a Buffett rule calculator with which taxpayers can compare their tax rate to millionaires' rates.

Republicans are expected to block the Buffett rule bill, which requires 60 votes to advance in the Senate. Democrats will continue to campaign on the issue of tax fairness.

Preferential tax treatment for capital gains and dividends is among the reasons why some high-income households have relatively low effective tax rates, and one result of the Buffett rule would be to raise effective tax rates on capital income. Of the top 1 percent of households, 10 percent have effective tax rates of 8.7 percent or less, including income, payroll and corporate taxes, according to the 2012 Economic Report of the President.

Generating Revenue

The Buffett rule measure, sponsored by Democratic Senator Sheldon Whitehouse of Rhode Island, would generate $47 billion for the government over the next decade, according to the Joint Committee on Taxation, whose estimates incorporate projected behavioral responses by taxpayers. That estimate assumes that income tax cuts expire as scheduled at the end of 2012; if those cuts are extended, the bill would generate about $162 billion, according to Whitehouse's office.

Under current law, capital gains and dividends are taxed at a top rate of 15 percent, compared with 35 percent for wages, some business profits and other ordinary income. A 3.8 percent tax on the unearned income of the highest earners takes effect in 2013.

The U.S. taxes capital gains only when assets are sold, letting taxpayers realize gains when they choose, and they sometimes make those decisions based on tax rates. This feature of the tax code has caused spikes in capital gains realizations -- most notably after the 1986 overhaul of the tax code before an increase in the capital gains rate took effect.

‘Delay Selling'

"The tax on capital gains is only collected when you sell your asset," said Jon Bakija, an economics professor at Williams College in Massachusetts. "So one way to respond to that would be delay selling your assets."

One of the clearest examples of this phenomenon is Buffett, whose estimated $44.8 billion fortune as of yesterday places him third on the Bloomberg Billionaires Index of the world's richest people. The value of Buffett's stock in Berkshire Hathaway Inc. (BRK/A) appreciates with gains in the company's stock price. He doesn't pay taxes on the higher value of his assets unless he sells them.

Taxpayers can avoid the capital gains tax entirely by donating assets with low cost basis to charity. Another way to escape the tax is to keep such assets until one dies, when they would be passed onto heirs with a cost basis of their value at death. For the very wealthiest, the estate tax would capture some of those gains.

Investment in Capital

The higher taxes on capital gains and dividends would reduce the after-tax return on investment in capital, causing some taxpayers to make shifts in their portfolios. In some cases, income being taxed at the individual level has already been taxed at the corporate level at rates of up to 35 percent, so the combined rate could exceed 50 percent.

"The evidence suggests that individuals, and particularly high-income individuals, are responsive to tax rates," said Adam Looney, a senior fellow at the Brookings Institution in Washington. He said those effects are more modest than some analysts suggest.

By raising tax rates on capital income, the Buffett rule would reduce investment, said Douglas Holtz-Eakin, former director of the Congressional Budget Office and a White House economist during the George W. Bush administration.

“You affect all their investment decisions,” he said. “Less overall, but also reallocated to make sure it doesn't show up in a year when you're liable to be over a million bucks, so you start getting into games.”

Timing Changes

Beyond timing changes, taxpayers can rearrange their portfolios to earn income in forms that don't show up as part of adjusted gross income. For example, interest on municipal bonds and employer-provided health insurance are both tax free, and would become more attractive.

Taxpayers who want to avoid selling appreciated assets and still enjoy their economic benefits can take out margin loans against the value, Miller said.

Dividend taxes are tougher to avoid if the dividends flow from companies that the taxpayer doesn't control. Still, the higher dividend tax rates on large shareholders might prompt some companies to reduce payouts.

Also, the Buffett rule proposal allows deductions for charitable contributions, so taxpayers could accelerate future donations, especially if they think Congress might repeal the Buffett rule or otherwise lower taxes in the future.

Miller said taxpayers anticipating capital gains could move to a low-tax state. Because the Buffett rule would effectively deny the benefits of the state and local tax deduction, it would create a greater-than-usual incentive to move to a state such as Florida with no income tax.

“I promise you, the one thing this is is a full employment law for tax lawyers,” Holtz-Eakin said. “They will love it.”

20120416-05	10:41	Clark	Re: “Wealthy Already Lining Up Ways to Skirt Buffett Rule”

Chris Matthews is a bit of a blowhard, but he did come up with a very interesting observation recently:

Republicans seem to think the way to get the poor and struggling to work more is to take things/money/benefits away from them (food stamps, unemployment, etc). That supposedly gets them off their couches (per Chris Christie).

Meanwhile, they think the way to get the rich to work/invest more/harder is to give them more money/benefits (tax cuts, especially). Otherwise, apparently, they aren't willing to make more money by putting it to work in their companies or businesses.

Can anyone dispute this observation, or at least explain the psychology behind it?

20120416-08	11:09	Pam	Re: “Wealthy Already Lining Up Ways to Skirt Buffett Rule”

To those who have, much will be given; to those who have not, much will be taken away. T'was ever thus.

20120416-09	11:39	Art	Re: “Wealthy Already Lining Up Ways to Skirt Buffett Rule”

Well, I've read this three times and still can't find any real substance. I have a very good, albeit expensive, CPA who I will pass this along to as guidance. My guess is she will kindly tell me this article is all pretty much smoke and mirrors.

The tax increase will work. It won't solve the deficit problem by itself, but it is a step in the right direction. Just my humble opinion.

20120416-10	11:49	SteveB	Re: “Wealthy Already Lining Up Ways to Skirt Buffett Rule”

Why was so much American industry and wealth created during the ‘50s. ‘60s, and ‘70’s, when tax rates were astronomical by Republican standards? Plus they had to contend with those pesky unions! Why were the rich not disincentived (disincentized?) then to just sit there like John Galt, I suppose, doing nothing?

It’s all B.S. Higher taxes encourage re-investment and low taxes on corporations and the rich do not. The last 60 years or so have proven it.

20120416-11	11:51	Jim	Re: “Wealthy Already Lining Up Ways to Skirt Buffett Rule”

These deductions are the same things that have been available to them (and most taxpayers) right along. But it is a question if the wealthy or anyone else would choose to give an increased charitable deduction just to save the tax on it.

For example if the tax is 30% they could give $10,000 to a charity and they would reduce their tax by $3000 but they are still out the $7,000 even if they had had enough withholding that the $3,000 came back to them as a refund. As greedy as most of them seem to be, they would probably just pay the tax and not give any money away.

Most people do not give because of the deduction, but because they support the cause. And in that case, the deductibility might allow us to be more generous.

20120416-06	10:59	SteveB	REAL LIFE, NOT REPUBLICAN LIFE

Video (live): http://www.youtube.com/watch?v=Orv_F2HV4gk&feature=related

“Fast Car” by Tracy Chapman

You got a fast car
I want a ticket to anywhere
Maybe we make a deal
Maybe together we can get somewhere

Anyplace is better
Starting from zero got nothing to lose
Maybe we'll make something
But me myself I got nothing to prove

You got a fast car
And I got a plan to get us out of here
I been working at the convenience store
Managed to save just a little bit of money

We won't have to drive too far
Just across the border and into the city
You and I can both get jobs
And finally see what it means to be living

You see my old man's got a problem
He live with the bottle that's the way it is
He says his body's too old for working
I say his body's too young to look like his

My mama went off and left him
She wanted more from life than he could give

I said somebody's got to take care of him
So I quit school and that's what I did

You got a fast car
But is it fast enough so we can fly away?
We gotta make a decision
We leave tonight or live and die this way

See I remember we were driving, driving in your car
The speed so fast I felt like I was drunk
City lights lay out before us
And your arm felt nice wrapped 'round my shoulder

And I had a feeling that I belonged
I had a feeling I could be someone, be someone, be someone

You got a fast car
We go cruising entertain ourselves
You still ain't got a job
And I work in the market as a checkout girl

I know things will get better
You'll find work and I'll get promoted
We'll move out of the shelter
Buy a bigger house and live in the suburbs

See I remember we were driving, driving in your car
The speed so fast I felt like I was drunk
City lights lay out before us
And your arm felt nice wrapped 'round my shoulder

And I had a feeling that I belonged
I had a feeling I could be someone, be someone, be someone

You got a fast car
And I got a job that pays all our bills
You stay out drinking late at the bar
See more of your friends than you do of your kids

I'd always hoped for better
Thought maybe together you and me'd find it
I got no plans I ain't going nowhere
So take your fast car and keep on driving

See I remember when we were driving, driving in your car
The speed so fast I felt like I was drunk
City lights lay out before us
And your arm felt nice wrapped 'round my shoulder

And I had a feeling that I belonged
I had a feeling I could be someone, be someone, be someone

You got a fast car
But is it fast enough so you can fly away?
You gotta make a decision
Leave tonight or live and die this way

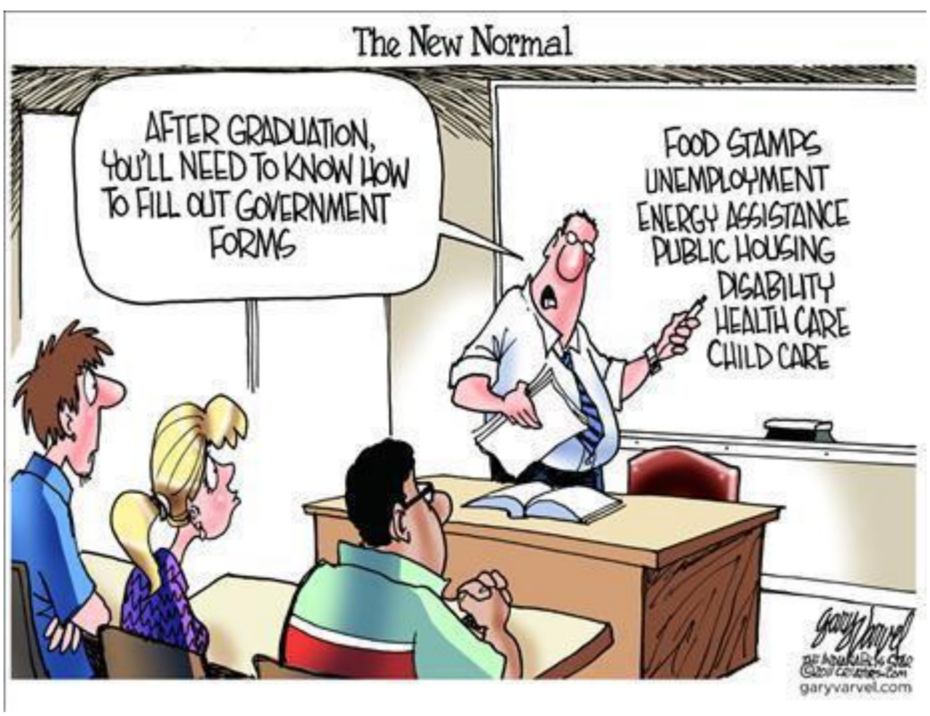
20120416-07	11:04	Pam	Re: "Obama Relies On Debt Collectors Profiting from Student Loan Woe" (reply to Dennis & Dale)

My daughter is in a similar situation. She needed a Master's degree to advance in her profession and had to borrow the money. That, plus her undergrad loans puts quite a burden, to say the least, on her and her husband. I've given her all I can afford to; I wish I could do more. Getting an education is WAY more expensive today than when most of us went to school. If I'm not mistaken, the tuition at DePauw when I went there in the 'sixties was somewhere around $2000 a year. Now, I'd guess it's more like $30,000. Kids today are graduating with a load of debt that simply never would have accrued forty years ago, and they've more or less been forced into it by pressure to get an education if they want to be "middle class." A college education is a must. A Master's is almost a requirement, and forget a career in academia if you don't have a PhD and a substantial list of publications. We are crushing the younger generation, and I wish they'd all go on strike until things change. It won't happen, but that's what it's going to take. I don't believe that most young people WANT to default, but they need to eat and pay rent or the mortgage. They shouldn't have to work as slaves until they're fifty, when it's too late to save for an adequate retirement. It is complicated, but I wouldn't assume that deadbeat young people are the biggest problem.

20120416-14	16:28	Art	Re: "Obama Relies On Debt Collectors Profiting from Student Loan Woe" (reply to Pam)

Wow, that is an astronomical increase. Wonder what accounts for that magnitude of a rise? Last I heard university professors weren't exactly in the top paying professions in the US.

20120416-12	13:59	Dennis	Cartoon: Re: "Obama Relies On Debt Collectors Profiting from Student Loan Woe" (reply to Pam)



20120416-13	15:16	SteveB	"Why a Fair Economy Is Not Incompatible with Growth But Essential to It"

Like I've been saying…higher taxes = greater reinvestment, growth, and prosperity—for <u>all</u>!

<u>"Why a Fair Economy Is Not Incompatible with Growth But Essential to It" by Robert Reich, NationofChange</u>

Apr. 16, 2012, (http://www.nationofchange.org/why-fair-economy-not-incompatible-growth-essential-it-1334583226)

One of the most pernicious falsehoods you'll hear during the next seven months of political campaigning is there's a necessary tradeoff between fairness and economic growth. By this view, if we raise taxes on the wealthy the economy can't grow as fast.

Wrong. Taxes were far higher on top incomes in the three decades after World War II than they've been since. And the distribution of income was far more equal. Yet the American economy grew faster in those years than it's grown since tax rates on the top were slashed in 1981.

This wasn't a post-war aberration. Bill Clinton raised taxes on the wealthy in the 1990s, and the economy produced faster job growth and higher wages than it did after George W. Bush slashed taxes on the rich in his first term.

If you need more evidence, consider modern Germany, where taxes on the wealthy are much higher than they are here and the distribution of income is far more equal. But Germany's average annual growth has been faster than that in the United States.

You see, higher taxes on the wealthy can finance more investments in infrastructure, education, and health care – which are vital to a productive workforce and to the economic prospects of the middle class.

Higher taxes on the wealthy also allow for lower taxes on the middle – potentially restoring enough middle-class purchasing power to keep the economy growing. As we've seen in recent years, when disposable income is concentrated at the top, the middle class doesn't have enough money to boost the economy.

Finally, concentrated wealth can lead to speculative bubbles as the rich in the same limited class of assets – whether gold, dotcoms, or real estate. And when these bubbles pop the entire economy suffers.

What we should have learned over the last half century is that growth doesn't trickle down from the top. It percolates upward from working people who are adequately educated, healthy, sufficiently rewarded, and who feel they have a fair chance to make it in America.

Fairness isn't incompatible with growth. It's necessary for it.

20120416-15	23:59	SteveB	Photo: California

http://www.youtube.com/watch?v=6Ago5SAGV3E

—Friends of the Middle,
Steven W. Baker (SteveB), Editor/Moderator

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Welcome to all our new members who may be here for the first time. We want to hear from YOU! To submit your comment, you can use the form on our website or blog, or reply to this email with your two cents worth. Be sure to sign with your desired user name.

Your email address will always be kept strictly confidential.

Feel free to forward this Newsletter to anyone you know on the Right or the Left, though your motives might be different in each case. Regardless, PASS IT ON! Help keep your friends and acquaintances informed and thinking.

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