

How Romney Harms the Middle Class

When seeking the Republican presidential nomination, Mitt Romney promised to keep the Bush tax cuts and tack on a 20 percent across-the-board tax cut. Now, he struggles to explain how that would work, but even the status quo has helped the rich and damaged the middle class, says former Republican William Frey.

By William Frey

So why are many small business owners rejecting what in 2012 passes for “conservatism” in the GOP? Could it be that they see through Mitt Romney’s arithmetic? Could it be they are nauseated by a GOP that wants to shift even more of the tax burden to the middle class?

Perhaps tiring of paying significantly higher rates than the historically low rates now paid by billionaires, hedge fund managers, other investment executives, and Republican presidential candidates?

Or might they find it offensive when a politician falsely maligns “the 47%” of fellow Americans for “not paying taxes”, when that same politician in reality has an effective federal tax rate virtually the same, or even slightly lower, than some of those he maligns?

Let’s start by comparing the CURRENT total federal tax rates for a small business owner with the tax rates for Gov. Romney:

–\$103,637 just happens to be the average net income, according a Treasury Department report of a shareholder/owner of a business organized as an S corporation which is large enough to have employees. So this represents a fairly typical small businessman (perhaps, for example, an electrical contractor), who, while perhaps not “wealthy,” is successful enough to employ himself and others, and have a net income of about twice the current median household income of \$50,221.

To compare apples to apples, we will assume this typical small business owner and spouse, like Mitt and Ann Romney, file a joint return, have no additional dependents, and that the \$103,637 represents their total joint income.

The taxes on this small business owner’s income of \$103,637 in 2011 is as follows:

- Payroll/Self Employment tax: (13.3% total, Social Security FICA 10.4% : \$9,954, Medicare 2.9% : \$3,005) : \$12,729
- (“ordinary”) Income Tax: (with standard deduction of \$11,600, and 2

exemption of \$3700) : \$11,819

- Capital Gains Tax : zero
- Total Federal Tax : \$24,548
- Total Effective Federal Tax Rate : **23.6%**

(If, in addition to the standard deduction and exemptions, this couple's joint return were to include a self employed health insurance deduction, and retirement plan contributions totaling \$25,494, the income tax portion would be reduced to \$7,066, and the total federal tax would be \$19,795, yielding a total effective federal tax rate of **19.1%**. Prior to, and subsequent to the expiration of the 2% payroll tax holiday, the applicable Self-Employment tax rate of 15.3% would apply, which would yield a total effective federal tax rate of between **21.1% and 25.6%**.)

Meanwhile, the tax on the \$21.7 million of Mitt Romney's 2010 income was taxed at a rate of **13.9%** (**14.1%** in 2011). A key reason for his low tax rate was the large proportion taxed at capital gains rates, as detailed by Bruce Bartlett, in "Exploring Mitt Romney's Taxes and Tax Plan", and "Mitt Romney, Carried Interest, & Capital Gains".

(The preferential tax treatment of capital gains at these historically low rates is also the basis for taxing of the compensation of hedge fund managers and executives at investment firms at similar capital gains rates through the "carried interest loophole.")

Let's now consider the taxation of a member of the maligned "47%". An illuminating example would be that of a family of 4, with 2 minor children, and an income of \$42,700. This income is 15% below the median household income, and is a relevant example as it represents the point at which the child tax credit and earned income credit for a family with two qualifying children (combined \$2,709 credits for that level of income) balances out their \$2,709 federal income tax on "ordinary" income.

This means that for this family, filing a joint return, using the standard \$11,600 deduction and the two \$3,700 personal exemptions, they pay "no income tax." Assuming this family has no capital gains, we can now summarize the federal taxation on the \$42,700 income of these four Americans who are counted among the "47%" who "pay no taxes" :

- Income Tax: zero
- Capital Gains Tax: zero
- Payroll/Self-Employment Tax: \$5,244 – \$5,679 (12.3% to 13.3%) (see footnote)
- Total Federal Tax: \$5,244 – \$5,679

- Total Effective Federal Tax Rate: **12.3% to 13.3%**

Note that while the total federal tax rate (12.3% to 13.3%) is slightly under Mitt Romney's 2010 federal tax rate of 13.9%, or his 2011 federal tax rate of 14.1%, as the result of the 2% payroll tax holiday from 2011 through the end of 2012. Prior to, and subsequent to the expiration of this 2% waiver, the Payroll/Self-Employment Tax, as well as the Total Effective Federal Tax, on this family's \$42,700 income was and will be 2 percentage points higher. That is, the Total Federal Tax Rate on their \$38,900 income was and will be **14.3% to 15.3%**.

Which is to say, this family of four, part of the **"47%" who "pays no taxes,"** will again have a total effective federal tax rate that is between **0.3 percentage points and 1.3 percentage points HIGHER** than the total effective federal tax rate on Mitt Romney's combined 2010 and 2011 income.

Note that the 12.3% to 13.3% (\$5,244 to \$5,679) range calculated for this family's Payroll/Self-Employment tax is due to the fact that we have not stipulated whether this income was self-employment income or wages. (The IRS reports that the average net income for a Schedule C/Sole Proprietorship return, which includes both full-time and part-time ventures, is \$20,854. Clearly, the "47%" include both wage earners and the self-employed.)

This range (of 12.3% to 13.3%) is caused by the fact that, in the case of Self-Employment tax, the tax is calculated on 92.35% of the self-employment income.

The effective abandonment of the principle of progressive taxation has resulted in a harshly regressive system that **taxes financial elites at rates much lower than middle-class entrepreneurs** (in Mitt Romney's case at rates –13.9% to 14.1% – significantly lower than the federal tax rate – 19.1% to 25.6% – of a small business owner earning roughly \$100k) – and which **taxes these financial elites** with over \$20 million in annual earnings at **roughly the same federal tax rate as it taxes a hard-working member of "the 47%" who is falsely maligned as "paying no taxes."**

Wasn't Always So

This striking departure from American tradition is illustrated by contrasting both the business practices and the taxation of Mitt Romney and that of his father George.

George Romney successfully ran American Motors for eight years, restoring the company's fortunes with a focus on compacts, and saving the jobs of many American workers. George Romney then served as governor of Michigan from 1963-1969, before seeking the Republican nomination president in 1968. When he ran for president 44 years ago, George Romney released, (not two years and a

summary of prior taxes paid), but, in their entirety, a full 12 years of federal tax returns.

From these returns we see that in George Romney's best year, 1960, he earned \$660,000, equivalent to approximately \$5 million today. We also learn that George Romney paid, in 1960, 36% of his income in federal taxes, and paid 37% of his income in taxes over the entire 12-year period.

As Paul Krugman has pointed out, this was, in part, because he "seldom took advantage of loopholes to escape his tax obligations," but mostly because, in the 1950s and 1960s (the era of the **longest sustained economic expansion in our history**), taxation of the very wealthy was at much higher levels than today, with effective federal tax rates in the range of twice today's rates.

Hijacking of Social Security Trust Fund

It may be of interest to small business owners (and other Americans) that:

- not only has the capital gains income of Mitt Romney and others in his bracket exempt from "ordinary" income taxation,
- not only has it been exempt from Social Security FICA and Medicare contributions,

but that the lowering of capital gains rates to historically low levels occurred in 2003 simultaneous with two unfunded war deficits.

And the single largest creditor that financed the bonds which made possible this slashing of capital gains rates was not China (as Gov. Romney likes to imply). It was (and is) the Social Security Trust Fund. (\$2.7 trillion)

In other words, the surpluses accumulated because of the regular 15.3% retirement contributions typical small business owners and others have paid, on most (and in some cases on every cent) of their lifetime earnings, have been loaned so that the most wealthy **could enjoy historically low taxes, even during a time of war and trillion-dollar deficits.**

All thanks to the largess of a retirement insurance fund to which some of the very wealthy (those that structured their income to be in the form of capital gains) **were sometimes exempt from contribution.**

So, now that we have turned tax rates upside down, and created a tax system when the top one per cent are now taxed at:

- historically low rates (with effective tax rates approximately half of what the most wealthy paid in the 1950s and 60s, during the most sustained period of economic expansion and prosperity in American history), and

- rates that are much lower than the rates for small business owners and other working Americans, and
- in the same ball park, or perhaps slightly lower, than the actual federal tax rate for many of the 47% of Americans who have been falsely maligned as “paying no taxes”

what is Mitt Romney’s proposed “solution”?

A \$5 trillion tax cut that further reduces taxes on the top 1% who already pay the lowest rates, and further shifts the burden to the middle class, including small business owners.

When polls showed widespread rejection of his approach, Mitt Romney’s response has been to nominally backtrack, making the unsupported (and arithmetically impossible) claim that his tax cuts will not decrease the burden on financial elites, will not increase the burden on the middle class, and will not increase the deficit.

But he refuses to provide specifics (other than to state he will not consider raising the historically low capital gains tax, or closing the “carried interest” loophole, which allows hedge fund managers and other investment executives to have their compensation taxed as capital gains). Romney’s running mate, Rep. Paul Ryan well, he “doesn’t have time” to reveal the details.

As for Social Security, what are Republican plans for the program which is an essential part of the retirement for over 90% of Americans, whose \$2.7 trillion surplus purchased the bonds that made possible the slashing of tax rates for the 1% even as simultaneous wars were waged)?

Now that the \$2.7 trillion surplus (invested by law in Treasury bonds) is needed for its intended purpose, paying the retirement benefits of those whose taxes BUILT that \$2.7 trillion surplus,

- does Romney intend to let tax rates for the 1% return to historic norms so those bonds owned by the Social Security Trust Fund can be honored?
- or does Romney intend to cut Social Security benefits so that the Trust Fund is NEVER repaid, NEVER uses those funds for their intended purpose, effectively formalizing the permanent theft “borrowing” of the Social Security Trust Fund so that income tax rates for the 1% can remain at historic lows?

The Republican Party of Eisenhower, while certainly a party of free enterprise, recognized both the legitimacy and essential nature of Social Security to Americans of all economic classes. In 1956, after Eisenhower’s first four years, the Republican platform stated:

“The record of performance of the Republican Administration on behalf of our working men and women goes still further. The Federal minimum wage has been raised for more than 2 million workers. Social Security has been extended to an additional 10 million workers and the benefits raised for 6 1/2 million.”

Social Security’s broad and bipartisan support, and success, has rested upon its establishment as a **self-funded** retirement program, with benefits paid from an independent Trust Fund (whose surpluses are required, by law, to be invested in United States Treasury securities, which are backed by the “full faith and credit” of the United States of America).

But the ideologues of today’s Republican Party **seek to break** from this fundamental American understanding of Social Security:

In 2010, Republicans, introduced bills into both House and Senate that would have prioritized the honoring of bonds held by **China over those held by the Social Security Trust Fund**, and which would have treated Social Security benefits payments the same as other general revenue expenditures, ignoring both the statutory and moral right of the Social Security system to the surpluses loaned to the Treasury.

And by preventing the Social Security Trustees from making payments from the independent Trust Fund, it would have ratcheted up the political pressure to cut Social Security benefits so that general revenue expenditures could continue to be financed by Social Security funds.

The essential fact is that the \$2.7 trillion in the Social Security Trust Fund will fund full benefits into the mid 2030’s with no changes whatsoever (past a significant portion of the baby boom). Changes to enable permanent solvency (as opposed to continuing, on a permanent basis, the “loaning” of Social Security funds to subsidize general revenues) are relatively minor.

In order to deprive Americans of their funded benefits, ideological enemies of Social Security do not have to openly “steal” the Trust Fund. All that is necessary is to change to accounting definitions of “sustainable solvency” so as to require a definition of solvency that will require changes so draconian that the Trust Fund will keep trillions on permanent “loan” to the Treasury, which will enable the continuation of general revenue deficits to be funded by Social Security surpluses, thereby subsidizing tax cuts for the most wealthy.

Now in 2012, Mitt Romney selects a **running mate** who, beyond being an ideological enemy of Social Security, maligns **Social Security as “socialism.”** (Paradoxically, if Republicans can succeed in permanently hijacking the Social Security Trust Fund to fund general expenditures, thereby subsidizing tax cuts

for the 1%, they *will have transformed* Social Security from a self-funded retirement program INTO “socialism for the 1%).

Not Eisenhower’s GOP

The Republican Party of 2012 is certainly not the GOP of Dwight D. Eisenhower, much less that of trust-busting conservationist Theodore Roosevelt.

Although the narrow agenda of the Republican Party of 2012 would exclude almost all past Republicans, right-wingers have been persistent and skilled at using wedge issues to convince their base to vote against their own interests.

But Americans are increasingly seeing that the survival of the middle class, more important than mere self-interest, is vital to the survival of our democratic republic itself.

And in this struggle for survival, middle-class Americans are finding no friend in the Republican Party of Mitt Romney and Paul Ryan.

William Frey, M.D. is a medical doctor and a former Republican who broke with the party over its increasing radicalization and its failure to resist the Bush-Cheney administration’s shift toward empire and the assault on individual liberty. [This article first appeared at <http://www.former-republican.com/>]

Europe Blocks Iranian News

Amid stepped-up sanctions against Iran, European authorities are cutting off access to Europe’s satellites for Iran’s PressTV and other stations, thus preventing Europeans from hearing Iran’s point of view. Danny Schechter sees the move as a hypocritical assault on free speech and a free press.

By Danny Schechter

Back in the 1960s, a British poet, Adrian Mitchell, one of the great bards of that era, wrote a poem that went on to become a stage show in the West End of London. It was called “Tell Me Lies about Vietnam” and represented one voice among millions in the world then opposing that war.

It was addressed, “To Whom It May Concern” and began with words that became its refrain:

“I was run over by the truth one day

Ever since the accident I've walked this way

So stick my legs in plaster

Tell me lies about Vietnam"

Years later, before his death, (and I was at the memorial service in London) he kept rewriting the last paragraph into what he called a remix. The poem took on a more global statement

That verse was a play on a children's song:

"You put your bombers in, you put your conscience out

You take the human being, and you twist it all about."

And then this line:

"Tell me lies about

*Iraq, Burma, Afghanistan, BAE Systems. Israel, **Iran**"*

He understood well that Iran was one of the countries his country and others in the West (and their sycophantic media) are telling lies about.

This poem came to mind in the days after members of the Nobel Prize Committee, for reasons best only known to themselves, decided to sully their Peace Prize by giving it to the European Union, an entity that is very much cheering on the pre-war against Iran with its own draconian sanctions.

These were the same people who, for equally incomprehensible reasons, gave the prize to Barack Obama in the hope it would put him on the path of the peaceful. It didn't!

A day later, as more thoughtful minds puzzled over the choice of a bloc of nations that has inspired region-wide protests for its brutal austerity programs, the EU took its first act as a peacemaker with media censorship.

It blocked Iran's ability to communicate with Europeans, even as anyone who knows anything about how peace is made knows that two-way communications is essential. All parties to a conflict need to know what the other is thinking, need to know how they view the world.

Despite the fact that western media is available in Iran, and western journalists frequently report or, as many Iranians believe, "distort" the news from there, the West now wants to seal off more than Iranian oil. Western officials want to sanction Iranian ideas and keep their own people from hearing

and seeing what Iranian TV channels consider important. In short, these officials just want the people of the West to hear their own voices, not those of Iran. This is the very essence of a propaganda system posing as a commitment to free press.

Iran's PressTV had earlier been kicked off British Television on the barest of pretences and now, with the connivance no doubt of Her Majesty's government, is being barred, along with 18 other Iranian channels, from access to European satellites.

Here's the edict: "European satellite company Eutelsat says it's pulled the plug on several Iranian satellite channels following an order by the European Commission. Eutelsat told Press TV that it asked media services company – Arqiva, to take Iranian satellite channels off one of its Hot-Bird frequencies on Monday. Arqiva said in a separate statement emailed to Press TV that the decision was made by the E.U. Council.

"The channels include Press TV, Al-Alam, Jaam-e-Jam One and Two, Sahar One and Two, Islamic Republic of Iran News Network, Qur'an TV, and al-Kawthar. European satellite firms had been jamming the Iranian channels for months before the decision was announced. Iran's Arabic-language news channel, Al-Alam, has been jammed on a daily basis while airing a program on Bahrain. Technical experts say the jamming was carried out by British technicians. Observers are saying the jammings and now the ban show the European Union does not respect freedom of speech and is trying to silence the voice of alternative media."

So when jamming is not enough by countries who are the first to yell the loudest when their signals are blocked, they resort to outright suppression by, in effect, using their power over the "switch" to turn it off, and not let their own people see it.

Thinking about this affront to global communications, one is reminded of the war Adrian Mitchell first wrote about. In those days, it was Radio Hanoi that was blocked. When I was in Vietnam, in 1974, I interviewed a radio broadcaster there who was constantly being denounced for calling on American soldiers to resist the war, perhaps because so many did. She was ridiculed as "Hanoi Hannah." She, in turn, interviewed me. American spy satellites monitored the broadcast which was about cultural issues. I was later summoned into the American Embassy in what was then Saigon and roundly denounced for talking to the "enemy."

Years later, it was the American government that was talking to the enemy and suing for peace. The Nobel Peace Prize people then gave their treasured token to U.S. Secretary of State Henry Kissinger, and Vietnam's negotiator in chief, Le Duc Tho, for their role in the Paris Peace Talks. Le Duc Tho was outraged at

this attempt at “balance” between the victim and the victimizer and turned the award down! He stood by his truths. (I met him too!) Today the U.S. and Vietnam are uneasy allies and trading partners.

Banning PressTV is an act of war against ideas, a misplaced maneuver that will not resolve any conflicts, will not promote peace, and will not lead to more respect for Western ideas of “free speech and press.” Quite the contrary, it will foster more polarization and tension and charges of hypocrisy. It is also happening on the eve of new talks between Iran and other nations, no doubt to punish Iran further.

The question is: Will journalists in the West join me in denouncing this latest “sanction” against values that the West says it upholds. Article 19 of the Declaration of Human Rights upholds the right to receive and impart information. This black-out may violate other laws and agreements as well.

This was also the week that Ben Affleck’s hostage thriller “Argo” opened in movie theaters across America. While the movie does criticize the Shah’s brutality, which was made possible by the U.S. and Britain overthrowing the nationalist Mosaddegh government in 1953, it also glamorizes the role the CIA played in freeing six hostages who fled the U.S. embassy and sought refuge in the Canadian Ambassador’s home.

The movie is about an off-the-wall plot to make an imaginary science fiction epic in Iran as a pretense for the escape. It’s very entertaining in putting down Hollywood more than imperialism, but, at the same time, reinforces every stereotype about brutal and robotic Iranian revolutionaries, an image that still mobilizes support for U.S. intervention today.

The CIA must love it, just as it wants us to dismiss the allegations of CIA spying in Iran in those years. I visited the former U.S. Embassy in Tehran and can confirm it was an espionage center supporting the despotic Shah. The Iranians didn’t hate Americans for who we are, but for what our government did. You won’t find that story in any detail in “Argo.”

Lets’ give the last word to the late Adrian Mitchell whose passion was to wake us all up.

“Where were you at the time of the crime?”

Down by the Cenotaph, drinking slime

So chain my tongue with whisky

Stuff my nose with garlic

Coat my eyes with butter

Fill my ears with silver

Stick my legs in plaster

Tell me lies about Vietnam”

And, then, may we add, “Tell Me Lies about Iran and ourselves?”

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