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Obama's Attack on the Middle Class

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Obama and his public relations team have made it appear that his trillion dollars in higher taxes will fall only on "the rich." Obama stresses that his tax increase is only for the richest 5 percent of Americans while the other 95 percent receive a tax cut.

The fact of the matter is that the income differences within the top 5% are far wider than the differences between the lower tax brackets and the "rich" American in the 96th percentile.

For Obama, being "rich" begins with $250,000 in annual income, the bottom rung of the top 5 percent. Compare this "rich" income to that of, for example, Hank Paulson, President George W. Bush's Treasury Secretary when he was the head of Goldman Sachs.

In 2005 Paulson was paid $38.3 million in salary, stock and options. That is 153 times the annual income of the "rich" $250,000 person.

Despite his massive income, Paulson himself was not among the super rich of that year, when a dozen hedge fund operators made $1,000 million. The hedge fund honchos incomes were 26 times greater than Paulson's and 4,000 times greater than the "rich" man's or family's $250,000.

For most Americans, a $250,000 income would be a godsend, but envy can make us blind. A $250,000 income is not one that will support a rich lifestyle. Moreover, many people prefer lesser incomes to the years of education, long work hours and stress of personal liability that are associated with many $250,000 incomes. In truth, those with $250,000 gross incomes have more in common with those at the lower end of the income distribution than with the rich. A $250,000 income is ten times greater than a $25,000 income, not hundreds or thousands of times greater. On an after-tax basis, the difference shrinks to about 6 times.

The American tax code taxes the $250,000 income at the same rate as it taxes a $100,000,000 or higher income. On an after tax basis, after the federal government grabs 30% in income taxes and state government grabs 6%, the "rich" man or woman or family earning $250,000 has $160,000. In New York City, where there is a city income tax in addition to state and federal, this sum diminishes further. State sales taxes take another 6 or more percent of most consumption expenditures.

When all is said and done, the after-tax value of a $250,000 income in New York City is about $140,000.

Is this rich? It might be in a small town in Alabama, but not in New York City. The "rich" person or family won't be purchasing a Manhattan apartment, much less a brownstone. They won't be driving a luxury car. Indeed, they won't be able to afford a parking garage for an economy car. If they fly anywhere, it won't be in a first class seat.

For the most part, $250,000 incomes are located in large cities where the cost of living is high. For example, a husband and wife who are associates at major law firms, each of whom works 60-hour weeks and has no job security, earn $125,000 each. They might both have student loans to pay down. For the Obama administration to lump these people in with Hank Paulson or billionaire hedge fund operators is propagandistic.

What is the difference between the $250,000 "rich" income and the $245,000 "non-rich" income? After Obama's tax scheme goes into effect, the $245,000 income will benefit from a tax cut, and the $250,000 will have a tax increase. Will people in the 96th percentile ask for pay cuts that will drop them into the 95th percentile?

In America, the truly rich are those in the top 0.5% of the income distribution. These are the people with yachts, private airplanes, and who are still rich after they lose half their wealth in a stock market collapse caused by government policy that accommodated financial gangsters.

"Oh well, I was worth $600,000,000 last year and only $300,000,000 this year. Perhaps we should stop drinking $1,000 bottles of rare vintages and move down to $100 a bottle wines. Probably shouldn't buy that new yacht or that villa in the south of France."

The upper middle class with $250,000 gross incomes are major losers of the financial collapse. Many of the people in this income class are leveraged to the hilt in order to maintain appearances and can be swept away as easily as the very poor. But those who were frugal and invested for their future have lost 50% of their savings. These wiped out people are the ones who will bear the brunt of Obama's tax increase.

If the tax rate on a multi-million dollar annual income goes up by 5 percentage points, the cutbacks won't really affect the lifestyle. But for the $250,000 gross income group, it means no prospect of private schools and Ivy League education for the children, who will be attending state colleges with the rest of the non-rich.

Obama is attacking the only income class that has any independence – the upper middle class professionals. The real rich are few in number and seldom present any opposition to government. Recently, the New York Times reported (March 23, 2009) that the 400 richest Americans' "share of the nation's total wealth has nearly doubled to more than 22 percent." The average income of the 400 richest Americans is $263 million annually. That is 1,052 times the income of the "rich" $250,000 income.

What the Obama administration is really doing is taxing ordinary people in order to bail out the super rich. The 95% of Americans who get the tax cut will find that it is offset many times by the depreciation in the dollar and the raging inflation that will result from monetizing the multi-trillion dollar budget deficits made necessary by the bailouts of the banksters.

In the United States, government has become expert at manipulating both left-wing and right-wing ideologies. It keeps those on both ends of the spectrum set at each other's throats in order to ensure the government's continuing independence from accountability.

Historically, the definition of a free person is a person who owns his own labor. Serfs were not free, because they owed their feudal lords, the government of that time, a maximum of one-third of their labor. Nineteenth century slaves were not free, because their owners could expropriate 50% of their labor.

Today, no American is a free person. The lowest tax rate, not counting state income, property tax and sales tax, is 15% Social Security tax and 15% federal income tax. The "free American" starts off with a 30% tax rate, the position of a medieval serf.

In medieval Europe, when tax rates reached beyond 30%, serfs rebelled and killed their masters.

Paul Craig Roberts [send him mail] a former Assistant Secretary of the US Treasury and former associate editor of the Wall Street Journal, has been reporting shocking cases of prosecutorial abuse for two decades. A new edition of his book, The Tyranny of Good Intentions, co-authored with Lawrence Stratton, a documented account of how Americans lost the protection of law, has just been released by Random House.

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