

I had one of the most interesting days of my life on Wednesday: I flew to Washington DC at 6am, shook President Obama's hand and chatted briefly with him, stood behind him at a press conference, was interviewed on national TV three times, published an [op ed](#) in the *Washington Post* and, in a particularly surreal exclamation point at the end of the day, yukked it up with the Hermanator – all on less than 24 hours' notice. If you have a minute, pull up a chair and let me tell you the story...

On Wednesday morning, President Obama hosted a press conference to call on Congress to pass the Buffett Rule, a proposal inspired by Warren Buffett that would require anybody (like me) whose income exceeds \$1 million a year to pay a minimum federal tax rate of 30%. You may recall that Buffett's secretary was in the audience during Obama's State of the Union [speech](#) in January, highlighting the absurdity that one of the world's richest people pays a much lower tax rate than his secretary.

To make the same point at yesterday's press conference, the White House asked members of a group I'm part of called the [Patriotic Millionaires](#) to participate in the press conference, and about 30 of us were able to make it down on short notice. Four of us with our assistants provided the backdrop, as you can see in this picture:



(That's me in the back left and Kelli next to me with the flag behind her; the other three Patriotic Millionaires on stage were filmmaker Abigail Disney (*Pray the Devil Back to Hell*), former Google engineer Frank Jernigan, and real estate investor Lawrence Benenson; to see the video and transcript from the press conference, see www.whitehouse.gov/photos-and-video/video/2012/04/11/president-obama-speaks-buffett-rule, and for more background on the Buffett Rule, see the document I posted at: <http://bit.ly/IRTe6P>, which also includes this email in case you want to link to it.)

My Washington Post Op Ed

In going public with my views on such a controversial topic, I knew that I was going to catch a lot of flak, so I wanted to write down my thoughts in an email that I could send to anybody who contacted me. My hope was that people who disagreed with me might say, “Well, I’m certainly not convinced, but I respect the fact that you make a calm, rational argument – a rare thing in today’s poisonous atmosphere.”

As I kept writing and writing on Tuesday afternoon, the idea occurred to me that this might make a good op ed in the *Washington Post*, so I contacted a friend there. He liked it and, to make a long story short, my column ran on the Post’s web site just as the press conference was getting under way Wednesday morning. Obama pushing for the Buffett Rule was a big news story, so my column generated lots of hits and comments (775 at last count) – so many, in fact, that the Post ran it in the paper yesterday. Here’s the beginning and the full text is included at the end of this email:

I am part of the 1 percent of the 1 percent. By that I mean that I am fortunate to be a wealthy American, and I say, “It’s okay to raise my taxes.”

This morning I was at the White House supporting President Obama in his call for Congress to pass the “[Buffett rule](#).” The rule — inspired in part by Warren Buffett’s exasperation in learning that his assistant was paying a greater percentage of her income in taxes than he was — would require anyone whose income exceeds \$1 million a year to pay a minimum 30 percent in taxes. It would hit me hard. I haven’t finished my taxes for 2011, but in 2010, my federal tax rate was 21.4 percent; if the Buffett rule had been in effect, my federal tax bill would have been 40 percent higher. Some years, my taxes would likely be more than 50 percent higher.

Why am I okay with this? The answer has to do with simple math and basic fairness...

Why I Did It

So why’d I do it, especially when the Buffett Rule – and me supporting it so publicly – is directly contrary to my self-interest? There are a lot of reasons, but it really just boiled down to: it’s an obviously good idea whose time has come, and I felt that publicly saying so was the right thing to do.

I don’t like the idea of my taxes going up any more than the next guy, of course, but there are certain basic things that make this country a better place to live than other countries and those things need to be paid for. In addition, I believe that our federal budget deficit has reached dangerous levels (\$1.3 trillion this fiscal year, with spending of \$3.796 trillion 54% higher than receipts of \$2.469 trillion). Other than improving our public schools, I think getting our deficit under control is the most important long-term challenge facing this country.

Spending cuts alone aren’t going to do it. Every well-informed person capable of doing basic math, if they were being honest (I realize that these three criteria exclude most of Congress), recognizes that the solution is a grand bargain along the lines of [Simpson-Bowles](#) that both cuts spending *and* raises taxes – say, \$2-\$3 of cuts for every \$1 of tax increases. Make no mistake: this is going to be painful and most Americans will have to make sacrifices, with tens of millions of people getting smaller entitlement benefits, for example, and tens of millions of people paying higher taxes.

But somebody has to go first – raise his hand and say, “I’m willing to do my fair share – in fact, more than my fair share – to help rein in our deficits and put this country on a more sustainable path.” It’s not class warfare to say that people like me – who aren’t suffering at all in these tough economic times, who are in many cases doing the best we’ve ever done, and who can easily afford to pay more in taxes with no impact whatsoever on our lifestyles – should be the first to step up.

My Assistant and I Compare Our Tax Returns

In preparation for Wednesday, Kelli and I compared our 2010 federal tax returns (I hadn’t yet finished my 2011 one yet) and we discovered two things:

- 1) My adjusted gross income was 39x hers – not 39%, but 39 *times* higher; and
- 2) My federal tax rate was 21.9% and hers was 33.9%, so hers was 55% higher than mine despite the fact that she made an order of magnitude less than I did.

We were both shocked. How can it be that I made 39x what she did, yet she paid a much higher tax rate??? It struck both of us as so obviously unfair.

Nor are we alone. Most famously, Mitt Romney paid a mere 13.9% in federal taxes on \$21.6 million of income in 2010. Or consider the 400 Americans with the highest adjusted gross income. Not only have they been doing astonishingly well in recent decades (their average taxable income soared more than five times from 1992-2008, from \$42.2 million to \$227.4 million), but their tax rate also fell dramatically over this period, from 26.4% to 18.1%. A third of them paid less than 15% in 2008. (Here’s the data: www.irs.gov/pub/irs-soi/08intop400.pdf.)

This is madness. Every single one of these people – and many more not-as-wealthy-but-still-doing-well folks like me – could easily afford to pay 30% without any impact on their lifestyles.

(Update: Kelli and I subsequently finished our 2011 federal tax returns. The funds I manage had their worst year ever, so my income dropped such that it was “only” 16x Kelli’s. My tax rate went up a bit to 24.4%, while hers dropped to 32.0% (thanks to the payroll tax cut passed by Congress), so her tax rate was 31% higher than mine.)

TV Interviews

Kelli and I did two interviews on Wednesday at the White House with CNBC and ABC World News With Diane Sawyer and, after I flew back to NYC, I was a guest on CNBC’s Kudlow Report. Here are the links:

- CNBC: <http://video.cnbc.com/gallery/?video=3000083600&play=1> (7:47)
- ABC World News With Diane Sawyer: <http://abcnews.go.com/WNT/video/obama-revisits-buffet-rule-digs-romney-16120411> (2:53)
- CNBC’s Kudlow Report: <http://video.cnbc.com/gallery/?video=3000083649&play=1> (8:04)
(I engaged in a spirited debate with both Kudlow and the *Wall Street Journal*’s Stephen Moore; I think Kudlow almost fell out of his chair when I admitted that what I was

advocating for would cause taxes to go up for people in my industry – and my own to go up as much as 40%.)

Meeting Herman Cain

Last but not least, things went from wild to surreal Wednesday when I showed up at the CNBC studios for the Kudlow Report and who should be in the green room but Herman ‘the Hermanator’ Cain! While I don’t think he’s Presidential material (to say the least), he’s a really funny and easygoing guy so we chatted up a storm. Here’s a funny thought: I think I might be the only person to ever shake his hand *and* Obama’s on the same day! Here is a picture of us:



Below are five of my pictures from Wednesday, followed by my answers to 14 questions I’ve received, including: isn’t this just a political carnival around a gimmick; why don’t I just shut up and write a check; isn’t this just class warfare; and what did you and Kelli say to the President?

Whitney

PS—I’ve discovered that a lot of people want to debate these issues. If so, I ask that you first carefully read my column in the *Post* and the Q&A section (both below), and please forgive me if I’m too swamped to reply personally.

My Photos



This is the room in the Executive Office Building where the press conference took place.



Maybe 30 of us – all [Patriotic Millionaires for Fiscal Strength](#) – waited in a nearby room for President Obama to stop by before the press conference.



He shook hands and chatted briefly with each of us.



After the press conference, Kelli and I were interviewed by the White House press team.



Kelli and I about to go in a side door of the White House.

Q&A

Here are my replies to many of the questions I've been asked:

1) If you think you should pay more taxes, why don't you just do so (and shut up)?

I continue to be stunned at how many otherwise intelligent people make this argument, as if the solution to our budget crisis is a handful of people voluntarily writing checks. As I wrote in my *Washington Post* column, I'm not interested in paying higher taxes solo but rather "as part of a comprehensive budget deal along the lines of Simpson-Bowles, with tens of millions of people getting smaller entitlement benefits, for example, and tens of millions of people paying higher taxes." I discussed this further in the opening question of the CNBC interview:

<http://video.cnbc.com/gallery/?video=3000083600&play=1>.

2) The Buffett Rule raises so little money, so why bother?

I addressed this in my *Post* column:

Some critics of the Buffett rule legislation point out that it would raise only an estimated [\\$47 billion](#) over 10 years, which is a mere sliver of the 2011 deficit of \$1.3 trillion, let alone the national debt of \$15.6 trillion. They're right that the Buffett rule, by itself, won't be enough. But we have to start raising money somewhere, and if it isn't raised from people like me, it will have to be raised from people less fortunate than me. Think of it this way: For every billion dollars not raised from millionaires, that's equal to a million average American families each paying an extra \$1,000 in taxes. That would be real hardship for a lot of families that, unlike mine, are struggling to make ends meet.

I'm taken aback at how easily some people dismiss \$47 billion. I don't know what planet they live on, but here on Earth that's real money! \$47 billion is equal to 47 *million* families – that's nearly half of the 114 million households in America! – paying an extra \$1,000 in taxes (or suffering from a \$1,000 cut to their benefits like Social Security).

That said, even more important than the money is the psychology and symbolism. As I noted earlier, to get a comprehensive budget deal done, tens of millions of people are going to have to make sacrifices – and it's not fair or politically feasible to ask them to do this unless the very wealthiest people in our society make *real* financial contributions.

3) There's no chance that Congress passes the Buffett Rule next week, so isn't this just a political carnival? Why waste political capital on a sideshow?

It is indeed political theater in the short term, but I think it's critical to make the case for it and generate political pressure, as I can't see a grand bargain getting done without some sort of change like the Buffett Rule that ends some of the most perverse and unfair elements of our tax code.

To get such a deal done, hundreds of members of Congress are going to have to show serious political courage and agree to very difficult compromises. What Democrat would agree to vote

for painful spending cuts that hit Democratic constituencies particularly hard unless the Republicans agree to tax increases on their benefactors?

That said, no matter how much you tax the rich (regardless of how you define it: \$200,000+, \$1+ million, etc.), it won't be enough. Tens of millions more people will have to pay at least somewhat more in taxes – but for this to happen, the wealthiest people have to go first and sacrifice the most.

4) Aren't your views contrary to your self-interest and the interests of the investors in your funds?

Perhaps in the short term, if self-interest is narrowly defined as paying the lowest possible taxes. But I firmly believe that a comprehensive budget deal, which I think is made more likely by the inclusion of tax reform along the lines of the Buffett Rule, is very much in all of our best long-term interest.

5) Isn't there a better way to fix the perverse outcomes that the Buffett Rule is designed to address?

Probably. The Buffett Rule is a brilliant political tool but I would agree that it's a crude tax tool – minimum taxes tend to be – that could lead to some distortions and unintended consequences. Thus, I would be pleased if, as part of the grand bargain, the tax law were changed to address the underlying reasons for the perverse tax outcomes, namely that capital gains and dividends are taxed at 15%, while ordinary income is taxed at a much higher rate and, to a lesser extent, the performance allocations (the 20% of the profits earned) by private equity and hedge fund managers were taxed as ordinary income. I see no reason why, if I get a \$50 dividend check, earn \$50 in performance allocation from making my investors \$250, or sell a stock on which I've earned a \$50 profit, my \$50 in income from any of these three sources should be taxed at less than half the marginal rate of my secretary who earns approximately \$50 for every hour of her labor. Equalizing taxes on capital gains, dividends and salaries is not some kooky leftist scheme. It was embraced by Ronald Reagan.

6) Why are you, Obama, and Buffett engaging in class warfare?

Pointing out absurdities in the tax code that result in many of the wealthiest people paying much lower tax rates than average Americans isn't class warfare. Class warfare means fomenting hatred toward rich people just because they're rich. Well, I'm rich, as are most of my friends and family, and I certainly don't hate them. To the contrary, I, like virtually all Americans, regardless of political persuasion, celebrate people who work hard, build successful careers/businesses, and consequently do well for themselves.

Meanwhile, Republicans have shown that they are willing to fight to the death – to the point of being willing to have the U.S. default on its debts – to prevent the taxes of millionaires (and billionaires!) from going up by even a penny. Yet at the same time – this is the very definition of chutzpah! – they are also calling for even the poorest Americans to have to pay federal income taxes (in addition to payroll, sales, and other taxes the poor already pay). And they accuse Obama of engaging in class warfare?!

7) Don't you understand that a country can never tax its way to prosperity and that taxing job creators will hurt our economic recovery?

Getting tax policy and rates right is really hard. I certainly don't claim to be an expert, but I'm smart enough to understand that something is seriously wrong when my assistant is paying a much higher tax rate than I am (and we're not a rare exception).

I don't think raising taxes is always the right answer – Reagan was right to cut the marginal tax rate from its peak of 70%, for example. My first preference is always for government to find ways to operate more efficiently, but I'm quite certain that we won't be able to get our budget deficit under control solely with spending cuts, so increased taxes will have to be part of the solution. So spare me the tired clichés and let's have an honest conversation about how best to do this so that it doesn't hurt our economy.

8) Isn't the real issue that needs addressing our sky-high corporate tax rate?

Our corporate tax system is as broken as the one for individuals, as both are riddled with loopholes that favor certain (generally well-connected) taxpayers. And our corporate tax rate of 35%, which is among the highest in the world, is probably a bit too high.

But in reality, few corporations pay anything close to this amount. For example, the world's largest corporation, Apple, appears to pay less than 10%, as this NY Times [cover story](#) documents. And, overall, actual taxes paid by U.S. corporations are the *second-lowest* in the world as a percent of GDP (click [here](#) for details).

9) If you think our government can operate more efficiently, then why did you write “our government is actually quite effective and efficient” in your *Post* column?

I don't think the two beliefs are inconsistent – it all depends on what your point of comparison is. I've visited Hong Kong, Norway and Switzerland in recent years and am very impressed with how well their governments operate – we could learn a lot from them. But over the same period I've also been to Kenya, Peru, Mexico, Spain, South Africa, Saudi Arabia, Cambodia and Italy – visits that make me thankful for our government.

10) Doesn't the criticism bother you?

No, though to protect my brain from too much damage, I make it a point never to read postings on message boards – too often, they are the rants of crazy people saying vicious things, hiding like cowards behind the anonymity of the internet.

I'm a value investor, so my business involves taking unpopular positions (think buying BP stock during the Deepwater Horizon crisis). We frequently choose to publicly disclose our positions, which of course often subjects us to criticism and mockery (it's hard for me to remember the last stock we bought in which this wasn't the case), but because we're quite sure that we're right (otherwise we wouldn't own it), we just smile, confident that he who laughs last, laughs best.

Too many good people (including myself at times) are too cautious about speaking out about the great issues of the day because they're afraid of offending somebody. Well, that's not for me. I agree with John F. Kennedy, who said: "The hottest places in hell are reserved for those who in times of great moral crisis maintain their neutrality."

11) Aren't you just being a pawn of Buffett's?

Warren Buffett is one of my heroes, both as an investor and as an incredibly high-grade, principled person, so he has certainly influenced my thinking in this area (as he has in so many others), but any of the thousands of readers of my value investing email blasts will know that I held the views I expressed on Wednesday long before Buffett started speaking out on this issue.

12) Aren't you just being a pawn of Obama's?

I've been a strong supporter of President Obama's since the day I met him in 2004, so I was happy to participate in the events on Wednesday. I think he's done a good job as President and am actively supporting his reelection campaign. He was dealt one of the worst hands any incoming President has ever had, and I think he's played it well – not perfectly, to be sure, but well.

Another reason I support his reelection is because I believe that only a President who doesn't have to think about getting reelected will be able to make the tough, politically unpopular decisions that must be made in the coming years.

13) Don't you understand that Obama hates private businesses, Israel, and/or wealthy people?

No, I disagree with these statements and believe that using harsh language is not conducive to a thoughtful discussion about serious and difficult issues. There are many fair critiques that can be made about Obama and I have no quarrel with people who choose not to support him, but I draw that line at extreme statements. For example, while I think that Romney, like his party, is more concerned about the welfare of the wealthiest people in our country vs. those that most need help, I don't believe and would never say, "Mitt Romney hates poor people" or "Mitt Romney doesn't care about the suffering of chronically unemployed people."

One may disagree with Obama's politics and decisions and think that he is inexperienced and naïve, but he's clearly a very intelligent, good-hearted person who's doing his absolute best to lead our country during extremely difficult times. His job has been made much more difficult by the toxic political environment in which, from the day he took office, the Republican party's highest priority has been to tear him down and reduce the chances of his reelection, regardless of the consequences for the country.

14) What did you and Kelli say to the President?

Kelli said, "Mr. President, I'm Kelli Alires, and I work for Whitney. I want to thank you for making it easier for me to ask for a big raise at the end of this year."

He laughed and said, “I’m sure you’re worth it.”

Then he turned to me and, as I shook his hand, I said, “Hi Mr. President, I’m Whitney Tilson of [Democrats for Education Reform](#). We were early supporters of yours, and I just want to thank you and [Secretary of Education] Arne Duncan for the incredible work you’re doing.”

His eyes lit up and he said (as best I can recall), “I remember your early support. We’re making progress, but we still have a lot of work to do.”

I said, “We’ll keep fighting for you,” and then he was hustled out of the room to start the press conference.

15) Who are the Patriotic Millionaires?

A lot of people as it turns out. This effort to bring some leadership to the tax issues started 18 months ago during the lame duck session of Congress. A Google software engineer and a lawyer got together with my friend Erica Payne, the President of a public policy organization called the Agenda Project, and they recruited several dozen people who make more than \$1 million a year to sign a letter asking the President to insist that the Bush tax cuts expire for millionaires. The group of signers, which I soon joined, became known as the Patriotic Millionaires for Fiscal Strength. Since the website with the letter went up, the group has garnered more than 50 million media impressions (not including yesterday).

The members are a very impressive group of business leaders and philanthropists from a variety of backgrounds and industries including: more than a dozen current and former Google employees, actress Edie Falco (Sopranos and Nurse Jackie); Susie Buell, founder of Esprit; my friend John Katzman, founder of Princeton Review; legendary hedge fund manager and philanthropist Michael Steinhardt; famed economist Nouriel Roubini; financial guru Andrew Tobias; top executives from Warburg, Pincus and other major financial firms; filmmaker Abigail Disney; and Leo Hindery of InterMedia Partners, among others.

For more information about the Patriotic Millionaires, please visit www.patrioticmillionaires.org.

16) How did you calculate your tax rates, and why is yours lower than Kelli’s?

For both of us, the calculation is total tax (line 60) plus payroll taxes (both employee contribution and employer match, totaling 15.3% in 2010 and 13.3% in 2011, thanks to the payroll tax cut passed by Congress, which also extends into 2012), divided by adjusted gross income (line 37).

It’s critical to add in payroll taxes when doing this calculation – they’re federal taxes too! Without them, Kelli’s federal tax rate would have been 18.1% in 2010 and 2011, whereas mine would have been 21.4% and 23.5%, respectively.

But since the Social Security tax (12.4% in 2010) only applied to income up to \$106,800, Kelli paid it on almost all of her income, whereas it only applied to a tiny fraction of mine. Thus, when payroll taxes are added in, her total federal tax rate jumped to 33.9% in 2010 and 32.0% in 2011,

whereas mine only jumped from 21.4% to 21.9% in 2010 and 23.5% to 24.4% in 2011. This perfectly illustrates how highly regressive the Social Security tax is, and why I favor ending the income cap on it.

Note that I used the 21.4% tax rate (which excludes payroll taxes) in my column in the *Post*, because at the time, my understanding was that this is the amount that would rise to 30% under the Buffett Rule. I have subsequently learned that payroll taxes would be factored in so I should have used 21.9%.

(Some might ask why I'm including the employer match, so think of it this way: if Kelli's salary had been \$100,000 (to keep the math easy) in 2010, I, her employer, would have had to match the 6.2% Social Security tax plus the 1.45% Medicare tax she paid, making her total cost to me \$107,650 (of which, she would have received \$92,350 before other taxes). It makes no difference to me (or any other employer) how much of her total cost of \$107,650 goes to the government or to Kelli, so if there had been no employer match, I would have been happy to pay her the entire \$107,650. This is why the employer match must be counted when calculating Kelli's total federal tax rate.)

A millionaire for higher taxes

By Whitney Tilson, Wednesday, April 11, 9:31 AM

http://www.washingtonpost.com/opinions/a-millionaire-for-higher-taxes/2012/04/11/gIQA07jLAT_story.html

Whitney Tilson is a hedge fund manager and a member of [Patriotic Millionaires for Fiscal Strength](#).

I am part of the 1 percent of the 1 percent. By that I mean that I am fortunate to be a wealthy American, and I say, “It’s okay to raise my taxes.”

This morning I was at the White House supporting President Obama in his call for Congress to pass the “[Buffett rule](#).” The rule — inspired in part by Warren Buffett’s exasperation in learning that his assistant was paying a greater percentage of her income in taxes than he was — would require anyone whose income exceeds \$1 million a year to pay a minimum 30 percent in taxes. It would hit me hard. I haven’t finished my taxes for 2011, but in 2010, my federal tax rate was 21.4 percent; if the Buffett rule had been in effect, my federal tax bill would have been 40 percent higher. Some years, my taxes would likely be more than 50 percent higher.

Why am I okay with this? The answer has to do with simple math and basic fairness.

This country is running enormous and unsustainable budget deficits that will bankrupt us all if they are not narrowed — and there is no way to do that without both cutting spending and raising revenues. ([Grover Norquist’s anti-tax pledge](#) is pie-in-the-sky fantasy and dangerous demagoguery.) Everyone is going to have to make sacrifices as part of a comprehensive budget deal along the lines of [Simpson-Bowles](#), with tens of millions of people getting smaller entitlement benefits, for example, and tens of millions of people paying higher taxes.

It’s not class warfare to say that people like me — who aren’t suffering at all in these tough economic times, who are in many cases doing the best we’ve ever done and who can easily afford to pay more in taxes with no impact whatsoever on our lifestyles — should be the first to step up and make a small sacrifice.

I think most people agree with the idea of shared sacrifice, but for many, when push comes to shove, that principle goes out the window. I don’t kid myself that I’m making any real sacrifices. The men and women who have been fighting for the past decade in Iraq and Afghanistan — thousands of them coming home in coffins or with missing limbs — are making true sacrifices. And when they enter the domestic workforce, they shouldn’t have to pay taxes at a significantly higher rate than the vast majority of millionaires.

Some critics of the Buffett rule legislation point out that it would raise only an estimated [\\$47 billion](#) over 10 years, which is a mere sliver of the 2011 deficit of \$1.3 trillion, let alone the national debt of \$15.6 trillion. They're right that the Buffett rule, by itself, won't be enough. But we have to start raising money somewhere, and if it isn't raised from people like me, it will have to be raised from people less fortunate than me. Think of it this way: For every billion dollars not raised from millionaires, that's equal to a million average American families each paying an extra \$1,000 in taxes. That would be real hardship for a lot of families that, unlike mine, are struggling to make ends meet.

Other critics argue that there's no need for anyone to pay more taxes, because our government is so ineffective and wasteful that we can generate the savings we need just by running it better. I disagree. While there's always plenty of room for improvement, our government is actually quite effective and efficient. Our military and judicial system and national parks are the best in the world. Unlike in countries where government corruption is rampant, I've never once been solicited for a bribe. And our police departments generally do a good job protecting citizens. My wife and I walk our dog in Central Park every night after 10 p.m. and have never feared for our safety.

I think that most people who complain about our government have no idea what they're talking about because they've never been to a country with a bad government. I regularly visit Kenya (my parents retired there and my sister works there), I visited Ethiopia many times when my parents lived there, and growing up I lived for three years each in Tanzania and Nicaragua. So I've seen what life is like under corrupt, dysfunctional, underfunded governments. To quote Hobbes, it can be "solitary, poor, nasty, brutish and short."

I am grateful for the effective government we have in this country, which is the absolutely necessary foundation for our wonderful capitalistic economic system that has benefitted me so greatly. And I'm willing to do my fair share — in fact, more than my fair share — to help rein in our deficits and put this country on a more sustainable path.

Background Materials on the Buffett Rule



THE BUFFETT RULE: A BASIC PRINCIPLE OF TAX FAIRNESS

The National Economic Council

April 2012



EMBARGOED FOR 6:00 AM TUESDAY APRIL 10, 2012

The Buffett Rule: A Basic Principle of Tax Fairness

The Buffett Rule is the basic principle that no household making over \$1 million annually should pay a smaller share of their income in taxes than middle-class families pay. Warren Buffett has famously stated that he pays a lower tax rate than his secretary, but as this report documents this situation is not uncommon. This situation is the result of decades of the tax system being tilted in favor of high-income households at the expense of the middle class. Not only is this unfair, it can also be economically inefficient by providing opportunities for tax planning and distorting decisions. The President has proposed the Buffett Rule as a basic rule of tax fairness that should be met in tax reform. To achieve this principle, the President has proposed that no millionaire pay less than 30 percent of their income in taxes.

Why the Buffett Rule Is Needed

The average tax rate paid by the very highest-income Americans has fallen to nearly the lowest rate in over 50 years. The wealthiest 1-in-1,000 taxpayers pay barely a quarter of their income in Federal income and payroll taxes today—half of what they would have contributed in 1960. And, the top 400 richest Americans—all making over \$110 million—paid only 18 percent of their income in income taxes in 2008.

Average tax rates for the highest income Americans have plummeted even as their incomes have skyrocketed. Since 1979 the average after-tax income of the very wealthiest Americans – the top 1 percent – has risen *nearly four-fold*. Over the same period, the middle sixty percent of Americans saw their incomes rise just 40 percent. The typical CEO who used to earn about 30 times more than his or her worker now earns 110 times more.

Some of the richest Americans pay extraordinarily low tax rates—as they hire lawyers and accountants to take particular advantage of loopholes and tax expenditures. The *average* tax rate masks the fact that some high-income Americans pay near their statutory tax rate, while others take advantage of tax expenditures and loopholes to pay extraordinarily low rates—and it is these high-income taxpayers that the Buffett rule is meant to address .

- Of millionaires in 2009, a full 22,000 households making more than \$1 million annually paid less than 15 percent of their income in income taxes — and *1,470 managed to paid no federal income taxes on their million-plus-dollar incomes*, according to IRS data.
- Of the 400 highest income Americans, one out of every three in this group of the most financially fortunate Americans paid less than 15 percent of their income in income taxes in 2008.

Many high-income Americans are paying less in taxes than middle class Americans in taxes.

Nearly one-quarter of all millionaires (about 55,000 taxpayers) face a tax rate that is lower than more than millions of middle-income taxpayers. This is fundamentally unfair.

In his State of the Union address, President Obama called for comprehensive tax reform that cuts rates, cuts inefficient tax loopholes, cuts the deficit, increases job creation and growth, and sets out a very simple principle of fairness: No household making over \$1 million annually should pay a smaller share of income in taxes than middle-class families pay. To achieve this, the President has proposed that no millionaire pay less than 30 percent of their income in taxes.

This is the “Buffett Rule.” As Warren Buffett has pointed out, his effective tax rate is lower than his secretary’s—and that is wrong. To be clear, there is tremendous variation in tax rates for high-income households, with many, like small business owners who receive primarily labor income and take advantage of few special tax benefits, paying taxes at an effective rate not dramatically lower than their statutory rate. But as a recent analysis by the Congressional Research Service concluded, “the current U.S. tax system violates the Buffett rule in that a large proportion of millionaires pay a smaller percentage of their income in taxes than a significant proportion of moderate-income taxpayers.”

This basic source of unfairness is what this principle would address, by limiting the degree to which the most well-off can take advantage of tax expenditures and preferential rates on certain income. In a time when all Americans are being asked to come together to make the sort of shared sacrifices that will allow our country to continue making the crucial investments that are necessary to grow our economy, continuing to allow some of the wealthiest Americans to use special tax breaks to avoid paying their fair share simply cannot be justified. Moreover, addressing these inequities through tax reform that includes a Buffett Rule can also improve the efficiency of the tax system by discouraging tax planning and reducing distortions to behavior.

I. The Average Tax Rate Paid by the Very Wealthiest Americans Has Fallen to Nearly Its Lowest level in Over 50 Years

For the very wealthiest Americans, the amount of taxes they have paid on average has fallen sharply over recent decades.

Among the top 0.1 percent — the highest-income one out of every thousand American households — the average tax rate, including Federal income and payroll taxes, has dropped *a stunning 50 percent over the last 50 years*, from 51 percent to 26 percent (see Figure 1). This is nearly the lowest rate in over 50 years and is, in fact, one-half the rate they would have paid in 1960.

To take even a thinner slice the 400 highest-income households, all of whom made over \$110 million in 2008, the most recent year for which data are available, for an average of \$271 million —paid just 18.1 percent of their incomes in Federal income (excluding payroll) tax on average, according to the IRS. In 2007, it was just 16.6 percent. This is nearly half the 29.9 percent rate those households paid on average in 1995.

In contrast, the middle class have seen their taxes roughly constant, or slightly increasing, over this period. The middle quintile, for example, paid 14 percent of its income in taxes in 1960 and 16 percent in 2010.

Part of this remarkable trend is a result of the 2001 and 2003 tax cuts for the highest income Americans that were unfair and unaffordable at the time they were enacted and remain so today. Between 2000 and 2008, income tax rates for the top 0.1 percent fell by 4.7 percentage points.

Figure 1 shows the trend in average tax rates since 1960 for top-and middle-income earners. Importantly, these estimates calculate effective tax rates in each of these years based on the actual income distribution in 2005, with their incomes adjusted for the national average wage growth each year before and after. This effectively controls for changes in the distribution of income so as to give a clear reading of what happened purely as a result of changes in tax policy. In contrast, other estimates also show that the tax system has become substantially less progressive but understate the magnitude of this change because they cover the same period that the highest income Americans were earning more relative to others.

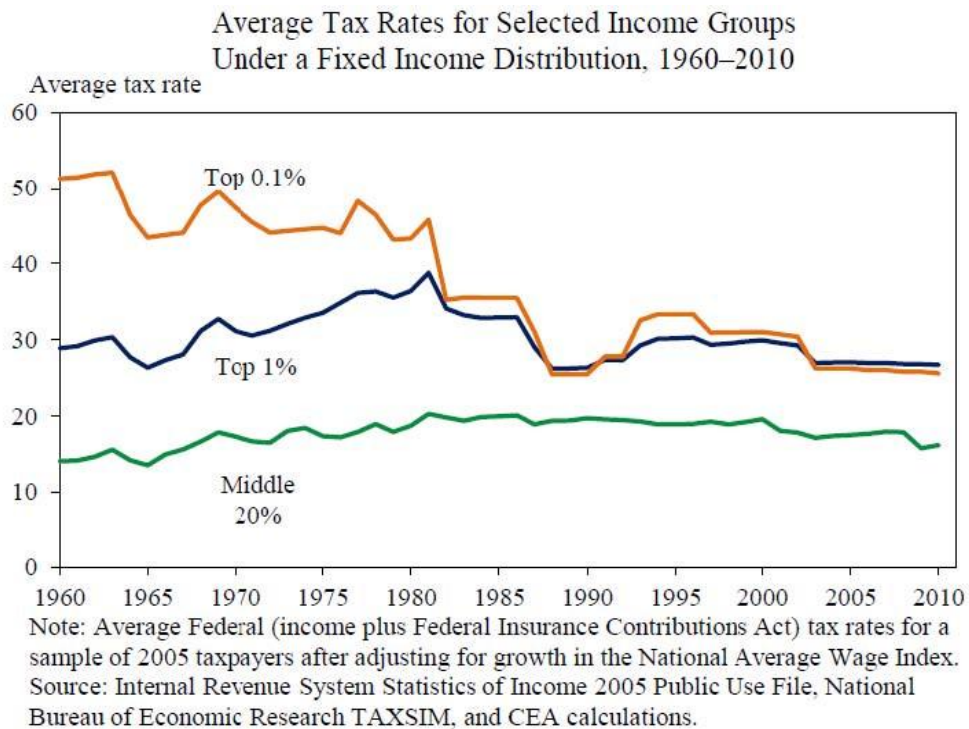


Figure 1

II. Average Tax Rates for the Highest Income Americans Have Plummeted Even As Their Incomes Have Skyrocketed

Over the past four decades, income inequality has risen dramatically, severing the link that previously existed between economic growth and middle class standards of living. By the time the financial crisis struck, these trends had resulted in the wealthiest Americans receiving a greater share of the country's total pre-tax income than at any time since the Roaring Twenties.

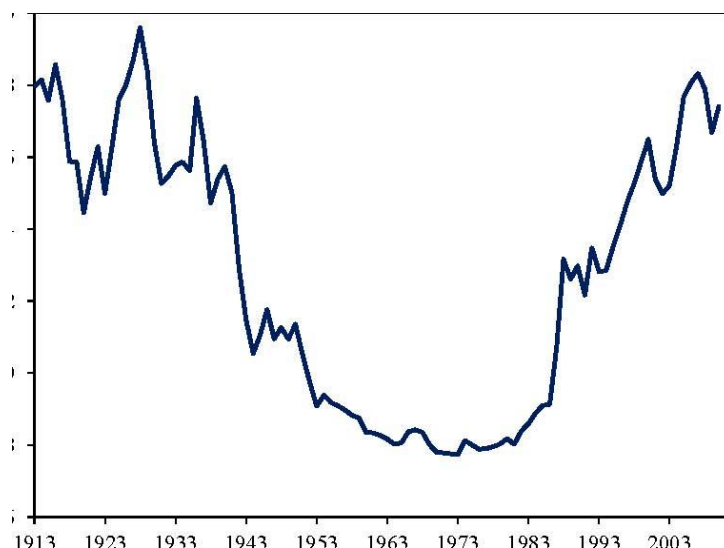
While the economic growth that followed the end of World War II was broadly shared by Americans of all income levels, the income gap has increased dramatically in the past four decades.

Since 1979, the average after-tax income of the highest income Americans – the top 1 percent – has risen nearly *four-fold*. Over the same period, the middle sixty percent of Americans saw their incomes rise just 40 percent. The typical CEO who used to earn about 30 times more than his or her workers now earns 110 times more.

The wealthiest one of every hundred households — the top 1 percent — now take home 17 percent of the total income earned by all American workers (see Figure 2), among the very highest shares of any time since the 1920s.

This rising economic inequality has meant that the very rich have received, over the years, an outsize share of the country's economic growth. The typical American family — whose real income actually has fallen over the past decade by about 6 percent on average — has been left far behind.

Figure 2



U.S. Income Earned by Top 1 Percent, 1913–2010
Percent of total U.S. income

III. Some of the Richest Americans Pay Extraordinarily Low Tax Rates

The *average* tax rate masks the fact that some high-income Americans pay near their statutory tax rate, while others take advantage of tax expenditures and loopholes to pay almost nothing. For example, a hedge-fund manager might characterize his or her compensation as capital gains, thereby paying a fraction of the taxes they would pay if their income was classified as wages, the same as other working Americans. It is these high-income taxpayers that the Buffett rule targets. The Buffett Rule is not an across-the-board tax increase on high-income households; it is a way to ensure that no millionaire is paying less than the middle class.

Of those making over \$1 million in 2009, fully 160,000 households paid less than 30 percent of their income in direct income and payroll taxes in 2009, according to an analysis of the IRS's 2009 Statistics of Income file by the Treasury Department's Office of Tax Analysis. (Note that that number is projected to be lower in 2013 when the temporary tax rates on high-income households are scheduled to expire.)

Of these millionaires, over 22,000 families paid less than 15 percent of income in Federal income and employee payroll taxes — and 1,470 managed to paid no federal/ income taxes on their million-plus-dollar incomes, according to the IRS.

The distribution of taxes paid among the 400 richest Americans is particularly striking. One out of every three in this group of the most financially fortunate Americans paid less than 15 percent of their income in taxes in 2008 (see Table 1). And 85 percent of the 400 highest income households paid an effective rate of less than 30 percent.

Percent of the 400 Highest Income Americans Paying Less Than a Given Effective Federal Income Tax Rate in 2008						
	<i>Under 10%</i>	<i>Under 15%</i>	<i>Under 20%</i>	<i>Under 25%</i>	<i>Under 30%</i>	<i>Under 35%</i>
Percent of top 400	8%	33%	61%	74%	85%	100%

Table 1

IV. Many High-Income Americans Are Paying Less As a Share of Their Income Than Middle Class Americans

Because some of the richest Americans pay taxes at such extraordinarily low rates, they end up paying less in taxes as a share of their income in taxes than middle-class Americans. To be clear—on average, high income Americans do pay more. That is because the United States has a progressive tax system in which tax rates generally rise with income, albeit not as much as they have in the past.

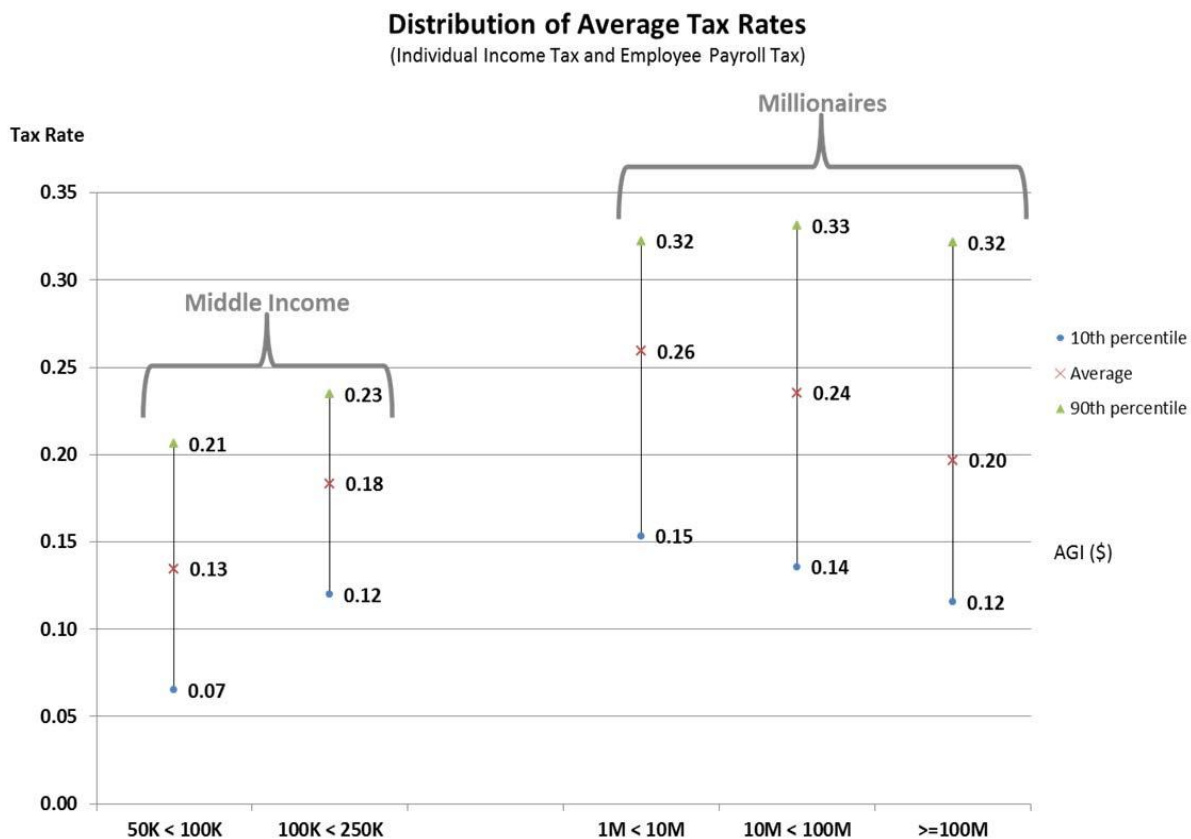
However, these average trends mask the substantial variation in tax rates, which is even greater for very high-income households. Some of the wealthiest Americans can hire lawyers and

accountants to take advantage of tax expenditures and loopholes that enable them to pay a lower share of their income in taxes than average Americans. In particular:

Nearly one-quarter percent of all millionaires pay less in taxes than millions of middle-class American families:

- Twenty-four percent of all millionaires (about 55,000 taxpayers) face a tax rate that is lower than the tax rate faced by nearly 1.5 million taxpayers making between \$100,000 and \$250,000 (the 90th percentile for this group).
- Twenty-one percent of millionaires (about 50,000 taxpayers) face a tax rate that is lower than the tax rate faced by 3 million taxpayers making between \$50,000 and \$100,000 (the 90th percentile for this group).

This is illustrated in Figure 3 which shows the distribution of effective tax rates by income class. This figure shows that, while average rates generally rise with income, a significant portion of the highest income Americans pay less in taxes as a share of their income than middle-class families.



Source: 2009 Statistics of Income Individual Income Tax File.

Note: Average tax rates are calculated as individual income tax plus the employee share of payroll taxes divided by Adjusted Gross Income (AGI).

V. The Economic Argument for the Buffett Rule

Economic research has shown that taxes are more efficient (or less distortionary) when taxpayers have fewer opportunities to avoid them. The Buffett Rule would reduce these opportunities for the highest income Americans, limiting the extent to which they can take advantage of inefficient tax shelters or accounting mechanisms to avoid paying taxes.

In a recent paper, Nobel-prize winning economist Peter Diamond and renowned tax economist Emmanuel Saez note the relatively greater ability of high income taxpayers to avoid taxes, and argue that “the natural policy response should be to close tax avoidance opportunities” (*Journal of Economic Perspectives*, Fall 2011).

Research by economist Wojciech Kopczuk has demonstrated that “base broadening reduces the marginal efficiency cost of taxation” (*Journal of Public Economics*, 2005). Kopczuk also found that the Tax Reform Act of 1986, which broadened the tax base and closed tax loopholes, limited the extent to which high-income taxpayers acted to avoid taxes.

High-income taxpayers have been shown to avoid taxes by changing the timing of income received. For example, Goolsbee (*Journal of Political Economy*, 2000) found that the primary response by executives to the 1993 tax increase was to change the timing of their stock options. A permanent Buffett Rule would limit these opportunities for tax avoidance, which would enhance economic efficiency.

Many tax subsidies are designed to support important goals, many with broader economic benefits, like encouraging and supporting homeownership, retirement savings, and health coverage for the middle class. But these subsidies are often upside down, with the largest incentives going to the highest-income households that often have the least need for them. This not only costs money, it can encourage the perception or reality of unfairness, and is economically inefficient.

Talking Points for the Patriotic Millionaires

The Patriotic Millionaires are asking for:

- The implementation of an additional tax bracket of 39.6% which would apply only to incomes over \$1 million per year.

General Facts

- Over 375,000 Americans have incomes over \$1,000,000 (there are 310 million people in the country therefore people who make more than \$1 million a year are not the 1%, they are the .01%; 44% of Congress people are millionaires;
- In 1963, millionaires had a top marginal tax rate of 91%. Today, millionaires have a top marginal tax rate of 35%;
- Between 1979 and 2007, incomes for the wealthiest 1% of Americans rose by 281% compared to increases of 25 percent for the middle fifth of households and 16 percent for the bottom fifth; More than a quarter of all millionaires pay a tax rate of only 12.6 percent or less;
- Forty percent of millionaires pay a lower tax rate than 3.4 million Americans who earn between \$40,000 and \$50,000;
- In 2010, the average income in the top 1 percent was \$2.8 million. The top 10 percent averaged \$125,627. For the bottom 90 percent, the average family income was \$29,840.
- The roughly \$2 trillion pot of federal entitlements mostly benefits lower-income families. But the \$1 trillion in tax breaks mostly benefits those higher up the income ladder. Taxpayers in the top fifth of the income distribution get almost \$25,000 each, on average. Families earning more than \$1 million before taxes receive \$447,259 from tax breaks By contrast, for taxpayers earning \$10,000 or less, the average break amounts to \$427.

The Buffett Rule: General overview

President Obama's "Buffett Rule" would ensure that the rich pay at least 30 percent of their income in taxes. The Buffett Rule was named after the billionaire investor Warren E. Buffett, who has made a point of saying that he pays a lower tax rate than his secretary. The Senate legislation would establish a minimum 30 percent tax rate for households earning at least \$2 million a year, with a lower minimum rate for incomes between \$1 million and \$2 million.

The procedural vote on April 16 decides whether the Senate will debate the bill. Specifically they will be voting for CLOTURE – which will allow the vote to come to the floor.

The current bill (Sen. Sheldon Whitehouse (RI) introduced the “Paying a Fair Share Act”) would devote the estimated \$47 billion in added tax revenue over 10 years to deficit reduction. Future votes would use the Buffett Rule to offset the cost of job-creation measures like infrastructure spending, student loan relief or tax breaks to encourage hiring.

Conservatives argue that raising taxes hurts job creation, “This is yet another proposal from Democrats that won’t create a single job or lower the price at the pump by a penny, but may have the opposite effect,” said Senator Mitch McConnell of Kentucky, the Senate minority leader.

Tax Breaks and Tax Loopholes

In a report issued March 2012, the Congressional Research Service found that all the major tax breaks currently in use in America add up to about \$1.1 trillion a year. Of the extra \$1 trillion, almost \$7 of \$10 goes to the top fifth of taxpayers. Only \$1 out of \$10 goes to the bottom 40 percent.

The relatively low tax rate on capital gains translates to about \$71.4 billion in tax breaks every year, the CRS says.

The corporate nominal tax rate and the real tax rate diverge widely. The nominal federal tax rate on the largest corporations is now 35 percent. State taxes, on average, bump this to 39.2 percent.

When conservatives argue that we have the highest corporate tax rate they are referring to the nominal rate. Regardless of our nominal rate, our real corporate tax rate is among the lowest. Big companies enjoy a huge buffet of credits, shelters, deductions, and other preferences that reduce their rate to an average of 13 percent. Many profitable companies pay no federal income tax at all.

The House Republican Budget

Authored by Budget Committee Chairman Paul Ryan (R-WI), the Republican’s most recent plan would give away \$3 trillion in tax breaks to corporations and the wealthiest Americans and drop the top marginal tax rate from 35 percent to 25 percent.

The Center for Tax Justice estimates that even if Ryan manages to close every tax loophole available to the wealthy, each millionaire would pay an average of \$187,000

less under Ryan's plan than they would under current law (which assumes an end to the Bush tax cuts).

Impacts of Ryan FY2013 Budget Tax Provisions on Millionaires in 2014

Compared to current law					
Income Group	Average Income	Percent w/tax cut	Percent w/tax hike	Average Tax Change in Dollars	Average Tax Change as % Change
\$1 million - \$5 million	1,861,000	92.5%	6.1%	-111,100	-18.2%
\$5 million to \$10 million	6,846,300	92.0%	6.6%	-450,700	-19.6%
\$10 million and over	25,274,500	89.1%	9.1%	-1,406,400	-13.1%
all over \$1 million	3,158,200	92.3%	6.3%	-187,100	-17.0%

The Ryan budget exclusively benefits the wealthiest Americans; people making more than \$1 million a year would receive 37 percent of the new Ryan tax cuts even though they constitute less than one-half of one percent of U.S. households.

After-tax incomes would rise by 12.5 percent among millionaires, but just 1.9 percent for middle-income households.

The Ryan plan essentially eliminates all spending on items other than Social Security, health care, and defense by 2050.

A Nation With Too Many Tax Breaks

By: Eduardo Porter March 13, 2012

New York Times

With the presidential election in sight and a deadline looming at the end of the year to cut trillions from the deficit, the partisan debate over the budget has become an existential battle over the purpose of government.

President Obama's insistence that the rich must pay more to preserve programs that help the poor and middle class has crashed against the Republican claim that the president's Robin Hood policies amount to class warfare.

Whatever their merits, both arguments rely on an assumption that is at best overstated: that the government uses resources from those who are richer to pay for programs that mostly benefit the less fortunate.

At first glance the budget does seem heavily tilted to take from the rich and redistribute to the rest. Taxpayers in the top fifth of the population shoulder three-quarters of the federal tax burden and receive only about 10 percent of entitlement spending, according to calculations by the Urban Institute and the Brookings Institution's Tax Policy Center, and the Center on Budget and Policy Priorities.

Families in the bottom 40 percent of the income distribution pay less than 1 percent of taxes and receive about 60 percent of entitlements.

But this is too narrow a view of taxing and spending. There is an alternate, more comprehensive way to measure how the government moves resources across the economy. It includes amounts that are not reported either as revenue or spending in the budget, but recorded as tax expenditures; that is, money that the government does not collect because of tax breaks.

These breaks may be labeled differently, but they serve the same function as government spending. They pay for services, like making homes more energy efficient, provide incentives for things like saving and investment, or simply raise the income of selected groups. For instance, encouraging businesses to offer health benefits to their workers by exempting the cost from taxes deprives the budget of \$109 billion, according to Congress's Joint Committee on Taxation. Tax breaks to encourage charity cost \$39 billion.

If we eliminated them all and replaced them with regular spending on the same set of objectives, the budget would look very different. It would become apparent that initiatives are much more costly than we think — about \$1.1 trillion more costly, according to the Tax Policy Center.

Moreover, including this money creates an entirely different landscape of winners and losers of the government's largess: of the extra \$1 trillion, almost \$7 of \$10 goes to the top fifth of taxpayers. Only \$1 out of \$10 goes to the bottom 40 percent.

Taxpayers of all incomes would pay higher taxes. The Tax Policy Center says those in the bottom 20 percent, making about \$8,500 a year on average, would pay 9.4 percent of their income in all federal taxes. This amounts to about 13 percentage points more than they do today (now they get a net credit). The average federal tax for those in the top 20 percent — families making \$214,000 a year — would rise to 34.5 percent from 22.9 percent.

In some respects, this might make us look like the big government social democracies of Europe, where taxes and government benefits are a much larger share of the economy. Unlike Europe and other industrial countries, however, the United States government uses only a fairly small part of the resources it has to benefit the have-nots.

The accompanying chart shows how the federal government spreads benefits. This includes direct spending on mandatory entitlements and core discretionary benefits, like housing and energy assistance. It also includes deductions, exclusions and other tax expenditures.

One feature stands out: The roughly \$2 trillion pot of federal entitlements mostly benefits lower-income families. But the \$1 trillion in tax breaks mostly benefits those higher up the income ladder. Taxpayers in the top fifth of the income distribution get almost \$25,000 each, on average. Families earning more than \$1 million before taxes receive \$447,259 from tax breaks. By contrast, for taxpayers earning \$10,000 or less, the average break amounts to \$427.

Consider housing. The federal government spent about \$55 billion in housing assistance last year, most of it to cover some rental costs for low-income Americans. It gave a further \$5.4 billion in tax credits to subsidize low-income housing. But this is just a small share of what the government spends on housing.

To increase homeownership, borrowers can subtract the interest paid on their mortgages from income on their tax returns. This cost the government almost \$78 billion last year, more than the entire budget of the Department of Housing and Urban Development. And it is not the only goody. Homeowners can also deduct state and local property taxes from their income tax, at a cost of about \$24 billion last year. Allowing homeowners to pocket tax-free much of the profit from selling their homes cost \$18 billion more.

Even if one agrees government should spend all this money to get Americans into a home, the deduction for mortgage interest is a lopsided way to allocate it: 76 of the total benefit goes to the richest fifth of the population — they have bigger houses and pay higher tax rates — at an average of about \$1,952 per taxpayer, according to the Tax Policy Center.

By contrast, the average family in the bottom 40 percent of the income distribution got \$14. Rather than improving home ownership rates, the billions forsaken by government enabled more affluent buyers to buy bigger homes and more sellers to get more money for their real estate. If voters could see how the benefits flowed, they might not be so enamored of the policy.

They might see better uses for this money. Spending cuts of \$1.2 trillion are supposed to kick in automatically in 2013 if Congress fails to pass a plan to reduce the long-term deficit. Tax experts hope the sense of urgency might create the political will to strip away many of the deductions and exclusions that pockmark the tax code. The result would be more money on the revenue side of the ledger to cut the deficit without threatening necessary social programs.

Tax expenditures die hard, however. Each is backed by its own set of lobbyists pressing its merits upon Congress. Some, like the mortgage interest deduction, are wildly popular.

A quarter century ago, Ronald Reagan and a Democratic Congress managed to pare back tax expenditures as part of the budget reform of 1986, overcoming powerful opposition. Those in the trenches at the time remember it as an epic struggle. But for all the heroics, tax expenditures were pared only to 6 percent of gross domestic product in 1988, from 8.7 percent in 1985. By 2003 they had crept back up to 7.8 percent of the nation's output.

Perhaps the depth of the fiscal chasm we face will impel us to do better. The commission on fiscal reform created by President Obama in 2010 recommended axing many tax expenditures. So did a report by Alice M. Rivlin, a former vice chairwoman of the Federal Reserve, and former Republican Senator Pete V. Domenici of New Mexico. Tax expenditures have been featured regularly on the campaign trail, with both Mr. Obama and Republican frontrunner Mitt Romney promising to slash loopholes to broaden the tax base.

But even if those efforts fail, the debate may just temper the belief that current government policies are mostly about helping the poor.

Obama's Remarks to Newspaper Editors

April 3, 2012

The New York Times

Following is a transcript of President Obama's speech at The Associated Press luncheon on Tuesday, as released by the White House:

Thank you very much. (Applause.) Please have a seat. Well, good afternoon, and thank you to Dean Singleton and the board of the Associated Press for inviting me here today. It is a pleasure to speak to all of you -- and to have a microphone that I can see. (Laughter.) Feel free to transmit any of this to Vladimir if you see him. (Laughter.)

Clearly, we're already in the beginning months of another long, lively election year. There will be gaffes and minor controversies, be hot mics and Etch-a-Sketch moments. You will cover every word that we say, and we will complain vociferously about the unflattering words that you write -- unless, of course, you're writing about the other guy -- in which case, good job. (Laughter.)

But there are also big, fundamental issues at stake right now -- issues that deserve serious debate among every candidate, and serious coverage among every reporter. Whoever he may be, the next President will inherit an economy that is recovering, but not yet recovered, from the worst economic calamity since the Great Depression. Too many Americans will still be looking for a job that pays enough to cover their bills or their mortgage. Too many citizens will still lack the sort of financial security that started slipping away years before this recession hit. A debt that has grown over the last decade, primarily as a result of two wars, two massive tax cuts, and an unprecedented financial crisis, will have to be paid down.

In the face of all these challenges, we're going to have to answer a central question as a nation: What, if anything, can we do to restore a sense of security for people who are willing to work hard and act responsibly in this country? Can we succeed as a country where a shrinking number of people do exceedingly well, while a growing number struggle to get by? Or are we better off when everyone gets a fair shot, and everyone does their fair share, and everyone plays by the same rules?

This is not just another run-of-the-mill political debate. I've said it's the defining issue of our time, and I believe it. It's why I ran in 2008. It's what my presidency has been about. It's why I'm running again. I believe this is a make-or-break moment for the middle class, and I can't remember a time when the choice between competing visions of our future has been so unambiguously clear.

Keep in mind, I have never been somebody who believes that government can or should try to solve every problem. Some of you know my first job in Chicago was working with a group of Catholic churches that often did more good for the people in their communities than any government program could. In those same communities I saw that

no education policy, however well crafted, can take the place of a parent's love and attention.

As President, I've eliminated dozens of programs that weren't working, and announced over 500 regulatory reforms that will save businesses and taxpayers billions, and put annual domestic spending on a path to become the smallest share of the economy since Dwight Eisenhower held this office -- since before I was born. I know that the true engine of job creation in this country is the private sector, not Washington, which is why I've cut taxes for small business owners 17 times over the last three years.

So I believe deeply that the free market is the greatest force for economic progress in human history. My mother and the grandparents who raised me instilled the values of self-reliance and personal responsibility that remain the cornerstone of the American idea. But I also share the belief of our first Republican President, Abraham Lincoln -- a belief that, through government, we should do together what we cannot do as well for ourselves.

That belief is the reason this country has been able to build a strong military to keep us safe, and public schools to educate our children. That belief is why we've been able to lay down railroads and highways to facilitate travel and commerce. That belief is why we've been able to support the work of scientists and researchers whose discoveries have saved lives, and unleashed repeated technological revolutions, and led to countless new jobs and entire industries.

That belief is also why we've sought to ensure that every citizen can count on some basic measure of security. We do this because we recognize that no matter how responsibly we live our lives, any one of us, at any moment, might face hard times, might face bad luck, might face a crippling illness or a layoff. And so we contribute to programs like Medicare and Social Security, which guarantee health care and a source of income after a lifetime of hard work. We provide unemployment insurance, which protects us against unexpected job loss and facilitates the labor mobility that makes our economy so dynamic. We provide for Medicaid, which makes sure that millions of seniors in nursing homes and children with disabilities are getting the care that they need.

For generations, nearly all of these investments -- from transportation to education to retirement programs -- have been supported by people in both parties. As much as we might associate the G.I. Bill with Franklin Roosevelt, or Medicare with Lyndon Johnson, it was a Republican, Lincoln, who launched the Transcontinental Railroad, the National Academy of Sciences, land grant colleges. It was Eisenhower who launched the Interstate Highway System and new investment in scientific research. It was Richard Nixon who created the Environmental Protection Agency, Ronald Reagan who worked with Democrats to save Social Security. It was George W. Bush who added prescription drug coverage to Medicare.

What leaders in both parties have traditionally understood is that these investments aren't part of some scheme to redistribute wealth from one group to another. They are

expressions of the fact that we are one nation. These investments benefit us all. They contribute to genuine, durable economic growth.

Show me a business leader who wouldn't profit if more Americans could afford to get the skills and education that today's jobs require. Ask any company where they'd rather locate and hire workers — a country with crumbling roads and bridges, or one that's committed to high-speed Internet and high-speed railroads and high-tech research and development?

It doesn't make us weaker when we guarantee basic security for the elderly or the sick or those who are actively looking for work. What makes us weaker is when fewer and fewer people can afford to buy the goods and services our businesses sell, or when entrepreneurs don't have the financial security to take a chance and start a new business. What drags down our entire economy is when there's an ever-widening chasm between the ultra-rich and everybody else.

In this country, broad-based prosperity has never trickled down from the success of a wealthy few. It has always come from the success of a strong and growing middle class. That's how a generation who went to college on the G.I. Bill, including my grandfather, helped build the most prosperous economy the world has ever known. That's why a CEO like Henry Ford made it his mission to pay his workers enough so they could buy the cars that they made. That's why research has shown that countries with less inequality tend to have stronger and steadier economic growth over the long run.

And yet, for much of the last century, we have been having the same argument with folks who keep peddling some version of trickle-down economics. They keep telling us that if we'd convert more of our investments in education and research and health care into tax cuts -- especially for the wealthy -- our economy will grow stronger. They keep telling us that if we'd just strip away more regulations, and let businesses pollute more and treat workers and consumers with impunity, that somehow we'd all be better off. We're told that when the wealthy become even wealthier, and corporations are allowed to maximize their profits by whatever means necessary, it's good for America, and that their success will automatically translate into more jobs and prosperity for everybody else. That's the theory.

Now, the problem for advocates of this theory is that we've tried their approach -- on a massive scale. The results of their experiment are there for all to see. At the beginning of the last decade, the wealthiest Americans received a huge tax cut in 2001 and another huge tax cut in 2003. We were promised that these tax cuts would lead to faster job growth. They did not. The wealthy got wealthier -- we would expect that. The income of the top 1 percent has grown by more than 275 percent over the last few decades, to an average of \$1.3 million a year. But prosperity sure didn't trickle down.

Instead, during the last decade, we had the slowest job growth in half a century. And the typical American family actually saw their incomes fall by about 6 percent, even as the economy was growing.

It was a period when insurance companies and mortgage lenders and financial institutions didn't have to abide by strong enough regulations, or they found their ways around them. And what was the result? Profits for many of these companies soared. But so did people's health insurance premiums. Patients were routinely denied care, often when they needed it most. Families were enticed, and sometimes just plain tricked, into buying homes they couldn't afford. Huge, reckless bets were made with other people's money on the line. And our entire financial system was nearly destroyed.

So we tried this theory out. And you would think that after the results of this experiment in trickle-down economics, after the results were made painfully clear, that the proponents of this theory might show some humility, might moderate their views a bit. You'd think they'd say, you know what, maybe some rules and regulations are necessary to protect the economy and prevent people from being taken advantage of by insurance companies or credit card companies or mortgage lenders. Maybe, just maybe, at a time of growing debt and widening inequality, we should hold off on giving the wealthiest Americans another round of big tax cuts. Maybe when we know that most of today's middle-class jobs require more than a high school degree, we shouldn't gut education, or lay off thousands of teachers, or raise interest rates on college loans, or take away people's financial aid.

But that's exactly the opposite of what they've done. Instead of moderating their views even slightly, the Republicans running Congress right now have doubled down, and proposed a budget so far to the right it makes the Contract with America look like the New Deal. (Laughter.) In fact, that renowned liberal, Newt Gingrich, first called the original version of the budget "radical" and said it would contribute to "right-wing social engineering." This is coming from Newt Gingrich.

And yet, this isn't a budget supported by some small rump group in the Republican Party. This is now the party's governing platform. This is what they're running on. One of my potential opponents, Governor Romney, has said that he hoped a similar version of this plan from last year would be introduced as a bill on day one of his presidency. He said that he's "very supportive" of this new budget, and he even called it "marvelous" -- which is a word you don't often hear when it comes to describing a budget. (Laughter.) It's a word you don't often hear generally. (Laughter.)

So here's what this "marvelous" budget does. Back in the summer, I came to an agreement with Republicans in Congress to cut roughly \$1 trillion in annual spending. Some of these cuts were about getting rid of waste; others were about programs that we support but just can't afford given our deficits and our debt. And part of the agreement was a guarantee of another trillion in savings, for a total of about \$2 trillion in deficit reduction.

This new House Republican budget, however, breaks our bipartisan agreement and proposes massive new cuts in annual domestic spending -- exactly the area where we've already cut the most. And I want to actually go through what it would mean for our country if these cuts were to be spread out evenly. So bear with me. I want to go through this -- because I don't think people fully appreciate the nature of this budget.

The year after next, nearly 10 million college students would see their financial aid cut by an average of more than \$1,000 each. There would be 1,600 fewer medical grants, research grants for things like Alzheimer's and cancer and AIDS. There would be 4,000 fewer scientific research grants, eliminating support for 48,000 researchers, students, and teachers. Investments in clean energy technologies that are helping us reduce our dependence on foreign oil would be cut by nearly a fifth.

If this budget becomes law and the cuts were applied evenly, starting in 2014, over 200,000 children would lose their chance to get an early education in the Head Start program. Two million mothers and young children would be cut from a program that gives them access to healthy food. There would be 4,500 fewer federal grants at the Department of Justice and the FBI to combat violent crime, financial crime, and help secure our borders. Hundreds of national parks would be forced to close for part or all of the year. We wouldn't have the capacity to enforce the laws that protect the air we breathe, the water we drink, or the food that we eat.

Cuts to the FAA would likely result in more flight cancellations, delays, and the complete elimination of air traffic control services in parts of the country. Over time, our weather forecasts would become less accurate because we wouldn't be able to afford to launch new satellites. And that means governors and mayors would have to wait longer to order evacuations in the event of a hurricane.

That's just a partial sampling of the consequences of this budget. Now, you can anticipate Republicans may say, well, we'll avoid some of these cuts -- since they don't specify exactly the cuts that they would make. But they can only avoid some of these cuts if they cut even deeper in other areas. This is math. If they want to make smaller cuts to medical research that means they've got to cut even deeper in funding for things like teaching and law enforcement. The converse is true as well. If they want to protect early childhood education, it will mean further reducing things like financial aid for young people trying to afford college.

Perhaps they will never tell us where the knife will fall -- but you can be sure that with cuts this deep, there is no secret plan or formula that will be able to protect the investments we need to help our economy grow.

This is not conjecture. I am not exaggerating. These are facts. And these are just the cuts that would happen the year after next.

If this budget became law, by the middle of the century, funding for the kinds of things I just mentioned would have to be cut by about 95 percent. Let me repeat that. Those categories I just mentioned we would have to cut by 95 percent. As a practical matter, the federal budget would basically amount to whatever is left in entitlements, defense spending, and interest on the national debt -- period. Money for these investments that have traditionally been supported on a bipartisan basis would be practically eliminated.

And the same is true for other priorities like transportation, and homeland security, and veterans programs for the men and women who have risked their lives for this country. This is not an exaggeration. Check it out yourself.

And this is to say nothing about what the budget does to health care. We're told that Medicaid would simply be handed over to the states -- that's the pitch: Let's get it out of the central bureaucracy. The states can experiment. They'll be able to run the programs a lot better. But here's the deal the states would be getting. They would have to be running these programs in the face of the largest cut to Medicaid that has ever been proposed -- a cut that, according to one nonpartisan group, would take away health care for about 19 million Americans -- 19 million.

Who are these Americans? Many are someone's grandparents who, without Medicaid, won't be able to afford nursing home care without Medicaid. Many are poor children. Some are middle-class families who have children with autism or Down's Syndrome. Some are kids with disabilities so severe that they require 24-hour care. These are the people who count on Medicaid.

Then there's Medicare. Because health care costs keep rising and the Baby Boom generation is retiring, Medicare, we all know, is one of the biggest drivers of our long-term deficit. That's a challenge we have to meet by bringing down the cost of health care overall so that seniors and taxpayers can share in the savings.

But here's the solution proposed by the Republicans in Washington, and embraced by most of their candidates for president: Instead of being enrolled in Medicare when they turn 65, seniors who retire a decade from now would get a voucher that equals the cost of the second cheapest health care plan in their area. If Medicare is more expensive than that private plan, they'll have to pay more if they want to enroll in traditional Medicare. If health care costs rise faster than the amount of the voucher -- as, by the way, they've been doing for decades -- that's too bad. Seniors bear the risk. If the voucher isn't enough to buy a private plan with the specific doctors and care that you need, that's too bad.

So most experts will tell you the way this voucher plan encourages savings is not through better care at cheaper cost. The way these private insurance companies save money is by designing and marketing plans to attract the youngest and healthiest seniors -- cherry-picking -- leaving the older and sicker seniors in traditional Medicare, where they have access to a wide range of doctors and guaranteed care. But that, of course, makes the traditional Medicare program even more expensive, and raise premiums even further.

The net result is that our country will end up spending more on health care, and the only reason the government will save any money -- it won't be on our books -- is because we've shifted it to seniors. They'll bear more of the costs themselves. It's a bad idea, and it will ultimately end Medicare as we know it.

Now, the proponents of this budget will tell us we have to make all these draconian cuts because our deficit is so large; this is an existential crisis, we have to think about future

generations, so on and so on. And that argument might have a shred of credibility were it not for their proposal to also spend \$4.6 trillion over the next decade on lower tax rates.

We're told that these tax cuts will supposedly be paid for by closing loopholes and eliminating wasteful deductions. But the Republicans in Congress refuse to list a single tax loophole they are willing to close. Not one. And by the way, there is no way to get even close to \$4.6 trillion in savings without dramatically reducing all kinds of tax breaks that go to middle-class families -- tax breaks for health care, tax breaks for retirement, tax breaks for homeownership.

Meanwhile, these proposed tax breaks would come on top of more than a trillion dollars in tax giveaways for people making more than \$250,000 a year. That's an average of at least \$150,000 for every millionaire in this country -- \$150,000.

Let's just step back for a second and look at what \$150,000 pays for: A year's worth of prescription drug coverage for a senior citizen. Plus a new school computer lab. Plus a year of medical care for a returning veteran. Plus a medical research grant for a chronic disease. Plus a year's salary for a firefighter or police officer. Plus a tax credit to make a year of college more affordable. Plus a year's worth of financial aid. One hundred fifty thousand dollars could pay for all of these things combined -- investments in education and research that are essential to economic growth that benefits all of us. For \$150,000, that would be going to each millionaire and billionaire in this country. This budget says we'd be better off as a country if that's how we spend it.

This is supposed to be about paying down our deficit? It's laughable.

The bipartisan Simpson-Bowles commission that I created -- which the Republicans originally were for until I was for it -- that was about paying down the deficit. And I didn't agree with all the details. I proposed about \$600 billion more in revenue and \$600 billion -- I'm sorry -- it proposed about \$600 billion more in revenue and about \$600 billion more in defense cuts than I proposed in my own budget. But Bowles-Simpson was a serious, honest, balanced effort between Democrats and Republicans to bring down the deficit. That's why, although it differs in some ways, my budget takes a similarly balanced approach: Cuts in discretionary spending, cuts in mandatory spending, increased revenue.

This congressional Republican budget is something different altogether. It is a Trojan Horse. Disguised as deficit reduction plans, it is really an attempt to impose a radical vision on our country. It is thinly veiled social Darwinism. It is antithetical to our entire history as a land of opportunity and upward mobility for everybody who's willing to work for it; a place where prosperity doesn't trickle down from the top, but grows outward from the heart of the middle class. And by gutting the very things we need to grow an economy that's built to last -- education and training, research and development, our infrastructure -- it is a prescription for decline.

And everybody here should understand that because there's very few people here who haven't benefitted at some point from those investments that were made in the '50s and

the '60s and the '70s and the '80s. That's part of how we got ahead. And now, we're going to be pulling up those ladders up for the next generation?

So in the months ahead, I will be fighting as hard as I know how for this truer vision of what the United States of America is all about. Absolutely, we have to get serious about the deficit. And that will require tough choices and sacrifice. And I've already shown myself willing to make these tough choices when I signed into law the biggest spending cut of any President in recent memory. In fact, if you adjust for the economy, the Congressional Budget Office says the overall spending next year will be lower than any year under Ronald Reagan.

And I'm willing to make more of those difficult spending decisions in the months ahead. But I've said it before and I'll say it again -- there has to be some balance. All of us have to do our fair share.

I've also put forward a detailed plan that would reform and strengthen Medicare and Medicaid. By the beginning of the next decade, it achieves the same amount of annual health savings as the plan proposed by Simpson-Bowles -- the Simpson-Bowles commission, and it does so by making changes that people in my party haven't always been comfortable with. But instead of saving money by shifting costs to seniors, like the congressional Republican plan proposes, our approach would lower the cost of health care throughout the entire system. It goes after excessive subsidies to prescription drug companies. It gets more efficiency out of Medicaid without gutting the program. It asks the very wealthiest seniors to pay a little bit more. It changes the way we pay for health care -- not by procedure or the number of days spent in a hospital, but with new incentives for doctors and hospitals to improve their results.

And it slows the growth of Medicare costs by strengthening an independent commission - - a commission not made up of bureaucrats from government or insurance companies, but doctors and nurses and medical experts and consumers, who will look at all the evidence and recommend the best way to reduce unnecessary health care spending while protecting access to the care that the seniors need.

We also have a much different approach when it comes to taxes -- an approach that says if we're serious about paying down our debt, we can't afford to spend trillions more on tax cuts for folks like me, for wealthy Americans who don't need them and weren't even asking for them, and that the country cannot afford. At a time when the share of national income flowing to the top 1 percent of people in this country has climbed to levels last seen in the 1920s, those same folks are paying taxes at one of the lowest rates in 50 years. As both I and Warren Buffett have pointed out many times now, he's paying a lower tax rate than his secretary. That is not fair. It is not right.

And the choice is really very simple. If you want to keep these tax rates and deductions in place -- or give even more tax breaks to the wealthy, as the Republicans in Congress propose -- then one of two things happen: Either it means higher deficits, or it means more sacrifice from the middle class. Seniors will have to pay more for Medicare. College students will lose some of their financial aid. Working families who are scraping

by will have to do more because the richest Americans are doing less. I repeat what I've said before: That is not class warfare, that is not class envy, that is math.

If that's the choice that members of Congress want to make, then we're going to make sure every American knows about it. In a few weeks, there will be a vote on what we've called the Buffett Rule. Simple concept: If you make more than a million dollars a year -- not that you have a million dollars -- if you make more than a million dollars annually, then you should pay at least the same percentage of your income in taxes as middle-class families do. On the other hand, if you make under \$250,000 a year -- like 98 percent of American families do -- then your taxes shouldn't go up. That's the proposal.

Now, you'll hear some people point out that the Buffett Rule alone won't raise enough revenue to solve our deficit problems. Maybe not, but it's definitely a step in the right direction. And I intend to keep fighting for this kind of balance and fairness until the other side starts listening, because I believe this is what the American people want. I believe this is the best way to pay for the investments we need to grow our economy and strengthen the middle class. And by the way, I believe it's the right thing to do.

This larger debate that we will be having and that you will be covering in the coming year about the size and role of government, this debate has been with us since our founding days. And during moments of great challenge and change, like the ones that we're living through now, the debate gets sharper; it gets more vigorous. That's a good thing. As a country that prizes both our individual freedom and our obligations to one another, this is one of the most important debates that we can have.

But no matter what we argue or where we stand, we have always held certain beliefs as Americans. We believe that in order to preserve our own freedoms and pursue our own happiness, we can't just think about ourselves. We have to think about the country that made those liberties possible. We have to think about our fellow citizens with whom we share a community. We have to think about what's required to preserve the American Dream for future generations.

And this sense of responsibility -- to each other and our country -- this isn't a partisan feeling. This isn't a Democratic or Republican idea. It's patriotism. And if we keep that in mind, and uphold our obligations to one another and to this larger enterprise that is America, then I have no doubt that we will continue our long and prosperous journey as the greatest nation on Earth.

Thank you. God bless you. God bless the United States of America. (Applause.) Thank you.

MR. SINGLETON: Thank you, Mr. President. We appreciate so much you being with us today. I have some questions from the audience, which I will ask -- and I'll be more careful than I was last time I did this.

Republicans have been sharply critical of your budget ideas as well. What can you say to the Americans who just want both sides to stop fighting and get some work done on their behalf?

THE PRESIDENT: Well, I completely understand the American people's frustrations, because the truth is that these are eminently solvable problems. I know that Christine Lagarde is here from the IMF, and she's looking at the books of a lot of other countries around the world. The kinds of challenges they face fiscally are so much more severe than anything that we confront -- if we make some sensible decisions.

So the American people's impulses are absolutely right. These are solvable problems if people of good faith came together and were willing to compromise. The challenge we have right now is that we have on one side, a party that will brook no compromise. And this is not just my assertion. We had presidential candidates who stood on a stage and were asked, "Would you accept a budget package, a deficit reduction plan, that involved \$10 of cuts for every dollar in revenue increases?" Ten-to-one ratio of spending cuts to revenue. Not one of them raised their hand.

Think about that. Ronald Reagan, who, as I recall, is not accused of being a tax-and-spend socialist, understood repeatedly that when the deficit started to get out of control, that for him to make a deal he would have to propose both spending cuts and tax increases. Did it multiple times. He could not get through a Republican primary today.

So let's look at Bowles-Simpson. Essentially, my differences with Bowles-Simpson were I actually proposed less revenue and slightly lower defense spending cuts. The Republicans want to increase defense spending and take in no revenue, which makes it impossible to balance the deficit under the terms that Bowles-Simpson laid out -- unless you essentially eliminate discretionary spending. You don't just cut discretionary spending. Everything we think of as being pretty important -- from education to basic science and research to transportation spending to national parks to environmental protection -- we'd essentially have to eliminate.

I guess another way of thinking about this is -- and this bears on your reporting. I think that there is oftentimes the impulse to suggest that if the two parties are disagreeing, then they're equally at fault and the truth lies somewhere in the middle, and an equivalence is presented -- which reinforces I think people's cynicism about Washington generally. This is not one of those situations where there's an equivalence. I've got some of the most liberal Democrats in Congress who were prepared to make significant changes to entitlements that go against their political interests, and who said they were willing to do it. And we couldn't get a Republican to stand up and say, we'll raise some revenue, or even to suggest that we won't give more tax cuts to people who don't need them.

And so I think it's important to put the current debate in some historical context. It's not just true, by the way, of the budget. It's true of a lot of the debates that we're having out here.

Cap and trade was originally proposed by conservatives and Republicans as a market-based solution to solving environmental problems. The first President to talk about cap and trade was George H.W. Bush. Now you've got the other party essentially saying we shouldn't even be thinking about environmental protection; let's gut the EPA.

Health care, which is in the news right now -- there's a reason why there's a little bit of confusion in the Republican primary about health care and the individual mandate since it originated as a conservative idea to preserve the private marketplace in health care while still assuring that everybody got covered, in contrast to a single-payer plan. Now, suddenly, this is some socialist overreach.

So as all of you are doing your reporting, I think it's important to remember that the positions I'm taking now on the budget and a host of other issues, if we had been having this discussion 20 years ago, or even 15 years ago, would have been considered squarely centrist positions. What's changed is the center of the Republican Party. And that's certainly true with the budget.

SINGLETON: Mr. President, the managing director of the (inaudible) for continuation of United States leadership (inaudible) economic issues, and underscored the need for a lower deficit and lower debt. How can you respond to that claim?

THE PRESIDENT: Well, look, she's absolutely right. It's interesting, when I travel around the world at these international fora -- and I've said this before -- the degree to which America is still the one indispensable nation, the degree to which, even as other countries are rising and their economies are expanding, we are still looked to for leadership, for agenda setting -- not just because of our size, not just because of our military power, but because there is a sense that unlike most superpowers in the past, we try to set out a set of universal rules, a set of principles by which everybody can benefit.

And that's true on the economic front as well. We continue to be the world's largest market, an important engine for economic growth. We can't return to a time when by simply borrowing and consuming, we end up driving global economic growth.

I said this a few months after I was elected at the first G20 summit. I said the days when Americans using their credit cards and home equity loans finance the rest of the world's growth by taking in imports from every place else -- those days are over. On the other hand, we continue to be an extraordinarily important market and foundation for global economic growth.

We do have to take care of our deficits. I think Christine has spoken before, and I think most economists would argue as well, that the challenge when it comes to our deficits is not short-term discretionary spending, which is manageable. As I said before and I want to repeat, as a percentage of our GDP, our discretionary spending -- all the things that the Republicans are proposing cutting -- is actually lower than it's been since Dwight Eisenhower. There has not been some massive expansion of social programs, programs that help the poor, environmental programs, education programs. That's not our problem.

Our problem is that our revenue has dropped down to between 15 and 16 percent -- far lower than it has been historically, certainly far lower than it was under Ronald Reagan -- at the same time as our health care costs have surged, and our demographics mean that there is more and more pressure being placed on financing our Medicare, Medicaid and Social Security programs.

So at a time when the recovery is still gaining steam, and unemployment is still very high, the solution should be pretty apparent. And that is even as we continue to make investments in growth today -- for example, putting some of our construction workers back to work rebuilding schools and roads and bridges, or helping states to rehire teachers at a time when schools are having a huge difficulty retaining quality teachers in the classroom -- all of which would benefit our economy, we focus on a long-term plan to stabilize our revenues at a responsible level and to deal with our health care programs in a responsible way. And that's exactly what I'm proposing.

And what we've proposed is let's go back, for folks who are making more than \$250,000 a year, to levels that were in place during the Clinton era, when wealthy people were doing just fine, and the economy was growing a lot stronger than it did after they were cut. And let's take on Medicare and Medicaid in a serious way -- which is not just a matter of taking those costs off the books, off the federal books, and pushing them onto individual seniors, but let's actually reduce health care costs. Because we spend more on health care with not as good outcomes as any other advanced, developed nation on Earth.

And that would seem to be a sensible proposal. The problem right now is not the technical means to solve it. The problem is our politics. And that's part of what this election and what this debate will need to be about, is, are we, as a country, willing to get back to common-sense, balanced, fair solutions that encourage our long-term economic growth and stabilize our budget. And it can be done.

One last point I want to make, Dean, that I think is important, because it goes to the growth issue. If state and local government hiring were basically on par to what our current recovery -- on par to past recoveries, the unemployment rate would probably be about a point lower than it is right now. If the construction industry were going through what we normally go through, that would be another point lower. The challenge we have right now -- part of the challenge we have in terms of growth has to do with the very specific issues of huge cuts in state and local government, and the housing market still recovering from this massive bubble. And that -- those two things are huge headwinds in terms of growth.

I say this because if we, for example, put some of those construction workers back to work, or we put some of those teachers back in the classroom, that could actually help create the kind of virtuous cycle that would bring in more revenues just because of economic growth, would benefit the private sector in significant ways. And that could help contribute to deficit reduction in the short term, even as we still have to do these important changes to our health care programs over the long term.

MR. SINGLETON: Mr. President, you said yesterday that it would be unprecedented for a Supreme Court to overturn laws passed by an elected Congress. But that is exactly what the Court has done during its entire existence. If the Court were to overturn individual mandate, what would you do, or propose to do, for the 30 million people who wouldn't have health care after that ruling?

THE PRESIDENT: Well, first of all, let me be very specific. We have not seen a Court overturn a law that was passed by Congress on a economic issue, like health care, that I think most people would clearly consider commerce -- a law like that has not been overturned at least since *Lochner*. Right? So we're going back to the '30s, pre New Deal.

And the point I was making is that the Supreme Court is the final say on our Constitution and our laws, and all of us have to respect it, but it's precisely because of that extraordinary power that the Court has traditionally exercised significant restraint and deference to our duly elected legislature, our Congress. And so the burden is on those who would overturn a law like this.

Now, as I said, I expect the Supreme Court actually to recognize that and to abide by well-established precedence out there. I have enormous confidence that in looking at this law, not only is it constitutional, but that the Court is going to exercise its jurisprudence carefully because of the profound power that our Supreme Court has. As a consequence, we're not spending a whole bunch of time planning for contingencies.

What I did emphasize yesterday is there is a human element to this that everybody has to remember. This is not an abstract exercise. I get letters every day from people who are affected by the health care law right now, even though it's not fully implemented. Young people who are 24, 25, who say, you know what, I just got diagnosed with a tumor. First of all, I would not have gone to get a check-up if I hadn't had health insurance. Second of all, I wouldn't have been able to afford to get it treated had I not been on my parent's plan. Thank you and thank Congress for getting this done.

I get letters from folks who have just lost their job, their COBRA is running out. They're in the middle of treatment for colon cancer or breast cancer, and they're worried when their COBRA runs out, if they're still sick, what are they going to be able to do because they're not going to be able to get health insurance.

And the point I think that was made very ably before the Supreme Court, but I think most health care economists who have looked at this have acknowledged, is there are basically two ways to cover people with preexisting conditions or assure that people can always get coverage even when they had bad illnesses. One way is the single-payer plan -- everybody is under a single system, like Medicare. The other way is to set up a system in which you don't have people who are healthy but don't bother to get health insurance, and then we all have to pay for them in the emergency room.

That doesn't work, and so, as a consequence, we've got to make sure that those folks are taking their responsibility seriously, which is what the individual mandate does.

So I don't anticipate the Court striking this down. I think they take their responsibilities very seriously. But I think what's more important is for all of us, Democrats and Republicans, to recognize that in a country like ours -- the wealthiest, most powerful country on Earth -- we shouldn't have a system in which millions of people are at risk of bankruptcy because they get sick, or end up waiting until they do get sick and then go to the emergency room, which involves all of us paying for it.

SINGLETON: Mr. President, you've been very, very generous with your time, and we appreciate very much you being here.

THE PRESIDENT: Thank you so much, everybody. (Applause.) Thank you.

Democrats Ready to Pressure G.O.P. on ‘Buffett Rule’

By JONATHAN WEISMAN

April 6, 2012

The New York Times

WASHINGTON — President Obama and Senate Democrats will kick off a coordinated pressure campaign on Republicans next week ahead of a tax day vote on legislation to enact the president’s “Buffett Rule,” which would ensure that the rich pay at least 30 percent of their income in taxes.

Mr. Obama will travel to Florida on Tuesday for a speech on the Buffett Rule, named after the billionaire investor Warren E. Buffett, who has made a point of saying that he pays a lower tax rate than his secretary. The Obama campaign will hold Buffett Rule events in other swing states that day, and Senate Democratic leaders have encouraged Democratic senators to get involved with those campaign efforts.

“Making sure that everyone plays by the same set of rules is key to ensuring the economic security of the middle class,” said Amy Brundage, a White House spokeswoman, “and the president will continue to make this case next week.”

The push comes ahead of a procedural vote on April 16 that will decide whether the Senate will even debate the bill, and Democrats give it little chance of reaching the necessary 60-vote threshold. The blitz comes with some risks. After Friday’s jobs report for March fell short of expectations, Republicans will make the case that raising taxes — even on the very wealthy — would do nothing to put Americans to work.

“This is yet another proposal from Democrats that won’t create a single job or lower the price at the pump by a penny, but may have the opposite effect,” said Senator Mitch McConnell of Kentucky, the Senate minority leader.

But Democrats see multiple reasons to go forward. The bill will put political pressure on some Republicans, especially two senators facing tough re-election fights, Dean Heller of Nevada and Scott P. Brown of Massachusetts. And it will allow Mr. Obama and his surrogates to go after Mitt Romney, the presumptive Republican nominee, not only on his low tax rate — he paid 13.9 percent in 2010 on \$21.7 million in income — but also on his refusal to release more tax returns than 2010 and a 2011 estimate.

“Governor Romney will have to explain why he believes it is fair that he and the wealthiest Americans who make most of their income from investments pay a lower tax rate than middle-class families,” said Ben LaBolt, an Obama campaign spokesman.

The Obama campaign demanded that Mr. Romney emulate his father and other previous presidential candidates, Mr. Obama included, who released years of tax returns. A Romney campaign adviser, Eric Fehrnstrom, told the cable news channel MSNBC on Friday that the releases of the 2010 returns and the 2011 estimate were “sufficient.”

Mayor Michael A. Nutter of Philadelphia said Friday on a conference call set up by the Democratic National Committee: “Here’s a guy running for president of the United States. Level with the public, and let the American people know just what those tax returns look like.”

The Senate legislation would establish a minimum 30 percent tax rate for households earning at least \$2 million a year, with a lower minimum rate for incomes between \$1 million and \$2 million. Such wealthy families would calculate their taxes normally, and using the minimum tax rate, then pay the higher amount.

Republicans see the push as a political loser at a time when jobs and energy prices are top concerns. The Romney camp used the effort to portray Mr. Obama as a tax-and-spend liberal.

“President Obama may wish for a perfect world in which he could spend as much as possible,” said the Romney campaign spokeswoman Andrea Saul, “but the last thing we need in this struggling economy is higher taxes on anyone.”

But Democrats view the coming Buffett Rule vote as fitting into a theme of “fairness” for the middle class at a time when most Americans see a society tilted in favor of a wealthy elite. An Associated Press/GfK poll in February found that 65 percent favor a law requiring all Americans with incomes of \$1 million or more to pay at least 30 percent in taxes. Only 26 percent opposed.

White House officials will target senators in 13 states with media outreach efforts, while Obama campaign volunteers try to raise the heat.

“This is one of those issues where if the American people are watching, our chances of winning the vote are dramatically improved,” said Senator Sheldon Whitehouse, Democrat of Rhode Island and the author of the Buffett Rule bill. “If people can vote in the dark, the special interests that support the loophole have a much, much better chance of holding on.”

Few believe there will be enough — or any — Republican defections. Senator Charles E. Schumer, Democrat of New York, told reporters this would be the first of many votes on the issue. The vote on April 16 is on stand-alone legislation that would devote the estimated \$47 billion in added tax revenue over 10 years to deficit reduction. Future votes would use the Buffett Rule to offset the cost of job-creation measures like infrastructure spending, student loan relief or tax breaks to encourage hiring.

The Need for the “Buffett Rule”: How Millionaire Investors Pay a Lower Rate than Middle-Class Workers

A Report by Citizens for Tax Justice
September 27, 2011

In his September 19 speech outlining his deficit-reducing plans, President Barack Obama proposed what he called the “Buffett Rule.” It’s not yet a specific legislative proposal, but rather a “guiding principle” that the super wealthy should not pay a lower rate of federal tax than the middle class.

Warren Buffett has long criticized the loopholes in the tax code that allow him to pay an effective tax rate of 17.4 percent while his secretary who earns \$60,000 a year pays an effective tax rate around 30 percent. The Buffett Rule is the idea that the tax rules should be changed to reduce or eliminate this unfairness.

This report shows why the Buffett Rule is sorely needed:

- The federal tax system taxes income from work at a much higher rate than income from wealth.
- Buffett’s effective tax rate of 17.4 percent is typical of taxpayers with \$10 million or more of investment income.
- Buffett’s claim that his secretary pays about 30 percent of her income in federal taxes is not only plausible, but very likely.
- News stories, reports, and blogs that focus only on the amount of federal *income* tax paid by high-income taxpayers are omitting the substantial amount of payroll taxes that workers pay.
- Critics of the Buffett Rule who cite data showing that the average effective tax rate for the wealthy is higher than the average effective rate for the middle class miss the point of the Buffett Rule.

Taxing Work More than Wealth

In fact, Buffett *does* pay a far lower rate than his secretary. And Buffett is certainly not alone. As the IRS reported in its latest data on the 400 highest-income taxpayers, their average effective rate (after deductions and credits) in 2008 was only 18.1%.

Two features of our tax code primarily drive Buffett’s lower rates. The first is that most of Buffett’s income is investment income in the form of dividends and long-term capital gain that is taxed at a preferential low rate of 15 percent, while income from work is taxed at ordinary income tax rates ranging from 10 to 35 percent. The second is that

while probably all of his secretary's income is subject to payroll taxes, most of his income is not.

Here are two examples that illustrate the way our tax code taxes income from wages at a much higher rate than income from investments.

1) A single person with \$60,000 of wages in 2011 who doesn't itemize deductions will pay federal income taxes of about \$8,750 and payroll taxes of \$9,180 for an effective federal tax rate of **29.9%**.

2) A single person with \$60,000 of income from capital gains and dividends will owe only \$2,400 in federal income taxes and zero payroll taxes, for an effective rate of **only 4%**.

Now let's look at some guys doing a lot better, with \$20 million in income.

1.) If that income is from wages, the federal income tax is about \$6,276,000 and the payroll taxes are \$591,100. The taxpayer has an effective federal tax rate of about **34%**.

2.) A person with \$20 million in income from capital gains and dividends will pay \$2,695,200 in income tax and zero payroll taxes, for an effective federal tax rate of **13.5%**.

It makes no sense that someone who makes millions from work (like a corporate executive or a professional athlete) pays more in taxes than someone who makes millions from investments. But it's downright unfair when millionaire investors pay effective tax rates far lower than those of most middle-income people.

Buffett's Tax Rate Typical of Taxpayers with \$10 Million or More of Investment Income

Taxpayers with \$10 million or more in investment income this year will pay an average 17.2 percent of their income in federal income taxes and payroll taxes, very close to the 17.4 percent Warren Buffett pays.

Effective rates depend on many different factors, particularly the composition of income. The table below demonstrates that a taxpayer with \$10 million in wages will pay far more than a taxpayer with \$10 million in investment income because two key types of investment income – long-term capital gains and qualified stock dividends – are granted the special low 15 percent rate.

Effective Tax Rates of the Very Rich Depend on Composition of Income							
Taxpayers with \$1 and \$10 Million+ in Wages vs. Taxpayers with \$1 and \$10 Million+ in Investment Income in 2011							
Taxpayers with...	# of taxpayers	average total reported income	% income that is "ordinary"	% income that is tax-preferred**	% income tax-exempt interest	fed income tax as % of income	fed income + payroll tax as % of income
\$1 million or more in earned income	108,500	\$ 3,598,000	87.6%	11.3%	1.2%	27.3%	30.2%
\$10 million or more in earned income	3,300	\$ 25,097,800	90.5%	8.5%	1.0%	29.2%	31.9%
\$1 million or more in investment income*	72,100	\$ 4,936,100	40.9%	54.2%	4.9%	20.1%	21.0%
\$10 million or more in investment income*	3,900	\$ 24,759,500	17.9%	79.0%	3.2%	16.7%	17.2%
* Investment income includes short-term and long-term capital gains, qualified and unqualified dividends, taxable interest and tax-exempt interest.							
** Income taxed at preferential rates includes long-term capital gains and qualified dividends, both of which are currently subject to a top rate of 15 percent under the federal income tax. Other income is taxed as "ordinary" income at the ordinary income tax rates.							
Source: ITEP tax model, September 2011							

Comparisons of Federal Tax Rates Must Include the Payroll Tax

Some of Buffett's critics complain that millionaires, and the rich generally, pay federal income taxes at higher rates than others. But this ignores the many other types of taxes that have a much greater impact on low- and middle-income Americans. The federal government imposes many different taxes through different mechanisms and it is a household's total tax obligation that is the most meaningful. It's absolutely not true that some Americans "have no skin in the game."

Calculations of effective federal tax rates should at least include federal income taxes *and* payroll taxes. The fact is that many, many households pay more in federal payroll taxes than in federal income taxes and that payroll taxes make up more than a third of total federal revenue. To analyze the relative contributions taxpayers make to federal coffers, one must include the substantial payroll taxes that most Americans pay.

Averages Don't Tell the Whole Story

While averages across income distributions are sometimes useful, this is one debate in which averages are not all that helpful. As shown above, two taxpayers with exactly the same amount of income can pay wildly different effective tax rates depending on the source of their income, among many other things.

In the last few days, many stories have been written that try to debunk the so-called “myth” that millionaires pay a lower tax rate than the middle class. Endless statistics have been trotted out to show that the average federal tax income rate for the mega-rich is higher than the average federal income tax rate for the middle class and many commentators have pointed to the average income taxes paid by all millionaires as somehow disproving the need for the Buffett rule. Those stories completely miss the point.

Neither Buffett nor the President ever claimed that millionaires across-the-board pay taxes at lower rates than middle-income people. The point is that these situations do occur and they are the most striking example of a tax system that is broken.

The examples above illustrate how even taxpayers at the same income level could have very different effective tax rates, which is something average effective tax rates would not make clear. Compare the effective tax rate of the taxpayer with \$20 million in capital gains and dividends (13.5%) to that of the taxpayer making \$60,000 from wages (29.9%) and you can see where things have gone awry.

The Rich Aren’t Over-Taxed

Despite the claims of the President’s critics, the rich are not paying more than their fair share. Citizens for Tax Justice recently calculated that in 2010, the richest one percent of Americans (who had incomes above \$424,000 and average income of \$1,254,000) paid 21.5 percent of the total federal, state and local taxes paid, roughly proportional to the 20.3 percent of the country’s total income that went to this group that year.

The services provided by government — roads that facilitate commerce, schools that create a productive workforce, defense and protection of property that provide the stability needed for businesses to thrive — have benefited the wealthy families who own most businesses, corporate stocks and other assets more than anyone else. While the incomes of many Americans have stagnated, the affluent have seen their income skyrocket and it’s reasonable to ask them to contribute more to support the society that allows them to make fortunes.

This widening income gap, coupled with the fact that our tax system overall is not over-burdening the rich, should lead lawmakers to adopt progressive tax increases. Of course, there’s a lot wrong with our tax code, and it won’t all be resolved by increasing taxes on millionaire investors, but the Buffett Rule is a major step in the right direction.

Paul Ryan's budget in summary

By: Ezra Klein

April 5, 2011

The Washington Post

It occurs to me that I haven't yet posted a simple summary of what House Budget Committee Chairman Paul Ryan's budget does. So before I comment on it further, let's do that.

To begin with, you can download his budget here (PDF). But the best way to understand it is probably to break it down by categories. One thing that surprised me when reading through the budget was just how much Ryan was actually proposing to do here. For instance: There's no obvious reason that repeal of the Dodd-Frank financial-regulation law should be in the budget, yet there it is. Anyway, onto the summary:

1) Discretionary spending

a) Non-defense discretionary: Brings spending back to pre-2008 levels and freezes it there for five years.

b) Defense-related discretionary: Echoes Obama's budget request in accepting the \$78 billion in "savings" that Defense Secretary Robert Gates identified and going no further. I put "savings" in quotation marks because it's really a reduction in the growth rate that Gates previously requested.

2) Financial system

a) Financial regulation: Repeals Dodd-Frank.

b) Fannie Mae and Freddie Mac: "This budget . . . proposes eventual elimination of Fannie Mae and Freddie Mac, winding down their government guarantee and ending taxpayer subsidies. It supports increasing the guarantee fees Fannie and Freddie charge lenders in order to bring private capital back, shrinking their retained portfolios, and enacting various measures that would bring transparency and accountability to the GSEs."

3) Safety net

a) Medicaid: Converts federal share of Medicaid spending into a block grant that's indexed for inflation and population growth. To offer some context, health-care costs often increase at twice the rate of inflation or more.

b) Supplemental Nutrition Assistance Program: Better known as food stamps, SNAP gets the Medicaid treatment: block grants indexed for inflation and population growth.

c) **Pell Grants:** Cut back to 2008 levels, wiping out recent increases.

d) **Health-care reform:** Repeals the Affordable Care Act.

4) Retirement security

a) **Medicare:** Privatizes Medicare. Future beneficiaries will choose from a menu of private options. They won't have the choice of the standard Medicare plan. Wealthier beneficiaries will get a small voucher and poorer beneficiaries will get a larger voucher. Vouchers grow at GDP+1%, whether or not Medicare does the same.

b) **Social Security:** Calls for a bipartisan process to develop reforms.

5) Taxes

a) **Tax reform:** "Reform the tax code by consolidating the current six brackets and cutting the top individual rate from 35 percent to 25 percent."

b) **Tax revenue:** Prevents the Bush tax cuts from expiring in 2013. So the revenue-neutral tax reform locks in today's rates, which is to say it makes the Bush cuts permanent.

c) **Corporate taxes:** Lowers corporate tax rate from 35 percent to 25 percent. "This budget would offset lower rates with a broader base, scaling back or eliminating entirely the deductions."

6) Energy

Endorses "The American Energy Initiative": I don't know much about this bill, but you can find the GOP's official case for it here.

CTJ Calculates Buffett Rule Would Raise \$50 Billion in One Year and Affect Only the Richest 0.08 Percent of Taxpayers

**A Report by Citizens for Tax Justice
January 27, 2012**

Citizens for Tax Justice has calculated that President Obama's "Buffett Rule" would, if in effect this year, raise \$50 billion in a single year and affect only the richest 0.08 percent of taxpayers — that's just eight percent of the richest one percent of taxpayers.

During his State of the Union address, President Obama proposed that Congress enact his Buffett Rule, inspired by billionaire Warren Buffett's complaint that he has a lower effective tax rate than his secretary.

CTJ has long argued that the most straightforward way to fix this problem is to end the special low tax rate for capital gains and stock dividends.

A document released from the White House on Wednesday suggests the President would take a different approach. It explains that

"the President is now specifically calling for measures to ensure everyone making over a million dollars a year pays a minimum effective tax rate of at least 30%. The Administration will work to ensure that this rule is implemented in a way that is equitable, including not disadvantaging individuals who make large charitable contributions."

The last sentence apparently means that charitable deductions for millionaires would not be affected.

To calculate the \$50 billion figure, we assumed that there would be a minimum tax that applies to adjusted gross income (AGI) minus charitable deductions. (We'll call this modified AGI.)

We assumed that a taxpayer with modified AGI greater than \$1 million would face a minimum tax of 30 percent of modified AGI. The taxpayer would pay whichever is greater, their personal income tax under the existing rules or this minimum tax.

Revenue Impact Would Depend on Details

Of course, taxes always have to be a little more complicated than that. We had to assume that this minimum tax is phased in over a certain income range rather than allow it to kick in fully for everyone with exactly \$1 million or more in modified AGI. Otherwise, a person with modified AGI of \$999,999 might have an effective rate of 15 percent, and if they make \$2 more their effective tax rate will shoot up to 30 percent. Congress generally avoids enacting any tax rules that have this sort of "cliff" effect.

So we assumed that the minimum tax would be phased in for taxpayers with income between \$1 million and \$2 million. That means that only half of the minimum tax applies if you make \$1.5 million, and the entire minimum tax applies if you make \$2 million or more. This means that the Buffett Rule could raise less revenue or more revenue if Congress chose different rules to phase it in.

CTJ Report Explains Need for Buffett Rule

A report from Citizens for Tax Justice explains how multi-millionaires like Romney and Buffett who live on investment income can pay a lower effective tax rate than working class people.

As the report explains, there are two reasons for this. First, the personal income tax has lower rates for two key types of investment income, capital gains and stock dividends. Second, investment income is exempt from payroll taxes (which will change to a small degree when the health care reform law takes effect).

The report compares two groups of taxpayers, those with income in the \$60,000 to \$65,000 range (around what Buffett's famous secretary makes), and those with income exceeding \$10 million.

For the first group, about 90 percent have very little investment income (less than a tenth of their income is from investments) and consequently have an average effective tax rate of 21.3 percent. For the second group (the Buffett and Romney group) about a third get the majority of their income from investments and consequently have an average effective tax rate of 15.2 percent. This is the problem that the Buffett Rule would solve.

Millionaires with Investment Income Pay Lower Tax Rates than Many Middle-Income Taxpayers

Share of Middle-Income Taxpayers and High-Income Taxpayers Relying on Investment Income for a Portion of Total Reported Income, and Effective Combined Federal Income and Payroll Tax Rates, in 2011

Total Reported Income	\$60k-\$65k		\$10 million or more	
	Share of Taxpayers Making \$60k-\$65k	Average Effective Tax Rate** for Taxpayers Making \$60k-\$65k	Share of Taxpayers Making \$10 million +	Average Effective Tax Rate** for Taxpayers Making \$10 Million +
More than half of reported income is investment income.*	2.3%	7.1%	32.0%	15.3%
Between one tenth and half of reported income is investment income.*	7.3%	14.1%	20.0%	25.3%
Less than one tenth of reported income is investment income.*	90.4%	21.3%	48.0%	31.5%

Source: Institute on Taxation and Economic Policy tax model, October 2011