Taxes—They're Not for Everyone

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Jonathan Blattmachr walked swiftly toward the Park Avenue curb, eager to find his driver so he could be whisked away from Manhattan to a waiting plane. A small man with the gait of a military officer and a reassuring voice, Blattmachr counsels tax avoidance to people who hold more wealth than anyone else in America. On this sunny morning in July 2002, a grateful client had put his personal jet at Blattmachr's disposal, making it possible for him to visit rich clients in eight cities over three days. Then Blattmachr would head to Alaska for some fishing with his brother Douglas, owner of the Alaska Trust Company, which, because of laws that Blattmachr wrote, offers the wealthy new ways to escape taxes today and forever, shifting the burden of supporting government onto everyone else.

Blattmachr is a partner at Milbank, Tweed, Hadley & McCloy, the New York City law firm that drafted the will of Jacqueline Kennedy Onassis, represents oil companies in Washington and Riyadh and has long had intimate ties to the Central Intelligence Agency. While many tax lawyers are expert at their craft, only one other practicing attorney, Carlyn S. McCaffrey of Weil, Gotshal and Manges in New York, is in Blattmachr's league as a prolific creator of perfectly legal ways for wealthy Americans to escape taxes on their fortunes.

Few Americans have heard of Blattmachr (pronounced BLOT-mach-ur). But among the 16,000 other lawyers in America who specialize in trusts and estates, which is to say in the passing of wealth from one generation to the next, he enjoys the status of some Hollywood stars—his first name alone prompts recognition.

The likes of Bill Gates, the Gettys and the Rockefellers seek Blattmachr's counsel on how to make taxes shrink—and sometimes even vanish. His roster of clients reads like the Forbes 400 list, supplemented by the names of people whose vast wealth is little known because they avoid controlling interests in companies whose shares trade on Wall Street.

Men (and a few women) of great wealth confide in Blattmachr. Because his specialty is maintaining wealth across time, he needs to know more than just the size and shape of his clients' fortunes. Happy families are easy to work with. But each unhappy family is unhappy in its own way, requiring custom tailoring of tax plans depending on whether a marriage is an enduring bond of love or a commercial relationship, on whether heirs can be trusted with fortunes or only allowed a stream of income to support their idleness. He knows of prodigal sons and promising granddaughters, of executives at family-owned businesses who will not learn for years that the brass ring is never going to be theirs. Sometimes men of great wealth whisper secrets they would never share with their wives, like how much a mistress costs or whether, if health fails, they trust their spouse with the power to pull the plug.

What makes Blattmachr invaluable to the super rich, however, is not so much his attentive ear or his sound counsel on familial relations. What the wealthy pay him for are the secret routes he has charted through the maze of the tax code. Over the years Blattmachr has found dozens of ways to navigate huge sums of money around government's many levies. He knows how to make a man who appears as a Midas before his bankers look like a pauper to the taxman.

While Blattmachr is the partner in charge of trusts and estates, his work is not limited to advice about what some opponents call "the death tax." Unlike the politicians who parrot slogans, Blattmachr knows what lies beneath the surface of the tax laws. Part of his genius is his understanding that the taxes on income, gifts and estates are not discrete levies. Rather, these taxes intersect and interact in subtle ways. Line up seemingly unrelated sections of these different tax laws in a certain way and vast sums can flow with only a widow's mite going to

taxes. Find gaps between the levies and vast fortunes can be passed tax-free. His genius is in seeing the whole and the holes in the whole.

Once, Blattmachr devised a way that Bill Gates, the richest man in America, could reap $200 million in profits on Microsoft stock without paying the $56 million of capital gains taxes that federal law required at the time. The plan was so lucrative that Gates would not have to pay a single dollar in tax and would even be entitled to an income tax deduction of $6 million or so. And that was just the initial plan. The concept could be applied endlessly, allowing Gates to convert billions of dollars in Microsoft stock gains into cash over the years. So long as the Internal Revenue Service did not challenge the deals, then Gates could realize unlimited capital gains without the pain of taxes.

The trick was in manipulating charitable trusts, a common enough device used by generous people who own an asset, such as stock or a building that has appreciated in value. Instead of selling the asset and investing the after-tax proceeds, an individual or a married couple can donate the asset to a charitable trust that they control. The trust sells the asset tax-free and invests the proceeds, giving the donating individual or couple a lifetime income, typically 6 percent per year. When the donors die, what remains in the trust, typically half its value, goes to charity.

Blattmachr's plan was to take back not 6 percent annually for life, but 80 percent per year for two years. Gates could have pocketed at least $192 million without paying any tax. Then the trust would fold and a charity would get the remaining sum, less than $8 million. Under the plan Gates could have converted into cash more than 96 percent of gains on the Microsoft shares he donated, not the 72 percent he was entitled to after federal capital gains taxes. The charity would get less than four cents on each donated dollar. The government would collect nothing.

The scheme even created a tax deduction that was enough to reduce Gates's income taxes by about $2 million.

Whether Gates took advantage of such a plan is not known for sure because the law makes individual income tax records confidential. What is known is that when Blattmachr made this route available to others, it sold like a treasure map where X marks the tax-free spot. Billions of dollars of assets poured into these short-term charitable trusts and their super-rich owners took many millions of dollars of income tax deductions that further cut into the flow of revenue to the government.

The technique was so outlandish that when some other tax lawyers got their hands on the map in March 1994, they sent it to the Department of the Treasury in a plain brown envelope. That July, Treasury blocked the route to newcomers and said that it would pursue those who used the device. However, the Internal Revenue Service never announced whether it collected any of the taxes. One hint that the IRS may not have acted against those who used the technique can be found in the records of United States Tax Court, which is where taxpayers challenge the IRS. There are no Tax Court cases in which taxpayers fought for a court blessing on the device, known in taxspeak as an "accelerated charitable remainder trust."

The Treasury rules shutting down this route to tax-free investment profits were not the end of stretching charitable trusts in ways never anticipated by Congress. So facile is Blattmachr's mind that from those 1994 rules he divined a new route to tax-free gains. He started selling a new treasure map and billions of dollars more in capital gains passed untaxed into the bank accounts of his clients before the government blocked that second path, known in taxspeak as "son of accelerated charitable remainder trust."

That few Americans know of the routes that Blattmachr has charted through the tax code is not surprising. Blattmachr rarely talks to journalists, and his clients sign confidentiality agreements.

Blattmachr charges hefty fees, but he has also walked away from opportunities to make many more millions of dollars. He is wealthy by any standard, but compared to his clients his personal fortune is so small as to be lost in their rounding. Of course, money is not the only way in which people get paid. For Blattmachr the knowledge that it is his smarts that direct how many of the richest people in history arrange their fortunes is an enormous psychic paycheck. It is also an important insight into how Blattmachr came to his occupation, a story rich with significance for taxpayers because it goes to the heart of our tax system's flaws and their threat to our democracy.

Jonathan Blattmachr grew up on Long Island after World War II, exploring its woods and streams. He was good with numbers and his

father, a lawyer, encouraged his dreams of becoming a mathematics professor. In 1963, Blattmachr enrolled at Bucknell University in Pennsylvania, studying math and economics and distinguishing himself in the Reserve Officer Training Corps just as ROTC was becoming a four-letter word on many campuses.

At Columbia University Law School, Blattmachr distinguished himself again with his easy grasp of complicated theoretical concepts. At a time when Communism posed a very real threat to liberty, Blattmachr set out to make a name for himself by showing Americans that in Moscow some comrades were more equal than others because Soviet law was unprincipled, written only to advance the interests of the ruling elite. To discredit the Soviets, Blattmachr immersed himself in Russian law books, only to conclude that "on paper Soviet law was very well drafted, grounded in sound principles." It was, he came to realize, the administration of Soviet law that was so often monstrous, not the statutes themselves.

Next Blattmachr turned his well-ordered mind to examining the laws of European countries he considered socialist, but searched in vain for law weak on principles. Finally, he came upon Title 26 of the United States Codes, commonly known as our Internal Revenue Code.

"The U.S. tax code is the most political law in the world," Blattmachr said on a summer morning in his second office, a sunny Park Avenue aerie from which one can look down on the great wealth machine that is Manhattan. His soft, soothing voice filled with the energy he must have felt more than three decades earlier when he finally found the holy grail he had sought: law based on politics, not principles. As Blattmachr told of his journey, it seemed as if he were still living in that moment when he realized that he would never teach mathematics, but only apply its principles every day to the politically motivated law he found in our tax code.

The story of how the American tax system really works, of who benefits and who pays, extends far beyond Blattmachr and his cadre of super-rich clients. Understanding what Blattmachr does, whom he does it for and how the government reacts, however, are keys to unlocking the secret of how the tax system in America is being rigged to benefit the super rich. And understanding that, in turn, can help explain the ways in which Democrats and Republicans alike have turned the tax system into a vehicle not just to finance government but to finance social change. For the past three decades, it is a system that has been weighing down the already deep pockets of the super rich while just weighing down everyone else.

When governments set tax rates, they are making decisions about who will prosper and by how much. A government that takes 90 cents out of each dollar above a threshold, as the United States did in the Eisenhower years, is deciding to limit the wealth that people can accumulate from their earnings. Likewise, a government that taxes the poor on their first dollar of wages, as the United States does with the Social Security and Medicare taxes, is deciding to limit or eliminate the ability of those at the bottom of the income ladder to save money and improve their lot in life.

The rules that governments set for their tax systems, and the degree to which they enforce them, also affect who prospers. Congress lets business owners, investors and landlords play by one set of rules, which are filled with opportunities to hide income, fabricate deductions and reduce taxes. Congress requires wage earners to operate under another, much harsher set of rules in which every dollar of income from a job, a savings account or a stock dividend is reported to the government, and taxes are withheld from each paycheck to make sure wage earners pay in full.

Our federal tax laws are often voted on without any public hearing, without any disclosure of who introduced this or that provision. Members of Congress routinely vote on tax bills they have never read, much less understood even on a superficial level.

Sanford J. Schlesinger, a prominent estate tax lawyer in New York whose clients included the trusts of tobacco heiress Doris Duke, says that "there hasn't been a member of Congress with a comprehensive understanding of the tax laws since Wilbur Mills, and I'm not a fan of Wilbur Mills." Mills left Congress in 1977 after a drunken romp in the Tidal Basin in Washington with a stripper known as the Argentine Firecracker. The result of having the ill-informed writing tax laws, Schlesinger believes, is that "we have a patchwork of taxes and when you put it all together we have what is pretty much a flat tax."

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While he is a hero to his clients, other Americans may see Blattmachr's work differently. Each time his clients escape paying tax, everyone else in America has to bear the burden of those untaxed dollars. Sometimes the price is paid in higher taxes. More often it is paid by fewer government services or by more borrowing to maintain government services. But the bill is always paid. As all economists are taught, there is no free lunch. Blattmachr's clients just leave part of their bill on your table.

Blattmachr's navigation charts do more than just lighten the burden of taxes for his clients. Often his strategies allow money to pass from one person to another without showing up in the official statistics on wealth and income. Were these transactions counted in the official government reports, then the share of taxes paid by the rich would be smaller than the official statistics now show.

Add to this the reductions in tax rates on the rich that started in 1981 and a picture begins to emerge of why wealth in America today is more highly concentrated than at any time since 1929. In recent years the richest 1 percent of Americans, the top 1.3 million or so households, have owned almost half of the stocks, bonds, cash and other financial assets in the country. The richest 15 percent control nearly *all* of the financial assets.

This does not mean that the rich pay little or no tax. As a group the richest Americans pay significant taxes. The richest 1 percent, those with adjusted gross incomes of more than $313,000 in 2000, earned almost 21 percent of all reported income and paid more than 37 percent of individual federal income taxes.

However, when all federal taxes are considered—from those on gasoline and beer to Social Security taxes as well as income and estate taxes—the top 1 percent's share drops to about a fourth of the total tax bill. That is not much more than their share of reported income.

If you tally up the economic benefits to the top 1 percent that do not show up in income statistics—for reasons of written law and because of tax tricks fashioned by lawyers like Blattmachr—then the richest 1 percent are taxed more lightly than the middle class. The same data show that the poor are taxed almost as heavily as the rich are—and even more heavily than the super rich.

In the years ahead the super rich will pay less, shifting the burden onto those with less means. Using techniques developed by Blattmachr and many others, the richest Americans and most large corporations are arranging their affairs in ways that Congress seems to only dimly understand.

Corporations, for example, lowered the portion of their profits that go to federal income taxes from 26 cents of each dollar in 1993 to 22 cents in 1998, even though the official corporate income tax rate remained unchanged at 35 percent. For almost three decades corporate profits have been growing one third faster than corporate income taxes.

In the years ahead the people and businesses that benefit most from operating in the United States will pay a dwindling share of their income to sustain government, even if tax rates remain the same as they are today. That means they will be able to accumulate even more wealth—and the political power that goes along with that wealth.

A few companies, like Ingersoll-Rand, have made Bermuda their tax home, while keeping the real company headquarters in America. Renouncing America for tax purposes allows these corporations to earn tax-free profits in the United States, an issue that has divided Congress and highlighted much of the mendacity on taxes inside the Capitol dome.

Much more common are other techniques that slash corporate tax bills for companies that keep their official, and tax, headquarters in the United States. Corporations are busy moving intellectual property such as patents, trademarks and the title to the company logo to entities organized in tax havens like Bermuda. These corporations then pay royalties to use their own intellectual property, allowing them to convert taxable profits in the United States into tax-deductible payments sent to Bermuda and other havens that impose little or no tax. You pay for this through higher taxes, reduced services or your rising share of our growing national debt. You also pay for it through incentives in the tax system for companies to build new factories overseas and to reduce employment in America.

These trends to lower taxes on wealthy people and on corporations are aided by new rules allowing capital and goods to flow freely around the world, while immigration and employment laws limit any mass movements of workers and ever-tougher rules against union organizing give capital an advantage over labor in setting wages.

These trends are also encouraged by many little-noticed changes in

the laws, including that Alaskan law drafted by Blattmachr which breaks with four centuries of tradition and allows trusts to exist in perpetuity. The old rule limited trusts to the life of the youngest living beneficiary plus 21 years. Right now is when some of the trusts created after the Robber Baron era a century ago are facing termination in the foreseeable future. Legislative relief in the form of new rules to maintain these trusts is being sought along with special tax breaks and elimination of the estate tax.

At the same time, state legislatures starting in 1991 have passed laws that, however unintentionally, took away the most powerful incentive for self-policing by the corporate professions of law and accounting. These laws, allowing "limited-liability" partnerships and corporations, help explain the wave of corporate cheating that swept the country in the past decade and brought good times to a crashing end in 2000. Congress also has passed a series of little-noticed laws that shift risks off corporations and the super rich and onto most Americans. Among these are laws governing retirement accounts that both encourage misconduct by corporations and their top executives and put workers at risk of losing their retirement savings.

That some of these issues, other than the scandals in Corporate America, have been little reported in the news is not surprising. Most news is a report of the official version of events, including what politicians said the day before. Few politicians, however, mention how the tax system is being rigged to benefit the super rich at the expense of everyone else. Many journalists rely for expert quotes on a dozen well-financed nonprofits that exist in Washington to promote policies that primarily benefit their rich donors. Their aim is to convince us that these policies are actually in everyone's best interest. The rise of marketing posing as policy is one of the great and subtle advances in the never-ending effort to manipulate the news media.

Most Americans depend on wages for their income, wages that are tracked closely by the government and leave little opportunity to escape taxes. The super rich are different. They largely control what the government knows about their incomes. And their friends in Congress have slashed budgets for inspecting the tax returns of the rich and super rich. Many of the rich own businesses, creating opportunities to charge a portion of their lifestyles to the company and, if it is privately held, to organize companies so that profits for tax purposes are held close to zero. By holding taxable profits down, owners can build up wealth within their business, wealth that will be taxed only when they die, assuming there is an estate tax.

A host of law and accounting firms are busy marketing devices to make taxes that are still on the books shrink or vanish. Most of the super rich invest in complicated, often multilayered partnerships, which are rarely audited by the IRS. Ernst & Young, BDO Seidman and the other major accounting firms that sell these partnership deals insist they are perfectly legal. But the use of layered partnerships raises questions about escaping taxes by merely hiding questionable deals from the IRS. It also recalls a line sometimes used by judges about efforts to hide misconduct: truth needs no disguise.

Under our tax system the IRS can easily nab a wage earner whose tax return shows only 95 percent of his wages. But an investor who overstates what he paid for stock he sold at a profit is unlikely to be caught even if he pays only half the taxes due. If the overstatement is by a decimal point or results from forgetting a stock split, the risk of paying anything more than interest on the additional tax is next to nil. That is to say, when it comes to taxes, it often pays to cheat so long as your income is not from wages.

Politicians seldom look into these things. Blattmachr, for example, has never been hauled before a Congressional committee and grilled about his tax avoidance schemes. Instead, Congress has developed a studied hostility to enforcement of the tax laws. The tax police—and that is what the IRS is—are treated with disrespect by Congress for reasons that will become clear.

When Congress did look into the tax system, it didn't go after the tax cheats. It went after the IRS. At the dramatic Senate Finance Committee hearings in 1997 and 1998, IRS workers testified behind curtains like Mafia dons to conceal their identity. The senators denounced several armed raids on the homes and offices of suspected tax cheats. Senator Frank Murkowski of Alaska denounced "Gestapo-like tactics" and said, "You don't need to send in armed personnel in flak jackets." No one at the hearings mentioned the fact that in the previous several years IRS agents had been shot at, beaten, and threatened with death and that bombs exploded outside two IRS offices. No IRS agents were killed, but in Arizona a sheriff's deputy, whom a tax protester evidently mistook for a tax agent, was shot and nearly died. Also unmentioned at the hearings, which generated loose talk of jackbooted thugs from the IRS, was the fact that despite having an arsenal of weapons, no IRS agent has ever fired a single shot at anyone.

How the system really works is not at all like the descriptions that politicians from both parties offer, their sound bytes filling news reports that accurately recount what the politicians said even as the deeper truths are missed. Lawmakers tailor their remarks to how the average person understands the tax system: what you make is reported to the government and so is the biggest deduction, for home mortgage interest.

The politicians talk about how taxes affect employment rates and fairness to families with children. They talk about how the top 1 percent earns 20.8 percent of the income and pays 37.4 percent of the income taxes and suggest this burden is excessive. Seldom mentioned is that for many at the top the primary object is to take income in forms that, like the device that Jonathan Blattmachr invented for people like Bill Gates, do not have to be reported on income tax returns. Just as there is an underground economy of gardeners and handymen and petty merchants who get paid in cash and pay little or no tax, there is also an underground economy among the super rich that lets them understate their true income and overstate their tax deductions.

The American tax system is, as Blattmachr discovered, malleable. For those who wield the most influence on who gets elected, a narrow and rich group we shall call the political donor class, the system is being remade to serve their interests while disguising the changes as benefits for every American.

The major change taking place is a shifting of burdens off the super rich and onto everyone below them. It is a shift that began with the Democrats in 1983 and that has been increased dramatically since the Republicans won control of the House in 1995. The evidence of this shift in burdens is already showing up in the official government statistics.

To cite one telling example, the Internal Revenue Service in 2003 released its first public analysis of tax returns filed by the 400 highest income Americans each year from 1992 to 2000, the years of both the Clinton administration and the stock market bubble. The minimum to make the top 400 more than tripled from \$24.4 million to \$86.6 million. About 2,200 different names appeared on the 3,600 tax returns that were analyzed. Only 21 taxpayers made the list each year and only a few times was an income of a billion dollars reported.

In the year 2000 the top 400 taxpayers received 1.1 percent of all the income in America, more than double their 0.5 percent share in 1992.

On average their income was nearly $174 million, nearly quadruple the $46.8 million average in 1992. They paid an average of $38.6 million each in federal income taxes in 2000. That is a lot of money. However, the share of their income going to federal income taxes was another matter. It fell. Federal income taxes consumed just 22.2 cents on each dollar of their income in 2000, down from 26.4 percent eight years earlier and a peak of 29.9 percent in 1995.

The 400's tax burden was not much more in 2000 than the overall federal income tax burden of 15.3 cents on each dollar of income. And the overall effective tax rate had increased from 13 cents on the dollar in 1992.

So during years when the federal income tax burden on Americans overall rose by 18 percent, it fell by 16 percent for the top 400, whose incomes soared. The share of income going to taxes for the top 400 in 2000 was about the same as that paid by a single person making $123,000 or a married couple with two children earning $226,000—and it was smaller than that paid by many in the upper middle class.

The top 400 saw their tax burden fall beginning in 1997. That year Congress passed what its sponsors promoted as a tax cut for the middle class and especially for families with children. Buried in that law were many tax breaks for the rich, some subtle and some huge, notably a sharp reduction in the tax rate on long-term capital gains, the source of two thirds of the incomes of the top 400.

Another law that year also contained a feature that favored tax cheats who might well have incomes large enough to qualify for the top 400, but were not on the list because they reported far less on their tax returns. For years the IRS found big tax evaders by looking into people whose reported income did not seem sufficient to support their lifestyle, the technique used to convict Al Capone. If a taxpayer's address was a mansion and she owned a private jet, but her tax return showed a middle-class income, the IRS might investigate. But the 1997 law stopped such inquiries. Congress said that lifestyle was no longer grounds

for an audit. Lee Sheppard, a tax lawyer who critiques tax law for the magazine *Tax Notes,* said the law "should be called the mobsters and drug dealers tax relief act of 1997."

But even the 1997 tax cuts for the rich were not enough for them or their friends in Congress. Under the first round of tax cuts sponsored by President Bush in 2001, the share of their income going to taxes would slip further, to about 21 percent of their incomes. Had the third round of Bush tax cuts in 2003 been in effect in the year 2000, the 400 richest Americans would have saved an average of $8.3 million each. They would have paid 17.5 cents on the dollar of income in 2000, not much more than the average paid by all Americans. Six years of tax cut bills, all promoted as promoting the interests of the middle class, were in fact primarily a boon to the super rich.

It hasn't always been this way. After the Sixteenth Amendment was adopted in 1913, the federal government in short order enacted a regime to tax incomes, gifts and estates. These taxes came with the explicit promise that the basic means of sustaining life would not be taxed. The original tax regime applied only to the economic elite, to what were then called "surplus" incomes. Back then income from capital was taxed more heavily than income from wages in the belief that it was morally offensive to take more from money earned by the sweat of one's brow than from money obtained by clipping coupons.

To pay for World War I, in which young men were conscripted, it was said that the "conscription of wealth" was also necessary and fair. One of the leading economists of the day, Edwin R. A. Seligman, a proponent of taxes based on ability to pay, said that "patriotism can often be translated into dollars and cents—in fact, the material side of patriotism is often quite as important as the spiritual side." The estate tax and the gift tax, which apply to wealth, were expanded and the income tax came to apply to a larger, but still minute, percentage of Americans.

Just a third of a century after the war to end all wars, the costs of a second global conflict ended the promise that only surplus incomes would be taxed. While only a minority of people was taxed during World War II, the politicians got a taste of the huge revenues they could control by expanding the tax base. After the war, primarily at the behest of Democrats, but with support from many Republicans, the income tax was steadily expanded until it applied to most Americans and to most of what they earned. Much of this money was poured into the military and the Korean conflict, but funds were also used to expand education, build highways and finance technological breakthroughs that improved lives. Throughout the fifties and sixties, Congress also let inflation erode the value of exemptions for taxpayers and their children, causing them to pay a growing share of their incomes in taxes.

By the late seventies, this system was becoming untenable as sales of tax shelters flourished. Once the province of the rich, tax shelters were being mass marketed to doctors, dentists and even cops and working journalists. Many of these shelters did nothing to grow the economy, but were instead a drag on it, and not a few were pure scams. Inflation, combined with an end to real growth in wages beginning in 1973, created a phenomenon known as "bracket creep" that moved people into higher tax brackets even if their real incomes were unchanged. Government through this era kept growing, especially military spending to prosecute the war in Vietnam and state and local spending to pay for schools, professionalize police departments and provide welfare for those unable or unwilling to compete in the job market.

Now, less than a century after its adoption, the tax system is being turned on its head. Since at least 1983 it has been the explicit, but unstated, policy in Washington to let the richest Americans pay a smaller portion of their incomes in taxes and to defer more of their taxes, which amounts to a stealth tax cut, while collecting more in taxes from those in the middle class.

The Democrats embraced this in 1983, when they controlled Congress. They voted to raise Social Security taxes, changing it from a pay-as-you-go system to one in which people were required to pay 50 percent more than the retirement and disability program's immediate costs, to build a trust fund to pay benefits more than three decades into the future. Those taxes were not, however, locked away but instead were spent to help finance tax cuts for the super rich that began in 1981.

Under the Republicans, beginning in 1997, this policy of taxing the poor and the middle class to finance tax cuts for the super rich was expanded through changes in the income tax system. The changes

were subtle and hardly reported in the news media, but they were also substantial. Under the first round of Bush tax cuts enacted in 2001 the middle class and the upper middle class will subsidize huge tax cuts for the top 1 percent and, especially the top one tenth of 1 percent, the 130,000 richest taxpayers.

For a nation that has debated for years whether the tax rate cuts begun by President Reagan in 1981 are "trickle-down economics," it may be startling to read that the reality of these changes has been just the reverse. The tax system is causing the benefits of American society to flow up and pool at the top. As we shall see in the chapters ahead, the official government statistics show just that. And the critics who have decried the growing concentration of wealth and power at the top have been wrong—because they have seriously understated the transformation now taking place.

The tax system is becoming a tool to turn the American dream of prosperity and reward for hard work into an impossible goal for tens of millions of Americans and into a nightmare for many others. Our tax system is being used to create a nation with fewer stable jobs and less secure retirement income. The tax system is being used by the rich, through their allies in Congress, to shift risks off themselves and onto everyone else. And perhaps worst of all, our tax system now forces most Americans to subsidize the lifestyles of the very rich, who enjoy the benefits of our democracy without paying their fair share of its price.