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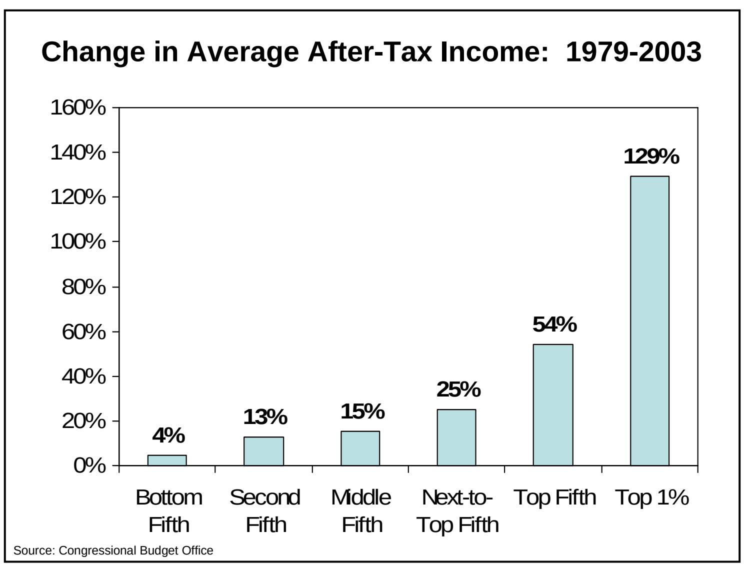
NEW CBO DATA INDICATE GROWTH IN LONG-TERM INCOME INEQUALITY CONTINUES

by Isaac Shapiro and Joel Friedman

The Congressional Budget Office recently released extensive data on household incomes and tax liabilities for 2003.[1] CBO issues the most comprehensive data available on changes in incomes and taxes for different income groups, capturing trends at the very top of the income scale that are not shown, for example, in Census data.

The new CBO report highlights the degree to which income gains have become increasingly concentrated at the top of the income scale over the past two and a half decades. Over this period, income gains among high-income households have dwarfed those of middle- and low-income households.

The new CBO data also show that the income gap widened significantly between 2002 and 2003. The income gap had narrowed somewhat in 2001 and 2002, due in part to the sharp decline in the stock market after its peak in 2000. The data for 2003, however, show a return to the long-term trend of increasing income inequality. Further, other available evidence from the Census Bureau and from surveys of executive pay indicate that income inequality has continued to grow in the years since 2003.



Income Inequality at Historically High Levels

The CBO data show that between 1979 (the first year the CBO report covers) and 2003:

- The average after-tax income of the top one percent of the

[1] Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979 to 2003*, December 2005.

population more than doubled, rising from $305,800 to $701,500, for a total increase of $395,700, or 129 percent. (CBO adjusted these figures for inflation and expressed them in 2003 dollars.)

- By contrast, the average after-tax income of the middle fifth of the population rose a relatively modest 15 percent, or $5,900, reaching $44,800 in 2003.

- The average after-tax income of the poorest fifth of the population rose just 4 percent, or $600, over the past 24 years.

Because incomes grew fastest among the most affluent, this group's share of the total national income grew as well.

- The top one percent of the population received 12.2 percent of national after-tax income in 2003, up from its already-large 7.5 percent share in 1979. (Each percentage point of after-tax income is equivalent to $65 billion in 2003 dollars.)

- In contrast, the shares of national income received by various groups of low- and middle-income people all fell. The middle fifth of the population received 16.5 percent of the national after-tax income in 1979, but only 15.5 percent in 2003. The bottom fifth received 6.8 percent of such income in 1979, but just 5.0 percent in 2003.

Income is now more concentrated at the very top of the income spectrum than in all but five years since the mid-1930s. This conclusion is reached by examining the CBO data in conjunction with data from a ground-breaking historical analysis of income distribution trends published in a leading economics journal in 2003.[2] When viewed together, the studies indicate that the richest one percent of households now receive a larger share of the national income than at any time since 1937, except for the period from 1997 to 2001.[3]

Average After-Tax Income by Income Group
(in 2003 dollars)

Income Category	1979	2003	Percent Change 1979-2003	Dollar Change 1979-2003
Lowest fifth	$13,500	$14,100	4.4%	$600
Second fifth	$27,300	$30,800	12.8%	$3,500
Middle fifth	$38,900	$44,800	15.2%	$5,900
Fourth fifth	$50,900	$63,600	25.0%	$12,700
Top fifth	$89,700	$138,500	54.4%	$48,800
Top 1 Percent	$305,800	$701,500	129.4%	$395,700

Source: Congressional Budget Office, *Effective Federal Tax Rates: 1979-2003*, December 2005.

[2] Thomas Pickety and Emmanuel Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics*, 118, 2003. Their tables have been updated through 2002 at http://emlab.berkeley.edu/users/saez/

[3] Data for 1986 are ignored in this comparison. Incomes at the top were distorted that year because high-income taxpayers made temporary adjustments to their incomes in response to the passage of the 1986 Tax Reform Bill.

New Data Highlight Continuation of Long-Term Trends in Income Inequality

The CBO data show that long-term trends in income inequality returned in 2003. Income concentration grew steadily during the latter half of the 1990s, and then peaked in 2000, the year the stock market hit a record high. From 2000 to 2002, income became less concentrated at the very top, partially due to the drop in the stock market. The after-tax incomes of most groups fell from 2000 to 2002, but fell more sharply for the top one percent. In 2003, however, those with the highest incomes experienced far more rapid growth in after-tax income than other income groups. For instance, between 2002 and 2003, the average after-tax income for the 20 percent of the population with the lowest incomes fell by $200 or 1.4 percent in inflation-adjusted terms, and those with slightly higher incomes experienced modest increases of less than one percent. In contrast, households in the top one percent of the income spectrum saw their after-tax incomes jump by 8.2 percent, or $53,300.

Change in Average After-Tax Income, 2002 to 2003
(in 2003 dollars)

Income Category	Dollar Change	Percent Change
Lowest fifth	-200	-1.4%
Second fifth	100	0.3%
Middle fifth	300	0.7%
Fourth fifth	1,000	1.6%
Top fifth	5,200	3.9%
Top 1 Percent	53,300	8.2%

Source: Congressional Budget Office, *Effective Federal Tax Rates: 1979-2003*, December 2005.

The CBO data also indicate that the growth in income disparities since 1979 largely reflect changes in before-tax income. That is, most of the divergence in income patterns among various income groups reflects diverging outcomes in the income they received before taking changes in federal tax policies into account.

Changes in federal taxes, however, have had some influence over these patterns. The direction of that influence depends upon the time period examined. Changes in federal taxes exacerbated the growth in income disparities during the 1980s, but mitigated the growth in income disparities during the 1990s. The new CBO data for 2003 show that the significant tax cuts taking effect in that year benefited those at the top of the income spectrum the most, and thus exacerbated the underlying growth in before-tax income inequality in 2003.

Income Gap Likely To Grow After 2003

Available evidence indicates that since 2003, income gains at the top may have continued to outpace the gains across the rest of the income spectrum. Consider:

- Census data show that the top five percent of households experienced income gains from 2003 to 2004 while other households did not. Most other households, in fact, saw their incomes decline from 2003 to 2004.[4] These Census data, moreover, are likely to understate divergence in incomes in 2004. The Census data do not break out trends among the top one percent of households, where income gains may have been especially concentrated. In addition, the Census data do not include significant amounts of income received by high-income households; for instance, the Census data ignored earnings above $1 million. If an individual makes $10

[4] Between 2003 and 2004, the average income of the top five percent of households rose by an average of $4,340, or 1.7 percent, after adjusting for inflation. By contrast, for example, the average income of the middle fifth of households fell by $300, or 0.7 percent.

million a year, the Census records those earnings as $1 million. (This is done for confidentiality reasons.)

- During the current economic recovery, wages and salaries have grown less than half as fast as their average rate of growth during other post-World War II recoveries. Meanwhile, corporate profits have grown much faster than in other recoveries.[5] The ultimate beneficiaries of these large gains in corporate profits are primarily high-income households, since they own the lion's share of the stocks of corporations.

- After adjusting for inflation, wages among low- and middle-income workers have fallen since 2003.

- In contrast, separate surveys of pay trends by *Business Week* and *Forbes* magazines both found extremely large increases in the compensation of chief executive officers (CEOs) in 2004. The *Business Week* article observed that from 2003 to 2004, "CEO raises and total pay once again dwarfed those of the average worker."[6] The *Forbes* report found that the CEOs of the nation's 500 largest companies received an "aggregate 54 percent pay raise last year…. That easily outpaced 2003's eight percent raise."[7] (The income gains among highly-paid CEOs are not captured by the Census data.)

- The rise in federal tax revenues in 2005 also appears to stem in part from a continued growth in income inequality. In May 2005, CBO said that one possible reason that revenues were coming in faster in 2005 than it had forecast earlier this year was that increases in income may have been more concentrated among high-income taxpayers than it had anticipated.[8] High-income taxpayers pay taxes at higher rates, so an increasing concentration of income results in a higher level of revenue. In an August report, CBO stressed that much of the recent growth of revenues has occurred because of a boom in corporate tax receipts rather than in taxes on wages and salaries.[9] This development also is consistent with the notion of increased income inequality.

- An even more recent report by CBO estimates that capital gains realizations jumped by 48 percent from 2003 to 2004, which is larger than the substantial 20 percent increase that occurred from 2002 to 2003.[10] CBO also estimates that capital gains income will rise by another 13 percent from 2004 to 2005. Increases in capital gains income lead to more income inequality as capital gains income is heavily concentrated among high-income households.

- In testimony before Congress, former Federal Reserve Board Chairman Alan Greenspan also reiterated his conclusion that income is becoming more concentrated. In response to a

[5] Isaac Shapiro, Richard Kogan, Aviva Aron-Dine, "How Does This Recovery Measure Up," Center on Budget and Policy Priorities, revised January 6, 2006.

[6] Louis Lavelle, "A Payday For Performance," *Business Week* online, April 18, 2005.

[7] Scott DeCarlo, "CEO Compensation," *Forbes*, April 21, 2005.

[8] Congressional Budget Office, *Monthly Budget Review,* May 5, 2005.

[9] Congressional Budget Office, *The Budget and Economic Outlook: An Update*, August 2005.

[10] Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2007 to 2016*, January 2006, pages 87 and 92.

New Study Shows Economic Mobility Decreased as Income Inequality Increased

Some have argued that increases in income inequality are unimportant because of economic mobility. In particular, they argue that, while the incomes of the lowest-income 20 percent of the population have stagnated or grown very slowly since the late 1970s, few families remain in the bottom 20 percent of the income distribution over time.

A new study by two economists at the Federal Reserve Bank of Chicago, however, shows that over the same period of time in which income inequality increased, economic mobility decreased. Reviewing Census data from 1940-2000, the authors find, "economic mobility fell sharply during the 1980s and failed to revert, perhaps even continued to decline, in the 1990s." [*]

Thus, far from compensating for the increase in income inequality since 1979, changes in economic mobility over the same time period may have heightened its effects.

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[*] Daniel Aaronson and Bhashkar Mazumder, "Intergenerational Economic Mobility in the U.S., 1940 to 2000," Federal Reserve Bank of Chicago, Working Paper 2005-12, November, 2005, http://www.chicagofed.org/publications/workingpapers/wp2005_12.pdf.

question, he said there is a "really serious problem here, as I've mentioned many times before this [House] committee, in the consequent concentration of income that is rising."[11]

Federal Policies Are Exacerbating Income Disparities

The major pieces of tax legislation that have been enacted since 2001 have served to concentrate income further at the top of the income spectrum. These tax cuts have helped high-income households far more than other households. This can be seen by examining information on the combined effect of the tax-cut bills adopted in 2001, 2002, and 2003. The Urban Institute-Brookings Institution Tax Policy Center estimates that:

- In 2005, the bottom fifth of households received an average combined tax cut of $18 from these bills, raising their after-tax income by 0.3 percent.

- The middle fifth of households received an average tax reduction of $742, increasing their after-tax income by 2.6 percent.

- The top one percent of households, however, received an average tax reduction in 2005 of $34,900, leading to a jump in their after-tax income of 4.6 percent.

- Finally, households with incomes exceeding $1 million received an average tax cut of *$103,000* — an increase of 5.4 percent in their after-tax income, or more than double the percentage increase received by the middle fifth.

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[11] Federal Reserve Board Chairman Alan Greenspan, Testimony before the House Financial Services Committee, July 30, 2005.

Furthermore, some of the tax cuts that were enacted in 2001 are still being phased in. These tax cuts are heavily tilted to those at the top of the income scale. These tax cuts include the elimination of the tax on the nation's largest estates, as well as two tax cuts that started to take effect on January 1, 2006 and will go almost entirely to high-income households. The Tax Policy Center reports that 97 percent of the tax cuts from these two measures will go to people with incomes above $200,000.[12] As a result, the tax cuts ultimately will be even more skewed toward high-income households than they were in 2005.

To date, the President and Congress have taken little heed of the trend toward increasing income concentration and have not shown concern about the degree to which the tax cuts are exacerbating income disparities. To the contrary, Congress (with the President's support) is on track to pass "reconciliation" legislation that would cut programs assisting low- and middle-income households at the same time that it extends tax cuts — such as the reduction in taxes on capital gains and dividend income — that are of primary benefit to high-income households. Such legislation would continue the pattern of recent years, under which actions by federal policymakers have contributed to a further widening of income disparities between the most affluent households and other Americans.

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[12] Robert Greenstein, Joel Friedman, and Isaac Shapiro, "Two Tax Cuts Primarily Benefiting Millionaires Will Start Taking Effect January 1," Center on Budget and Policy Priorities, December 28, 2005.

Income Inequality Gap Widens Among U.S. Communities Over 30 Years

Source: http://www.patchworknation.org/content/income-inequality-gap-widens-among-us-communities-over-30-years

BY: DANTE CHINNI

In the **debate about income inequality in America**, many stories miss an important point: rising disparities are not just about investment bankers versus autoworkers. They're about entire communities of "winners" and "losers." **As we have noted** with **Patchwork Nation**, as the long-term economic shifts in the United States happen, communities continue to diverge and the idea of "an American economy" increasingly looks like an anachronism.

To get a better understanding of the impact of the changing American economy at the community level, Patchwork Nation looked at median family income in 1980 and compared it to the same number from 2010 in our 12 county types. The results indicate just how seriously the last 30 years have affected different kinds of communities.

The numbers, which appear in **April's Atlantic Monthly**, show that more than half of our county types, seven out of our 12, actually had a lower median family income in 2010 than they did 30 years ago. The figures, 1980 data from the Census and 2010 estimates from the firm **Geolytics**, were adjusted for inflation. (2010 Census data by county are not yet available.)

That doesn't mean that, for most the part American families are worse off. The most populous county types in the country - the **Monied Burbs**,**Industrial Metropolises** and **Boom Towns** - all saw growth overall.

But it does show that there are communities that are finding the transition to a new economy much more difficult than others. And those challenges raise serious question for policymakers in Washington.

View larger map

Growing Gaps

Compared to 1980, the communities that have been hit the hardest are the Latino-heavy communities we call **Immigration Nation**. They saw their median family income fall from $42,795 in 1980 to $38,941 in 2010 - a decline of $3,854. In large part, that's likely due to the influx of immigrants with lower educational and skill levels into these communities, primarily located in the Southwest.

There was also a big drop in the small-town **Service Worker Center counties**, where the median family incomes fell by about $2,500 between 1980 and 2010. In those places, the story is mostly about the loss of small manufacturing. Those counties, many of which are fairly remote, survive because people in surrounding areas visit to do business. Without an influx of dollars from something else, like small manufacturing or tourism, times can be tight.

Rural, agricultural **Tractor Country** also took a hit with a drop of more than $2,700 in median family income.

Many of the other county types found their median family income numbers essentially unchanged - with small rises or small declines - but some places have done far better.

Change in Mean of Median Income by Community Type

Community Type	1980	2010	Change
Monied 'Burbs	$55,688	$59,404	$3,716
Minority Central	$36,869	$36,130	-$739
Evangelical Epicenters	$38,630	$37,554	-$1,076
Tractor Country	$42,144	$39,379	-$2,765
Campus and Careers	$51,524	$52,193	$669
Immigration Nation	$42,795	$38,941	-$3,854
Industrial Metropolis	$53,921	$56,234	$2,313

Boom Towns	$49,597	$51,618	$2,021
Service Center	$44,222	$41,775	-$2,447
Empty Nests	$46,879	$45,876	-$1,003
Military Bastions	$45,565	$46,510	$945
Mormon Outposts	$45,266	$43,591	-$1,675

The Boom Towns, which grew dramatically at the beginning of the last decade, saw median family incomes rise by about $2,000. The big-city Industrial Metros bumped up by about $2,300. And the wealthy, suburban Monied Burbs saw their median family incomes climb by more than $3,700.

One way to think of the changes is this: The highest median family income in Patchwork Nation in 1980 was the Monied Burbs at $55,688, while the poorest was Minority Central at $36,869 - a difference of $18,819. In 2010, the numbers were $59,404 for the Monied Burbs and $36,130 for **Minority Central** - a difference of $23,274.

In other words, the already-wide income gap between the wealthiest county type in Patchwork Nation and the poorest grew by more than $4,400 in the last 30 years in inflation-adjusted dollars.

There are a few provisos that come with looking at the numbers this way, of course.

Some places, particularly the Industrial Metropolis counties, have massive disparities within them. American big cities are full of examples of extreme wealth just blocks away examples of extreme poverty.

And remember 2010 was not exactly a banner year for the American economy. It was the depths of recession. These numbers may bounce back some in the years to come. But many economists believe what was lost in the recession may be gone for quite some time - **that the "Great Recession" was structural in nature** and Americans have to prepare for a new world that may look more like it.

Now What?

One reaction to all these numbers may be, so what? The numbers here reflect what happens when an economy changes and global competition rocks an economic boat that used to be steady.

Maybe. But particularly in the U.S., these numbers have real significance - and not just from the standpoint of equality and fairness.

The U.S. economy, ultimately, is built on the fact that Americans spend money. About two-thirds of the economy is consumer spending. And these numbers raise a few questions.

First, increasingly the weight of the economy is being placed on a few types of places -- for the most part, places that are better educated and wealthier. The buying power of other communities is not only struggling to keep up, it is falling behind. Is that best for a consumer economy?

And second, what happens if the American socioeconomic system, essentially, functions on two tracks? Will the people living places on the lower tracks stand for that and for how long?

We'll look at those questions in more depth later this week on this blog and on the PBS NewsHour broadcast. Patchwork Nation went with NewsHour economics correspondent Paul Solman to two counties in Ohio - Crawford (an **Emptying Nest**) and Delaware (a Monied Burb) to see the dramatically different paths those places have taken since 1980:

At 3 p.m. ET Thursday, NewsHour correspondent Hari Sreenivasan, Paul Solman and I will participate in a **live chat** on the NewsHour's website:**pbs.org/newshour**.

Diabetes Data Reflect Health, Income and Socio-Economic Divides

Source: http://www.patchworknation.org/content/diabetes-data-reflect-health-income-and-socio-economic-divides

Tue, 03/08/2011 - 19:33 | by **Dante Chinni**

Living a healthy lifestyle is not easy in the U.S.; keeping fit can be tough in the land of supersizes and never-ending pasta bowls. But the health problems aren't the same everywhere, and in a paper released Tuesday, the Centers for Disease Control and Prevention identified an area they call "the diabetes belt" with high incidences of the disease.
The belt paints a red blob across the Southern U.S. and could be interpreted as a regional problem. There is some truth to that, of course.

But look at that same map through our 12 Patchwork Nation county types. You can see some of the smaller differences we have tracked and noted on this site.
There are clearly strong ties between high diabetes rates and larger African-American populations -- a long-known problem -- but it's not that cut and dry. The problem isn't only about poor black communities in the South. There are also larger socio-economic and cultural issues at play.
And when you consider pre-existing conditions and health insurance policies, the diabetes belt also raises questions about the health-care reform debate.

Diabetes Hotspots

The contours of the CDC's diabetes map, based on 2008 data, are hard to ignore, and when you lay them against the Patchwork Nation map, there are some clear correlations.

Community Type	**Percent With Diabetes**	**Number of Counties**
Monied 'Burbs	8.7	286
Minority Central	12.7	364
Evangelical Epicenters	11	468
Tractor Country	9.1	311
College and Careers	8.7	71
Immigration Nation	8.9	204
Industrial Metropolis	9.3	41
Boom Towns	8.8	384
Service Center	10.1	663
Empty Nests	9	250
Military Bastions	10.2	55
Mormon Outposts	8.1	44
Nationwide	**9.9**	**3141**

Two of our 12 community types are heavily represented in diabetes belt: the Minority Central counties with large African-American populations and the socially conservativeEvangelical Epicenters. They have the highest percentage of adults with diabetes: 12.7 percent and 11 percent, respectively. Mainly set in the area many know as the Bible Belt, they are two of the most regionally focused community types. But income may be almost as significant a shared trait, as both have the lowest median household incomes in Patchwork Nation: $30,000 for Minority Central and $31,500 for the Epicenters.

Look carefully at those maps and you'll notice a few holes in the diabetes belt -- lower rates around Shelby County, Ala., (home of Birmingham) and Cherokee County, Ga., (metropolitan Atlanta).

These places are exceptions to the region and not just where diabetes is concerned. There are islands of relative wealth in what is largely a sea of rural poverty. The point? Income matters a lot in the diabetes problem.

That divide can also be seen when one looks at the small-town Service Worker Centercounties. Those 663 counties have hardly any presence at all in the diabetes belt. They're scattered across the Northeast, Midwest and West Coast, yet they have relatively high rates of diabetes. On average 10.1 percent of the adult population has diabetes in those counties.

The Service Worker Centers are not as poor as Minority Central or the Evangelical Epicenters, but their $35,000 median household income is well below the national average.

The opposite is true with the diabetes statistics as well. The wealthier and better-educated county types such as the Monied 'Burbs, Industrial Metropolis, Boom Towns and Campus and Careers counties all have diabetes rates below the national average.
As we have noted in more detailed analyses, these communities are home to roughly 90 percent of Whole Foods organic grocery stores. That may be driven in large part by income, but it is also driven by desire. Not everyone can pay for organic arugula, but not everyone wants it either.

Diabetes and Health Care

Add all those numbers and trends up and there looks to be serious implications in the next few years as the health-care reform law begins to take effect.

Counties hardest hit by diabetes such as Minority Central and Service Worker Centers not only have lower incomes, but they also tend to have higher unemployment and poverty rates, according to Patchwork Nation analysis. That means many of the people suffering from diabetes probably don't have insurance, either because their jobs don't provide coverage or they don't have jobs.

But some of that may be set to change.

Under the current health-care reform law, insurance companies will no longer be able to deny coverage for the disease starting in 2014. On top of that, the employer mandates mean those who do have jobs would at least have the chance to obtain coverage.

The American Diabetes Association said diabetes currently costs the U.S. health care system some $116 billion annually. "People with diagnosed diabetes, on average, have medical expenditures that are approximately 2.3 times higher than the expenditures would be in the absence of diabetes," the group writes on its website.
It doesn't take a math whiz to see the potential for sharply rising costs.

That's one of many reasons why those fighting the disease think the battle against it is one of the keys to getting health-care spending under control.

But changing diets and habits is no simple task, and these numbers seem to make the fight even harder.

People who live in wealthier areas not only have more money and, in most cases, better health care, they also seem to have the track to a healthier lifestyle overall, at least where diabetes is concerned. And leveling that playing field is not easy.

STATE OF THE ECONOMY | Income and Poverty Statistics Across the Nation

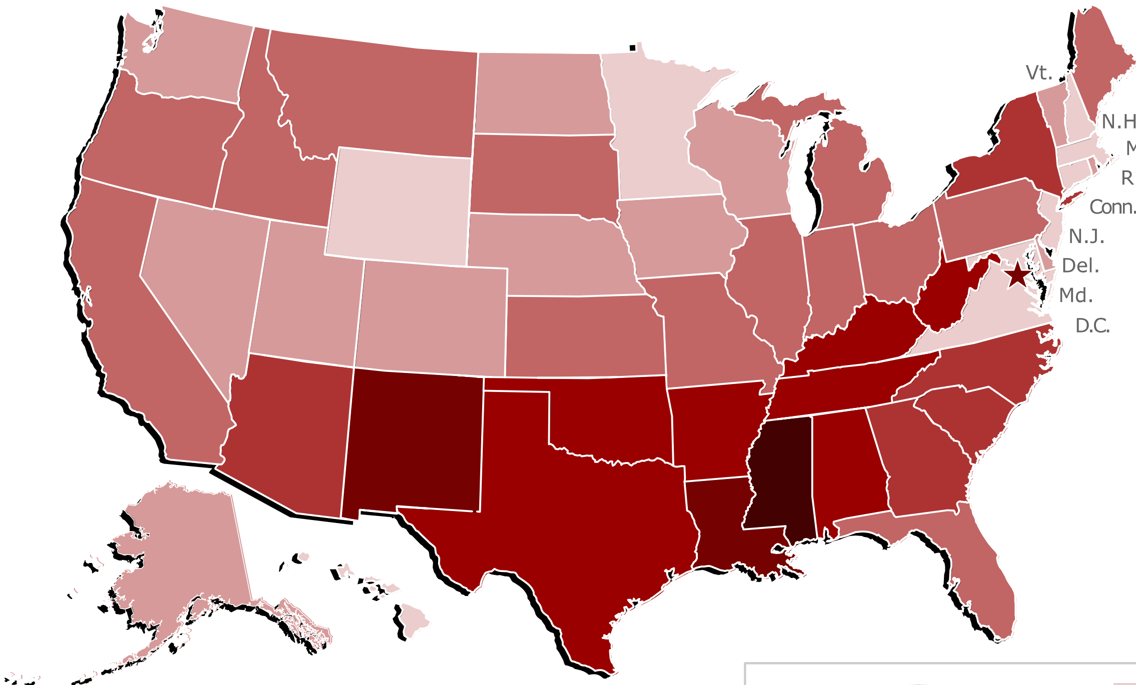
AP CREDITS

Five years into a national economic recovery, the share of Americans living in poverty finally dropped. The nation's poverty rate was 12.3 percent in 2006, down from 12.6 percent a year before. The nation's median household income increased for the second straight year in 2006, but it still has not rebounded to the level at the start of the decade. Incomes for 1999 have been adjusted for inflation.

Click to change map view | **Rollover states for more information**

INCOME | POVERTY

All information from the U.S. Census Bureau



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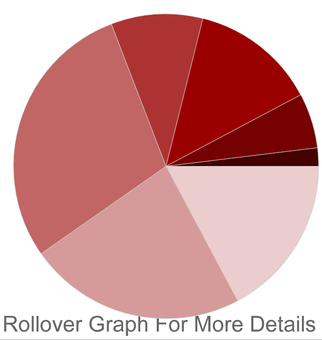

Montana

RANK: 18

	Montana	National Totals
1999 POVERTY RATE:	14.6%	11.3%
2006 POVERTY RATE:	13.6%	12.3%
DIFFERENCE:	0.9%	1.0%

STATE OF THE ECONOMY | **Income and Poverty Statistics Across the Nation**

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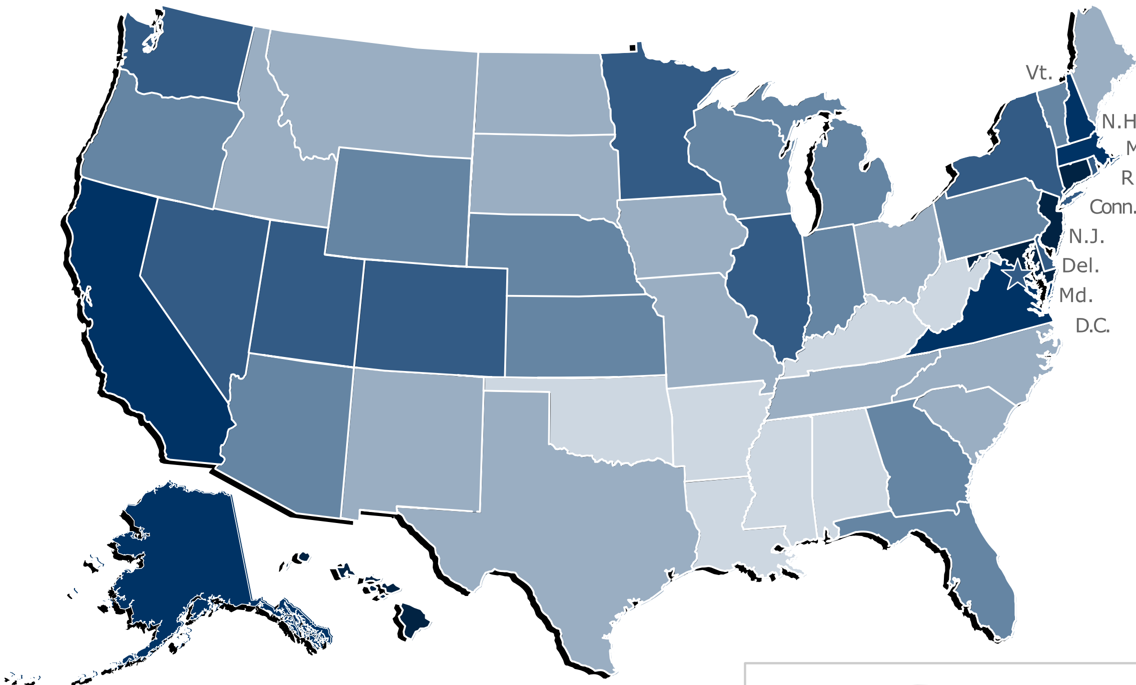

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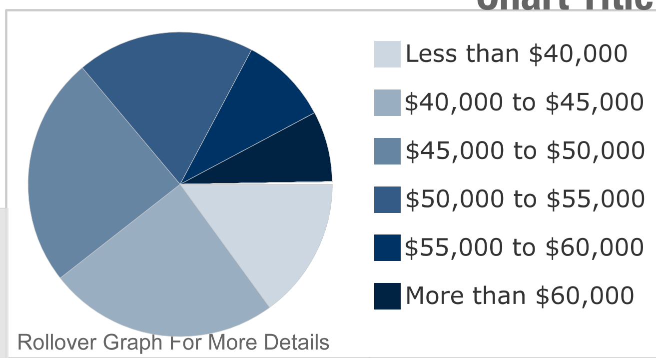

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National Totals

1999 MEDIAN HOUSEHOLD INCOME:	$49,244
2006 MEDIAN HOUSEHOLD INCOME:	$48,201
PERCENT CHANGE:	-2.0%

Source:
http://hosted.ap.org/specials/interactives/wdc/poverty_income/index.html?SITE=AP

Folks: The article below explains how *class warfare* works in practice today in a capitalist society, such as this one; that is, the warfare perpetrated on the working classes by the capitalist class. Here the capitalist class is represented by corporate *capital* and its allies in Congress. The consequence of this warfare, in this instance, is, at the immediate level, the unjustified widening of inequality in this society, and in the long run the intensification of alienation among the working classes, which, most ironically, further drives them into the hands of the very people responsible for this inequality as they vote for rightwing politicians who work their ideological magic on them by objectifying the subjective interests of the *ignorantsia* (e.g. jingoism, racism, sexism, and the like). Notice that the corruption of *procedural democracy* by capital allows the undermining of *corporeal democracy* (See the glossary for the meanings of italicized terms.)

March 24, 2011

G.E.'s Strategies Let It Avoid Taxes Altogether

By DAVID KOCIENIEWSKI

General Electric, the nation's largest corporation, had a very good year in 2010.

The company reported worldwide profits of $14.2 billion, and said $5.1 billion of the total came from its operations in the United States.

Its American tax bill? None. In fact, G.E. claimed a tax benefit of $3.2 billion.

That may be hard to fathom for the millions of American business owners and households now preparing their own returns, but low taxes are nothing new for G.E. The company has been cutting the percentage of its American profits paid to the Internal Revenue Service for years, resulting in a far lower rate than at most multinational companies.

Its extraordinary success is based on an aggressive strategy that mixes fierce lobbying for tax breaks and innovative accounting that enables it to concentrate its profits offshore. G.E.'s giant tax department, led by a bow-tied former Treasury official named John Samuels, is often referred to as the world's best tax law firm. Indeed, the company's slogan "Imagination at Work" fits this department well. The team includes former officials not just from the Treasury, but also from the I.R.S. and virtually all the tax-writing committees in Congress.

While General Electric is one of the most skilled at reducing its tax burden, many other companies have become better at this as well. Although the top corporate tax rate in the United States is 35 percent, one of the highest in the world, companies have been increasingly using a maze of shelters, tax credits and subsidies to pay far less.

In a regulatory filing just a week before the Japanese disaster put a spotlight on the company's nuclear reactor business, G.E. reported that its tax burden was 7.4 percent of its American profits, about a third of the average reported by other American multinationals. Even those figures are overstated, because they include taxes that will be paid only if the company brings its overseas profits back to the United States. With those profits still offshore, G.E. is effectively getting money back.

Such strategies, as well as changes in tax laws that encouraged some businesses and professionals to file as individuals, have pushed down the corporate share of the nation's tax receipts — from 30 percent of all federal revenue in the mid-1950s to 6.6 percent in 2009.

Yet many companies say the current level is so high it hobbles them in competing with foreign rivals. Even as the government faces a mounting budget deficit, the talk in Washington is about lower rates. President Obama has said he is considering an overhaul of the corporate tax system, with an eye to lowering the top rate, ending some tax subsidies and loopholes and generating the same amount of revenue. He has designated G.E.'s chief executive, Jeffrey R. Immelt, as his liaison to the business community and as the chairman of the President's Council on Jobs and Competitiveness, and it is expected to discuss corporate taxes.

"He understands what it takes for America to compete in the global economy," Mr. Obama said of Mr. Immelt, on his appointment in January, after touring a G.E. factory in upstate New York that makes turbines and generators for sale around the world.

A review of company filings and Congressional records shows that one of the most striking advantages of General Electric is its ability to lobby for, win and take advantage of tax breaks.

Over the last decade, G.E. has spent tens of millions of dollars to push for changes in tax law, from more generous depreciation schedules on jet engines to "green energy" credits for its wind turbines. But the most lucrative of these measures allows G.E. to operate a vast leasing and lending business abroad with profits that face little foreign taxes and no American taxes as long as the money remains overseas.

Company officials say that these measures are necessary for G.E. to compete against global rivals and that they are acting as responsible citizens. "G.E. is committed to acting with integrity in relation to our tax obligations," said Anne Eisele, a spokeswoman. "We are committed to complying with tax rules and paying all legally obliged taxes. At the same time, we have a responsibility to our shareholders to legally minimize our costs."

The assortment of tax breaks G.E. has won in Washington has provided a significant short-term gain for the company's executives and shareholders. While the financial crisis led G.E. to post a loss in the United States in 2009, regulatory filings show that in the last five years, G.E. has accumulated $26 billion in American profits, and received a net tax benefit from the I.R.S. of $4.1 billion.

But critics say the use of so many shelters amounts to corporate welfare, allowing G.E. not just to avoid taxes on profitable overseas lending but also to amass tax credits and write-offs that can be used to reduce taxes on billions of dollars of profit from domestic manufacturing. They say that the assertive tax avoidance of multinationals like G.E. not only shortchanges the Treasury, but also harms the economy by discouraging investment and hiring in the United States.

"In a rational system, a corporation's tax department would be there to make sure a company complied with the law," said Len Burman, a former Treasury official who now is a scholar at the nonpartisan Tax Policy Center. "But in our system, there are corporations that view their tax departments as a profit center, and the effects on public policy can be negative."

The shelters are so crucial to G.E.'s bottom line that when Congress threatened to let the most lucrative one expire in 2008, the company came out in full force. G.E. officials worked with dozens of financial companies to send letters to Congress and hired a bevy of outside lobbyists.

The head of its tax team, Mr. Samuels, met with Representative Charles B. Rangel, then chairman of the Ways and Means Committee, which would decide the fate of the tax break. As he sat with the committee's staff members outside Mr. Rangel's office, Mr. Samuels dropped to his knee and pretended to beg for the provision to be extended — a flourish made in jest, he said through a spokeswoman.

That day, Mr. Rangel reversed his opposition to the tax break, according to other Democrats on the committee.

The following month, Mr. Rangel and Mr. Immelt stood together at St. Nicholas Park in Harlem as G.E. announced that its foundation had awarded $30 million to New York City schools, including $11 million to benefit various schools in Mr. Rangel's district. Joel I. Klein, then the schools chancellor, and Mayor Michael R. Bloomberg, who presided, said it was the largest gift ever to the city's schools.

G.E. officials say the donation was granted solely on the merit of the project. "The foundation goes to great lengths to ensure grant decisions are not influenced by company government relations or lobbying priorities," Ms. Eisele said.

Mr. Rangel, who was censured by Congress last year for soliciting donations from corporations and executives with business before his committee, said this month that the donation was unrelated to his official actions.

Defying Reagan's Legacy

General Electric has been a household name for generations, with light bulbs, electric fans, refrigerators and other appliances in millions of American homes. But today the consumer appliance division accounts for less than 6 percent of revenue, while lending accounts for more than 30 percent. Industrial, commercial and medical equipment like power plant turbines and jet engines account for about 50 percent. Its industrial work includes everything from wind farms to nuclear energy projects like the troubled plant in Japan, built in the 1970s.

Because its lending division, GE Capital, has provided more than half of the company's profit in some recent years, many Wall Street analysts view G.E. not as a manufacturer but as an unregulated lender that also makes dishwashers and M.R.I. machines.

As it has evolved, the company has used, and in some cases pioneered, aggressive strategies to lower its tax bill. In the mid-1980s, President Ronald Reagan overhauled the tax system after learning that G.E. — a company for which he had once worked as a commercial pitchman — was among dozens of corporations that had used accounting gamesmanship to avoid paying any taxes.

"I didn't realize things had gotten that far out of line," Mr. Reagan told the Treasury secretary, Donald T. Regan, according to Mr. Regan's 1988 memoir. The president supported a change that closed loopholes and required G.E. to pay a far higher effective rate, up to 32.5 percent.

That pendulum began to swing back in the late 1990s. G.E. and other financial services firms won a change in tax law that would allow multinationals to avoid taxes on some kinds of banking and insurance income. The change meant that if G.E. financed the sale of a jet engine or generator in Ireland, for example, the company would no longer have to pay American tax on the interest income as long as the profits remained offshore.

Known as active financing, the tax break proved to be beneficial for investment banks, brokerage firms, auto and farm equipment companies, and lenders like GE Capital. This tax break allowed G.E. to avoid taxes on lending income from abroad, and permitted the company to amass tax credits, write-offs and depreciation. Those benefits are then used to offset taxes on its American manufacturing profits.

G.E. subsequently ramped up its lending business.

As the company expanded abroad, the portion of its profits booked in low-tax countries such as Ireland and Singapore grew far faster. From 1996 through 1998, its profits and revenue in the United States were in sync — 73 percent of the company's total. Over the last three years, though, 46 percent of the company's revenue was in the United States, but just 18 percent of its profits.

Martin A. Sullivan, a tax economist for the trade publication Tax Analysts, said that booking such a large percentage of its profits in low-tax countries has "allowed G.E. to bring its U.S. effective tax rate to rock-bottom levels."

G.E. officials say the disparity between American revenue and American profit is the result of ordinary business factors, such as investment in overseas markets and heavy lending losses in the United States recently. The company also says the nation's workers benefit when G.E. profits overseas.

"We believe that winning in markets outside the United States increases U.S. exports and jobs," Mr. Samuels said through a spokeswoman. "If U.S. companies aren't competitive outside of their home market, it will mean fewer, not more, jobs in the United States, as the business will go to a non-U.S. competitor."

The company does not specify how much of its global tax savings derive from active financing, but called it "significant" in its annual report. Stock analysts estimate the tax benefit to G.E. to be hundreds of millions of dollars a year.

"Cracking down on offshore profit-shifting by financial companies like G.E. was one of the important achievements of President Reagan's 1986 Tax Reform Act," said Robert S. McIntyre, director of the liberal group Citizens for Tax Justice, who played a key role in those changes. "The fact that Congress was snookered into undermining that reform at the behest of companies like G.E. is an insult not just to Reagan, but to all the ordinary American taxpayers who have to foot the bill for G.E.'s rampant tax sheltering."

A Full-Court Press

Minimizing taxes is so important at G.E. that Mr. Samuels has placed tax strategists in decision-making positions in many major manufacturing facilities and businesses around the globe. Mr. Samuels, a graduate of Vanderbilt University and the University of Chicago Law School, declined to be interviewed for this article. Company officials acknowledged that the tax department had expanded since he joined the company in 1988, and said it now had 975 employees.

At a tax symposium in 2007, a G.E. tax official said the department's "mission statement" consisted of 19 rules and urged employees to divide their time evenly between ensuring compliance with the law and "looking to exploit opportunities to reduce tax."

Transforming the most creative strategies of the tax team into law is another extensive operation. G.E. spends heavily on lobbying: more than $200 million over the last decade, according to the Center for Responsive Politics. Records filed with election officials show a significant portion of that money was devoted to tax legislation. G.E. has even turned setbacks into successes with Congressional help. After the World Trade Organization forced the United States to halt $5 billion a year in export subsidies to G.E. and other manufacturers, the company's lawyers and lobbyists became deeply involved in rewriting a portion of the corporate tax code, according to news reports after the 2002 decision and a Congressional staff member.

By the time the measure — the American Jobs Creation Act — was signed into law by President George W. Bush in 2004, it contained more than $13 billion a year in tax breaks for corporations, many very beneficial to G.E. One provision allowed companies to defer taxes on overseas profits from leasing planes to airlines. It was so generous — and so tailored to G.E. and a handful of other companies — that staff members on the House Ways and Means Committee publicly complained that G.E. would reap "an overwhelming percentage" of the estimated $100 million in annual tax savings.

According to its 2007 regulatory filing, the company saved more than $1 billion in American taxes because of that law in the three years after it was enacted.

By 2008, however, concern over the growing cost of overseas tax loopholes put G.E. and other corporations on the defensive. With Democrats in control of both houses of Congress, momentum was building to let the active financing exception expire. Mr. Rangel of the Ways and Means Committee indicated that he favored letting it end and directing the new revenue — an estimated $4 billion a year — to other priorities.

G.E. pushed back. In addition to the $18 million allocated to its in-house lobbying department, the company spent more than $3 million in 2008 on lobbying firms assigned to the task.

Mr. Rangel dropped his opposition to the tax break. Representative Joseph Crowley, Democrat of New York, said he had helped sway Mr. Rangel by arguing that the tax break would help Citigroup, a major employer in Mr. Crowley's district.

G.E. officials say that neither Mr. Samuels nor any lobbyists working on behalf of the company discussed the possibility of a charitable donation with Mr. Rangel. The only contact was made in late 2007, a company spokesman said, when Mr. Immelt called to inform Mr. Rangel that the foundation was giving money to schools in his district.

But in 2008, when Mr. Rangel was criticized for using Congressional stationery to solicit donations for a City College of New York school being built in his honor, Mr. Rangel said he had appealed to G.E. executives to make the $30 million donation to New York City schools.

G.E. had nothing to do with the City College project, he said at a July 2008 news conference in Washington. "And I didn't send them any letter," Mr. Rangel said, adding that he "leaned on them to help us out in the city of New York as they have throughout the country. But my point there was that I do know that the C.E.O. there is connected with the foundation."

In an interview this month, Mr. Rangel offered a different version of events — saying he didn't remember ever discussing it with Mr. Immelt and was unaware of the foundation's donation until the mayor's office called him in June, before the announcement and after Mr. Rangel had dropped his opposition to the tax break.

Asked to explain the discrepancies between his accounts, Mr. Rangel replied, "I have no idea."

Value to Americans?

While G.E.'s declining tax rates have bolstered profits and helped the company continue paying dividends to shareholders during the economic downturn, some tax experts question what taxpayers are getting in return. Since 2002, the company has eliminated a fifth of its work force in the United States while increasing overseas employment. In that time, G.E.'s accumulated offshore profits have risen to $92 billion from $15 billion.

"That G.E. can almost set its own tax rate shows how very much we need reform," said Representative Lloyd Doggett, Democrat of Texas, who has proposed closing many corporate tax shelters. "Our tax system should encourage job creation and investment in America and end these tax incentives for exporting jobs and dodging responsibility for the cost of securing our country."

As the Obama administration and leaders in Congress consider proposals to revamp the corporate tax code, G.E. is well prepared to defend its interests. The company spent $4.1 million on outside lobbyists last year, including four boutique firms that specialize in tax policy.

"We are a diverse company, so there are a lot of issues that the government considers, that Congress considers, that affect our shareholders," said Gary Sheffer, a G.E. spokesman. "So we want to be sure our voice is heard."

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