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Merkley: Tax Reform Should Put Middle Class First

July 31, 2013

Washington, DC – Today, Oregon's Senator Jeff Merkley sent a letter to the Chair and Ranking Member of the Senate Finance Committee outlining his priorities in a potential reform of the tax code. In the letter, Senator Merkley made clear that our tax code should help rebuild and strengthen the middle class.

"Tax reform cannot solve all of the challenges facing the middle class, but it must do what it can to reverse the damaging economic trends that are increasingly putting the American Dream out of reach of millions of Americans," Senator Merkley wrote. "The question that should underlie all of our economic policies, including how we shape the tax code, is simple: what policy choices will lead to more Americans seeing their incomes rise, now and in the future? America's success cannot be measured by corporate profits or government deficits or income growth of the top 1 percent. We succeed when the broad majority of Americans have the chance to get ahead and their hard work results in higher incomes."

The text of the letter is below.

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Tax Reform and the Middle Class

Dear Chairman Baucus and Ranking Member Hatch:

I appreciate the opportunity to provide input to the Finance Committee as it considers a "blank slate" approach to comprehensive tax reform. Let me cut to the chase: restoring the American Dream for the middle class must be at the center of everything tax reform proposes to do.

"The American Dream" is a powerful concept that has driven generations of Americans to strive for a better life. Every American might define the American Dream a little differently, but for most, it is a concept broadly based around prosperity and economic opportunity, regardless of where one started out in life. For many, the real-life essence of the American Dream was that with hard work and determination an American could obtain a good education and a good living-wage job, provide for a family, own a home, and maybe start a small business – in short, work his or her way into the middle class with a belief that things would be even better for the next generation.

In recent years, the American Dream has increasingly become out of reach for millions of Americans. Some challenges such as high joblessness and foreclosures are the direct result of the Financial Crisis of 2008 and the "Great Recession" that followed. Others, such as loss of good paying manufacturing jobs and rising income inequality, are affected by broader trends such as globalization and technological change. Still others, like the across-the-board cuts in the sequester and the loss of state and local public sectors jobs, are the direct result of misplaced budget priorities and austerity politics. Nearly all of these trends and choices have been made worse – sometimes significantly so – by misplaced priorities in our tax code. Sadly, for far too long we have short-changed investments that support the middle class, while bringing down taxes for the very wealthy and for corporations that ship job overseas, with little beyond a large fiscal deficit to show for it. Tax reform must help change that.

I offer a few statistics. Between 1989 and 2010, hourly productivity grew more than three times as fast as wages, yet, young men ages 25-34 working full time today are earning 10 percent less than their fathers did 30 years ago. Indeed, the entire bottom 20 percent of wage earners have seen average hourly wages decline by 3.9 percent, and the next lowest 20 percent saw those earnings fall 4.3 percent. This is against the backdrop of explosive earnings growth for those at the top – a nearly 30 percent increase for the top 20 percent of workers. Meanwhile, the costs of basic features of the middle class, such as public college, rent and utilities, and health expenditures, have increased between 41 and 80 percent between 1970 and 2009.

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In trying to account for rising costs and increasing income disparities, the median family holdings of debt have gone from \$25,300 in 1989 to \$70,700 in 2010. In fact, we are creating a generation that will remain buried in debt. In 1992, 33 percent of college seniors at public or non-profit schools graduated with debt, but in 2011 that number ballooned to 66 percent of students. As of the first quarter of 2013, nearly one in four homeowners still owes more on their mortgage than their homes are currently worth.

For better or worse, the tax code stands at a critical intersection of many parts of our economy. Its most basic obligation is to ensure the government has sufficient revenues to fund critical priorities. But it also plays an important role in shaping economic incentives and maintaining fundamental economic fairness.

Tax reform cannot solve all of the challenges facing the middle class, but it must do what it can to reverse the damaging economic trends that are increasingly putting the American Dream out of reach of millions of Americans. The question that should underlie all of our economic policies, including how we shape the tax code, is simple: what policy choices will lead to more Americans seeing their incomes rise, now and in the future? America's success cannot be measured by corporate profits or government deficits or income growth of the top 1 percent. We succeed when the broad majority of Americans have the chance to get ahead and their hard work results in higher incomes.

With this fundamental objective in mind, I believe a revised tax code should prioritize these principles:

Support Key Pathways to the American Dream. Some of the key pathways to middle class economic success—living wage jobs, education, homeownership, and small business—have become markedly less accessible over recent decades. The tax code should prioritize these pathways that are central to the American dream.

Support Living Wage Jobs. Items such as the Earned Income Tax Credit, the Child Tax Credit, and the tax exclusion of employer provided health care offer much needed support to hard-working Americans struggling to make a living wage and stay in or join the middle class. They and similar efforts should be supported and expanded. Tax reform should also ensure that the tax code incentivizes living wage jobs in the U.S. by ending incentives and loopholes for shipping jobs overseas, while boosting incentives for companies that research, invest, and manufacture in the United States. The current system of deferral of taxes for offshore subsidiaries is the worst of both worlds, and tax reform should look closely at ideas like a manufacturing-based "Innovation Box" that would level the playing field for innovative U.S. manufacturing while also preventing offshore tax avoidance.

Expand Access to Education. As the costs associated with higher education increase, tax reform should help families and students invest in education generally and specifically in training themselves for 21st-century jobs. Tax reform should expand on existing efforts to help students cover the costs of college and repay outstanding student loan debt, especially as young people and their parents were hit particularly hard by the Great Recession.

Ensure Access to Homeownership. The home is a middle class family's biggest asset, and homeownership is the foundation of middle class economic security. Tax reform must maintain and enhance tax benefits that support and expand access to responsible middle class homeownership. Thought should also be given to supporting those who currently do not benefit from existing tax incentives.

Promote Small Business. Small businesses are the engines of job creation and a key pathway to the middle class. Tax reform should ensure small business tax provisions are targeted to truly support small businesses and are designed especially to open up opportunities for entrepreneurship.

As we seek to protect and build upon the tax code's support for these key pathways to the American dream, we should ensure that we are truly supporting the middle class and those who aspire to the middle class. Many tax expenditures that are supposed to help the middle class are currently "upside down" because of their structure, providing outsized benefits to the wealthy. Providing the same benefits to taxpayers in all brackets, such as through uniform credits, could enhance efficiency and provide help to those who need it most, while leaving the vast majority of taxpayers better off.

Provide Sufficient Revenue to Meet National Priorities. As observers from both parties have noted repeatedly, revenues simply cannot remain at 14 to 16 percent of GDP without violating social contracts as understood and valued by most Americans. Revenues should be sufficient to responsibly end the across-the-board cuts in the sequester and make new investments in education, science, and infrastructure, which are critical to our long-term economic health. They should also be sufficient to support other important government priorities critical to a thriving middle class and to close the long-term budget deficit without timing shifts or fuzzy math. I note that when the budget was last balanced in the late 1990's revenues were 19.5 percent of GDP, and health care was cheaper and the population younger then.

Those Who Can Afford to Pay More, Should Pay More. Income inequality has skyrocketed in America, and far too many wealthy individuals and large businesses continue to pay effective tax rates far below the ordinary middle class American, even following the fiscal cliff deal of 2012. The top 1 percent of households controls more financial wealth than the bottom 95 percent of Americans combined. Corporate revenues are at all time highs, while effective tax rates are at all time lows. It is both immoral and unwise to ask our middle class to bear

more of the burden of cuts or higher taxes, while asking comparatively little of individuals and businesses that have amassed massive amounts of wealth.

The G-20 has recognized the need to close international loopholes and profit-shifting schemes. Indeed, far too many U.S. business entities pay no taxes whatsoever, even while they benefit enormously from the public commons provided by the U.S. government, including physical infrastructure, education, the justice system, and national security. Tax reform should ensure that successful U.S. business entities contribute meaningfully to the upkeep of the public goods from which they all benefit.

The personal tax code should be focused on helping the middle class and those striving to reach the middle class invest and save, while asking more of people who have benefitted the most from America's opportunities. Progressivity has been the hallmark of our tax code for a century, but greater income and wealth inequality warrants greater progressivity. A corollary is that tax expenditures that incentivize behaviors, such as saving for retirement, should be concentrated most on those who need assistance. Additionally, under no circumstances should further cuts in benefits be foisted on seniors or low-income Americans to pay for rate cuts for anyone.

In conclusion, these principles are not, of course, exclusive, and tax reform must also address a wide range of other important policy priorities. As a starting point and framework, however, no principles are as important as ensuring that our policies once again prioritize a vibrant and growing middle class as our top economic objective.

I appreciate the hard work that your Committee faces and stand ready to work with you to ensure tax reform achieves the goals we all agree are important for the country.

Sincerely,

Jeffrey A. Merkley

United States Senator

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Locations

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