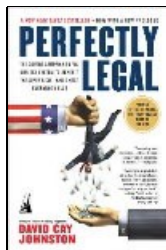


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Book Review

Perfectly Legal

The Covert Campaign to Rig Our Tax System to Benefit the Super Rich-- And Cheateverybody Else

by [David Cay Johnston](#)

Reviewer: [Geoff Wisner](#), Staff Reviewer

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"If class warfare is being waged in America," wrote Warren Buffett in 2004, "my class is clearly winning." In *Perfectly Legal*, a Pulitzer Prize-winning journalist takes on one of the main reasons this is so: the

American tax system.

Even if you accept the idea that the rich in America are getting richer and the poor are getting poorer, the details offered by Johnston — who was hired by the New York Times specifically to report on taxes — may be startling.

In the 1960s, Johnston writes, economists and sociologists worried that Americans would soon become so rich that hard work would be a thing of the past. "With productivity rising, science making ever more useful discoveries and technology driving down the costs of manufacturing, the worry was that by the dawn of the new millennium, Americans would be making too much money for their own good."

Productivity did increase. "From 1970 to 2001, the American economy more than doubled in size even after adjusting for inflation." Yet the increase was not reflected in average wages, which (adjusted for inflation) were nearly flat from 1970 through 1999. The prosperity generated by increased productivity was flowing to the top.

As of the year 2000, wealth in America had become more concentrated than at any time since 1929. The richest 1% of Americans (adjusted gross income more than \$313,000) earned almost 21% of reported income and owned almost half of all the financial assets in the country. Even more startling, the top one-hundredth of 1% (about 13,400 households with an average income of \$24 million) took in 5% of the national income, more than five times their share in 1970.

A combination of factors made this possible, and the author delves into each of them in detail. Income tax for the upper brackets was slashed dramatically. Excess Social Security taxes were deducted from workers' salaries, reducing their ability to save. The alternative minimum tax, originally intended for high-income taxpayers, was changed so that it began affecting middle-income families. Highly paid experts devised ingenious tax shelters. An increasing number of people simply stopped paying income tax at all, many of them making a dubious argument based on section 861 of the tax code. And the IRS was starved of the resources it needed to seek out and punish tax fraud, and pressured politically to go easy on the rich and powerful.

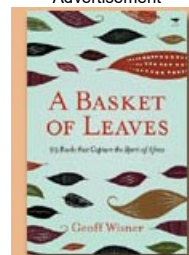
Structural change in the tax system would seem like the obvious answer, but Johnston makes it clear that this would face not only political opposition but an array of unexpected consequences. He compares changing the tax code to playing a game of pickup sticks. In the meantime, he argues, our flawed tax system could work better with better enforcement.

One unexpected result of reading this book may be a newfound respect for the IRS, and a wish for them to carry out many more audits: not the audits of the working poor that make the agency's numbers of cases look good, but the complicated audits of the rich that may pry loose hundreds of millions of hidden dollars. With some experts saying that the "tax gap" caused by fraud may have totaled more than \$300 billion in 2003 alone, the potential for relieving the tax burden on average Americans while funding essential resources appears enormous.

About the Reviewer

[Geoff Wisner](#) is a freelance writer and staff member of Indigocafe.com. He is the author of [A Basket of Leaves: 99 Books That Capture the Spirit of Africa](#). Visit his website at www.geoffwisner.com.

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