



File Photo

A BIG PUZZLE: Every April, taxpayers struggle with forms and send their money, but few have a clear picture of where exactly their cash goes.

America's tax dollar reaches far and wide but its priorities have shifted over the years

By Steven Thomas
KNIGHT-RIDDER NEWSPAPERS

WASHINGTON — It's almost April 15, and many Americans putting the finishing touches on the federal tax returns to the federal government don't know what they get for their money.

The fact is, that money is all over the world.

Some of it is in the Social Security check sent every month to that retired woman down the street, and some of it is in the paycheck of a young soldier guarding the Korean border. Some of it is in the interest on the savings bond a neighbor got for graduation, and some of it is in the check sent to the local doctor who cares for elderly people.

But how much? Are taxpayers spending more on programs they like and less on programs they don't like, or just the opposite?

Americans tend to overestimate government spending on unpopular activities, such as foreign aid or welfare, and underestimate spending on popular programs, such as Medicare. Their misunderstanding makes it harder for politicians to pursue the kind of cuts that will be necessary to balance the budget without tax increases.

Most Americans, for instance, think the government spends more of their money on foreign aid than on Medicare, according to a poll last year for *The Washington Post*. The truth is that Medicare is near the top of the spending list, taking 12 cents out of every dollar sent to Washington. Foreign aid is near the bottom, taking less than a penny of every dollar.

About 48 percent overstate how much is spent on welfare, believing it takes at least 20 cents of every dollar spent by the government, according to a 1995 poll for *CBS* and *The New York Times*. In reality, payments to welfare families account for about 1 cent of every dollar. If other programs for poor and nearly poor people are included — such as Medicaid and food stamps — the figure

Paying the Bills

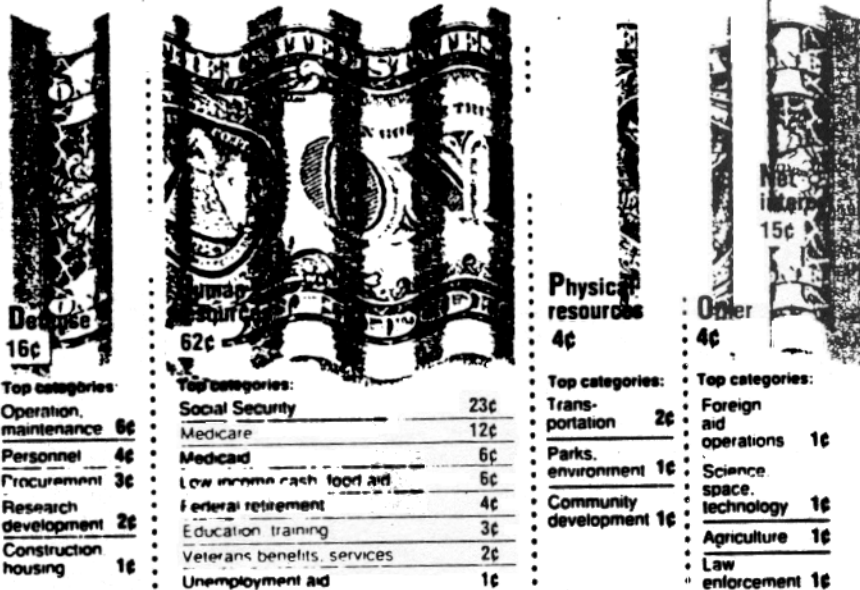
PAYING UNCLE SAM

How Washington spends the tax dollars

For every \$1 of federal tax ...



As Americans fill out their federal tax returns, the question arises: Where does the money go? Here's a rundown, from the 1997 budget:



NOTE: Doesn't total one dollar due to rounding.

Myth vs. reality



Myth: Foreign aid makes up a big part of the budget.
Reality: It accounts for 1¢ out of every \$1 spent.



Myth: Welfare is a big part of the budget.
Reality: The federal program for welfare families accounts for about 1¢ out of every \$1. If other programs for the poor, like Medicaid and food stamps, are included the figure is about 12¢.



Myth: The budget deficit has been going up.
Reality: It has gone down each of the last four years.



Myth: Defense spending keeps going up.
Reality: Adjusted for inflation, military spending hasn't been this low since 1980.



Myth: Federal taxes have been going up.
Reality: After taking inflation into account, federal taxes have been fairly level. They've amounted to between 19% and 20% of the economy for each of the last 20 years.

*Doesn't total 100% due to rounding, federal accounting methods.

SOURCES: Federal budget, Treasury Department

The top five 1997 spending

| | |
|---------------------|---------------------|
| 1. Social Security | \$366 billion (23¢) |
| 2. Defense | \$267 billion (16¢) |
| 3. Interest on debt | \$247 billion (15¢) |
| 4. Medicare | \$194 billion (12¢) |
| 5. Medicaid | \$99 billion (6¢) |

Then and now

How federal priorities have shifted, as a percent of budget*

| | 1960 | 1980 | 1997 |
|--------------------|------|------|------|
| Human resources | 28% | 53% | 62% |
| Defense | 52% | 23% | 16% |
| Interest | 7% | 9% | 15% |
| Physical resources | 9% | 11% | 4% |
| Other | 8% | 8% | |

Number of federal civilian employees

| | |
|------|-------------|
| 1960 | 1.8 million |
| 1980 | 2.2 million |
| 1996 | 1.9 million |

Analysis lays bare the truth about Americans' tax exposure

BY AMY RIDENOUR

WASHINGTON — In the year 1057, Lady Godiva urged her husband Leofric, Earl of Coventry, to lower taxes on the people of Coventry. Leofric replied that he would do so only if his wife rode naked through the town marketplace.

Lady Godiva met her husband's conditions. Covering her body with her long hair, she protected both her own modesty and her husband's pride, permitting him to lower taxes without loss of face.

Lady Godiva's spirit lives on. On April 15, the date more than 120 million tax returns are due, the U.S. House of Representatives will vote on a tax limitation constitutional amendment to make it harder to raise taxes.

If approved, this amendment would require two-thirds approval of Congress to raise taxes, except in wartime and during national emergencies.

Last April the Tax Limitation Amendment passed the House, 238-186, just 47 votes short of the two-thirds majority needed to approve a constitutional amendment.

The vote is too close to call this year, but one thing is sure: If every taxpayer realized the full extent of the taxes he or she pays, Congress would feel enough heat to stop raising taxes.

Wall Street Journal writer Amity Shlaes' new book, "The Greedy Hand: How Taxes Drive Americans Crazy and What to Do About It," is an excellent source of tax information.

Did you know, for instance, that when Congress established the first income tax in 1913, a millionaire's income tax rate was 7 percent? Today, says Shlaes, a teenager starting out at McDonald's qualifies for a 7.65 percent tax rate.

Shlaes also tells us that Americans each year pay \$1.48 trillion in taxes, an amount equal to the size of the entire British economy. U.S. federal taxes today

equal one-fifth the U.S. economy — the highest level ever in peacetime.

Shlaes also shares Tax Foundation data showing that, in 1997, an average two-earner American family spent a quarter of its budget in taxes, much less than it spent for food and housing. In 1998, a typical two-earner family spent nearly 40 percent of its income on taxes — more than it spent on food, clothing and housing combined.

Rep. Joe Barton, R-Texas, who is sponsoring the Tax Limitation Amendment with Sen. Jon Kyl, R-Ariz., says his proposal is necessary because our government structure is biased toward more and more spending. Barton points out that most government benefits target distinct special interests that have a strong economic incentive to band together to lobby for increased government spending.

Taxpayers, he says, are different: They are spread around the country and find it difficult and uneconomical to band together to stop spending and tax increases.

In a 1997 poll, 70 percent of the public supported Barton's Tax Limitation Amendment.

Barton hits upon something political philosophers have long recognized. In the 19th century, John Stuart Mill wrote: "The people who exercise the power are not always the same people over whom it is exercised." Quite so. And those who pay taxes are not always those who sought spending increases.

One group that agrees with Barton is Americans for Tax Reform, a coalition of 90,000 taxpayers and taxpayer groups. ATR supports a Tax Limitation Amendment to the U.S. Constitution, noting that 14 states have tax limitation provisions, while 15 states will consider adopting them sometime in 1999.

In support of tax limitation efforts,



NOW YOU KNOW WHY HE WEARS SUCH A TALL HAT...

- ATR is educating Americans about "hidden taxes" that drive up tax bills in ways most never realize. ATR describes the tax bite in popular consumer goods:
- Beer: 43 percent of the price goes for taxes.
 - Bread: 31 percent of the price paid is taxes.
 - Cars: 45 percent of sale price is taxes.
 - Cigarettes: 75 percent of the sale price is for taxes.
 - Electricity: 25 percent of your bill goes for taxes.
 - Gasoline: 54 percent of the price is taxes.
 - Guns: 46 percent of the sale price is taxes.
 - Hotel stays: 43 percent is taxes.
 - Liquor: 44 percent of the price of a bottle of distilled spirits goes for taxes.
 - Pizza: 38 percent is taxes.
 - Restaurant meals: 27 percent of the price is taxes.
 - Soda: 35 percent is taxes.
 - Telephone calls: 50 percent is taxes.
 - Tires: 36 percent is taxes.
- The need for tax reform may be highlighted by these facts: According to the Tax Foundation, total 1998 tax collections in the U.S. will equal \$2.667 trillion, equal to \$26,434 for every household, or \$9,881 per person. It also is an increase of 5.7 percent over 1997 tax receipts and a 58.4 percent increase over 1990 tax receipts.
- Compared with the actions of Lady Godiva, the Tax Limitation Amendment is a moderate proposal. On April 15 we'll see if it is moderate enough to gather the support of two-thirds of the Congress.
- Amy Ridenour is president of The National Center for Public Policy Research. This article was distributed by Knight Ridder/Tribune News Service.

'Off-budget' spending hides red ink

By William M. Welch
USA TODAY

Senate Republicans were growing last week after the Congressional Budget Office certified that their budget plan would bring the federal books into balance in seven years.

But the Congressional Budget Office has another set of figures that GOP leaders aren't talking about.

It shows that under the GOP budget plan the government will have to borrow at least \$105 billion in 2002, the target year for a balanced budget.

Only in Washington, to borrow a phrase from opponents of government, would a budget dependent on continued borrowing be judged in balance.

In figuring the federal budget deficit, Congress does not count the government's spending from certain trust funds, principally the fund for Social Security benefits.

By law, Congress has placed the Social Security trust fund "off budget." The surplus, the amount left after Social Security payroll taxes are used to pay benefits to current beneficiaries, is invested in Treasury securities. That money, in turn, flows into the federal treasury and is spent on everything from congressional salaries to fuel for battleships.

In essence, the government spends the surplus and leaves

trust fund each year under its seven-year "balanced budget" plan. By 2002, it counts on borrowing and spending \$115 billion accumulated in trust funds to produce the \$10 billion "surplus," the bottom line in what is known as the unified federal budget.

And that's if everything goes according to plan, with no unexpected economic bumps.

The practice isn't unique to Republicans. Democrats have relied on quiet borrowing from the Social Security Trust Fund for years to mask the size of the annual deficit. President Clinton's budget proposal also relies on such borrowing.

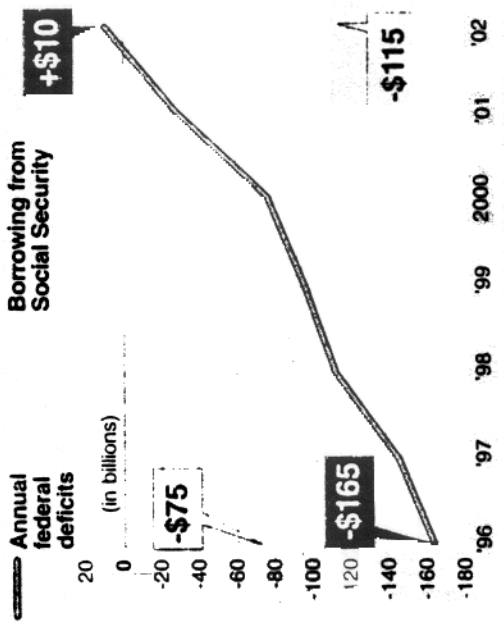
The total cumulative national debt is almost \$4.9 trillion, and the Clinton administration says legislation soon will be needed to raise the debt ceiling to permit more borrowing. Of that debt, \$1.2 billion is borrowed from trust funds.

Now that Republicans control Congress, Democrats are quick to criticize this government borrowing as a raid on Social Security.

"It's all political appeasement," says Sen. Ernest Hollings, D-S.C. "When they say they're going to balance the budget, they know they aren't going to."

House Ways and Means Chairman Bill Archer, R-Texas, decries that his party's budget is balanced with borrowing through Social Security dollars

'Balanced' budget borrowing
While the Republican plan to balance the federal budget aims for a budget surplus of \$10 billion by 2002, the amount the government owes to the Social Security trust fund continues to climb steadily. Projected annual federal deficits and amounts borrowed from the Social Security trust fund:



Source: Congressional Budget Office

an IOU in the trust fund for future Social Security recipients.

In this manner the government borrows from itself, or from its Social Security account, rather than going directly to public markets. But it still counts toward running up the gross federal debt. It also runs up the government's statutory debt ceiling, the limit Congress sets annually on the total outstanding debt the government is

and angrily denied Hollings' allegations: "I don't know where he comes up with that," Archer says of Hollings.

But the Congressional Budget Office, the non-partisan accounting arm of Congress, has produced a table showing that overall borrowing continues under the GOP budget plan.

A similar acknowledgment of the borrowing is included in the fine print of the official House report on the budget resolution agreement approved in June. It has a table disclosing "the amounts of the deficit" for each year, ending with a slightly differing figure of \$108.4 billion in 2002.

Bill Hoagland, Republican staff director of the Senate budget committee, says the same kind of borrowing is assumed in all budgets before Congress and that it has served the interests of both parties.

"Nobody's serious about (changing) it, because what that means is we've got to raise taxes or cut (spending) more deeply," he says.

The Congressional Budget Office was able to certify the GOP budget plan as producing a surplus in 2002, however, despite the continued borrowing.

That is because Congress has placed these transactions off budget, and the smaller figure is reported as the total deficit at the federal budget's bottom line.