

The Real US Tax Burden

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Introduction

We were all taught very early on that one of the primary causes of the Revolutionary War was, "No taxation without representation." It was this principle which drove the colonists to reject even relatively small taxes imposed upon them such as the Stamp Act of 1765 and the Tea Act of 1773, the later of which led to the now infamous Boston Tea Party, despite it only being a tax of three pence per pound^[1]. Once again America is being subjected to inflammatory taxes, on a daunting scale. However, the problem is no longer a lack of representation, it's ignorance and apathy among the electorate. I wish to draw a parallel to our under-appreciated and often overlooked Founding Fathers with a rallying call reflecting on today's perils: "No taxation without foundation." In this paper I will outline the specific sizable drains on federal funds, how the government taxes, the sum total of those taxes on the public, and a solution to our problems.

Fiscal Black Hole: Entitlements

"I predict future happiness for Americans if they can prevent the government from wasting the labors of the people under the pretense of taking care of them." - Thomas Jefferson

As of early 2008, Social Security, Medicare, and Medicaid consume roughly forty percent of the annual federal budget^[2]. Forty cents of every tax dollar you pay is little more than redistributed wealth or government mandated welfare. More galling than the sheer volume of tax dollars going to these programs is their inefficiency and long term prospectus. Social security is structured just like a Ponzi Scheme: you take the money of incoming new "investors" (the workforce) and distribute them among the existing "investors" (the retirees). A Ponzi Scheme can of course keep going indefinitely provided the number of investors perpetually grows. However, the Ponzi Scheme is about to collapse under the weight of a demographic glitch known as the Baby Boom. Starting January 1st 2008 the first of the Baby Boomers will be eligible for early retirement^[2]. For forty years thereafter, the tidal wave of government spending from Baby Boomers collecting entitlements will batter our fiscal shores. There simply aren't enough wage earners to pay for the entitlements of the Baby Boomers. Social Security, however, is just the tip of the iceberg. Medicare is the real elephant in the room. The Medicare problem is five times the size of the Social Security problem. The problem is that people continue to live longer and longer as medical technology advances, and medical costs keep rising at more than twice the rate of inflation^[2] under the burden of our perverse HMO system of health care. To add insult to injury, the equivalent money taken in taxes from a worker would buy nearly double the annual monthly payment provided by Social Security^[4]. One can only wonder what sort of health care policy could be purchased with the funds taken for Medicare and Medicaid. The fiscal insolvency of entitlement programs, particularly Medicare, represent the biggest challenge to the United States federal government in modern history. In case this powder keg our country is sitting on wasn't already bad enough, the Obama administration is running in with the matches in the form of government run nationalized health care. Where is the money going to come from? Entitlements, by themselves, represent the potential fiscal meltdown of this nation. Dave Walker, former Comptroller General of the United States, is sounding the alarm on our entitlements nightmare. To quote Walker: "If nothing changes [by 2040] the federal government is not going to be able to do much more than pay interest on the mounting debt, and some entitlement benefits. It won't have money left for anything else. National defense. Homeland security. Education. You name it." To quantify how deep our hole is on just entitlements, Walker continues, "You could eliminate all waste and fraud and the entire Pentagon budget, and the long range projections barely change." And if you think this hyperbole or hysteria, consider this: On the "Fiscal Wake Up Tour" hosted by Comptroller General Dave Walker, he was joined by The Heritage Foundation (conservative), The Brookings Institution (liberal), and The Concord Coalition (non-partisan). Dave Walker's analysis is largely agreed with by Democrat and Republican leadership on the Senate Budget Committee, as well as Federal Reserve Chairman Ben Bernanke^[2].

The following is an excerpt from an interview of Ayn Rand by Mike Wallace in 1959^[5]. Mike Wallace represents true honest fiscal liberalism, and espouses the benefits of social and welfare programs such as Social Security, Medicare, and Medicaid. Ayn Rand represents true honest fiscal

conservatism, and espouses the benefits of liberty, free markets, and personal choice. I normally avoid lengthy quotations, but this exchange is so valuable due to the lack of the political spin, and is so rare, that I deem this to be a worthwhile include in this paper. It addresses beautifully the most common objection to ending entitlements, what about all those needy people who depend on them?

Mike Wallace: One of the principle achievements of this country in the past twenty years particularly, I think most people agree, is the gradual growth of social protective legislation, based on the principle that we are our brother's keepers. How do you feel about the political trends of the United States?

Ayn Rand: ... I feel that it is terrible, that you see destruction all around you, and that you are moving toward disaster until and unless all those welfare state conceptions have been reversed and rejected. It is precisely these trends which are bringing the world to disaster. Because we are now moving towards complete collectivism or socialism. A system under which everybody is enslaved to everybody. And we are moving that way only because of our altruist morality.

Mike Wallace: But you say everybody is enslaved to everybody, yet this came about democratically. A free people and a free country voted for this kind of government, wanted this kind of legislation. Do you object to the Democratic process?

Ayn Rand: I object to the idea that people have the right to vote on everything. The traditional American system was a system based on the idea that majority will prevailed only in public or political affairs, and that it was limited by inalienable individual rights. Therefore I do not believe that the majority can vote a man's life, or property, or freedom away. Therefore I do not believe that if a majority votes on any issue that this makes the issue right... it doesn't.

....

Ayn Rand: By the Constitutional powers as we had it, people elect officials but the powers of those officials, the powers of government are strictly limited. They will have no right to initiate force or compulsion against any citizen except a criminal. Those who have initiated force will be punished by force, and that is the only proper function of government. What we would not permit is the government to initiate force against people who have hurt no one, who have not forced anyone. We would not give the government or the majority or any minority the right to take the life or the property of others. That was the original American system.

Fiscal Black Hole: Warfare

"I abhor war and view it as the greatest scourge of mankind. The most successful war seldom pays for its losses." - Thomas Jefferson

The next biggest drain on the federal budget is the military, at over twenty percent. Twenty cents of every tax dollar go directly to the military. It's the classic economic dilemma: guns vs butter. You can't have them both ... not in the long term at least. This problem stems from Congress seemingly ceding its Constitutional obligation to declare war to the executive branch. Since WWII, the United States has not declared a war. Consequently the wars have been longer, costlier, and without a clear victor. The list of military conflicts since WWII without a declaration is staggering. Korea, Bay of Pigs, Vietnam, Dominican Republic, Lebanon, Grenada, Panama, the Gulf War, Somalia, Bosnia, Kosovo, Afghanistan, and Iraq. All of that ... for what? While the value of the lives hundreds of thousands of US casualties and millions of civilian and foreign casualties cannot be measured fiscally, the weapons they use can be. Increasingly, war is an expensive proposition. In order to save lives and have less risk to military personnel, weapons such as JDAMs and Tomahawk Cruise Missiles are deployed. At \$31,000 and \$730,000 respectively, those add up quickly^[6]. Put another way ... one Tomahawk Cruise Missile could buy multiple schools.

Fiscal Black Hole: Deficit Spending

"And the forehorse of this frightful team is public debt. Taxation follows that, and in its train wretchedness and oppression." - Thomas Jefferson

The third biggest item on the budget is simply interest on our existing federal deficit. It consumes nearly 10 percent of the federal budget. So before Uncle Sam can spend your tax dollar, ten cents of it is already gone just to pay interest on our debt. Worse still, we're running annual budget deficits that are surpassing one trillion dollars. So not only are we losing huge chunks of tax revenue just to interest, but we're piling on top of that debt and driving the interest we have to pay through the roof. This behavior is driven by the welfare-warfare state above, and must be considered when factoring in the true cost of wars and welfare programs. We don't have the money up front to both, and so we charge it to our virtual credit card (in this case, the national banks of China, Japan, and various oil exporters). And note that we're not paying off the debt with this spent money. We are doing the equivalent of making a minimum payment, while ringing up more charges. There's a word for what that results in: bankruptcy. Only nations can't go bankrupt. They can simply not pay the money anywhere, and suffer the consequences of financial warfare, or hyperinflate their own currency and pay the debt back in devalued money. The first is not an option for the United States, as we need China's money just to be able to continue waging our existing war. The second option would be economically ruinous for most Americans. Those who get the newly created money first (big banks, the military industrial complex) would benefit. Those who get the money last (Joe Public) would suffer and continue to fall further behind, as the money would already be devalued by the time it had trickled down to them. Think of the infamous stories of post-WWII Germany and paying for bread with a wheelbarrow full of money, or the current status in Zimbabwe with \$1,000,000,000,000 legal tender with an expiration date on it. That's what we're heading for in this country, but we'll be able to do some damage before we even get that far. Our current behavior is the equivalent of the US government going to a "check in advance" place and taking out a loan against its next paycheck. In this metaphor, the next paycheck refers to future generations of Americans. The US is in such deep debt, that it is literally piling on debt on a generational level. Already, the current generation of taxpayers cannot possibly hope to pay off the government's eleven trillion dollar shortfall. And the real picture is much more ugly: total unfunded obligations are approximately fifty six trillion dollars. To put such a big number in proper context: the total amount of unfunded liabilities of the United States federal government is approaching the value of global gross domestic product (GDP), which is about sixty five trillion dollars^[8]. In other words, the entire value produced by the entire world in an entire year is what it would take to pay off existing unfunded liabilities of the United States.

Hidden Taxes: More Insidious, More Regressive

"If the American people ever allow private banks to control the issue of their currency, first by inflation then by deflation, the banks and the corporations that will grow up around them, will deprive the people of all property until their children wake up homeless on the continent their fathers conquered. The issuing power should be taken from the banks and restored to the people, to whom it properly belongs." - Thomas Jefferson

When you talk to somebody about taxes, they'll likely have in mind Income Tax, Corporate Tax, Payroll Tax (FICA), and a few other smaller taxes like Property Tax and Sales Tax. But there is a host of hidden taxes levied on the public. All alcohol and tobacco carries at least a federal tax, and often a state tax. There is a tax on game equipment (fishing rods, reels, line, bait, lures, guns, bullets, yes even bows and arrows). Every gallon of gasoline or diesel comes with a built in excise tax for both federal and state government. In case that wasn't enough of a tax on your car use, if you have a gas guzzler you can get hit with a several grand tax penalty for it not meeting "mileage standards". There's also a tax on gambling winnings ... even if you lose money. There is, in effect, a Sugar Tax. The amount of sugar imported into the United States has a cap. That's why Coca-Cola domestically is made with high fructose corn syrup, and internationally it's made with sugar. And that's why those Coca-Colas taste so much better overseas. This also makes items which require sugar far more expensive ... in effect passing the bill to you the consumer.

Candy, cereal, and sweeteners come to mind. There is a special tax on airfare as well. Yes that's right, the US government actively targets for taxation the same industries it bails out. Don't think you can escape taxation by taking a boat instead. There's a three dollar per person federal tax on transporting people by waterway. There are also tariffs on imported goods. One of the more laughable examples is an over 140% tax on peanut butter, something we haven't exactly done well producing in a non-disease spreading fashion lately. Car rentals and hotel stays also come with special taxes. While these taxes are moronic, the volume they force you to pay is somewhat minor. There are, however, two large hidden taxes that do hit the wallet hard: Corporate Taxes and Inflationary Tax. When the government taxes employers (Corporate Taxes), there is only two places for those costs to be defrayed: at the cash register, or in the employees salary. Either way, you get left holding the bad end of the bargain. The real insidious tax, and perhaps the most vicious and regressive tax known to man is the inflationary tax. That is when government arbitrarily out of thin air creates money and credit, without adding value to the economy. This makes each dollar in the system worth less. In other words, your purchasing power has declined. Your savings has declined. Everything you own, direct or indirect, that is a dollar denominated asset has lost value. But inflation doesn't effect everybody evenly. Those who get the newly created money first (big banks, the military, Wall Street) get the benefit of the new money before the devaluation occurs. By the time that money has trickled down to the common man on the street, it has devalued. This tax hurts most those who are already on the edge. In particular Social Security retirees who are on a fixed income but watching the purchasing power of that income evaporate before their very eyes. This is a serious problem, because the United States has been trying to get out of the current recession largely by "monetizing the debt", or, for those who don't speak sneaky politician, "printing money out of thin air." Inflation is usually accompanied by a drop in interest rates to encourage capital to flow into the market. But this only makes the problem worse. Then you get situations like there is in the United Kingdom currently, where inflation is higher than the interest rate at banks. In other words, just letting your money sit there in a bank you are outright losing money to inflation. And who has the power to create money of thin air, and regulate our interest rates? A private bank, otherwise known as The Federal Reserve. If a private bank having that kind of power didn't shock you, go back and read that again and think about it. The Federal Reserve has no oversight. It has never once been audited. It is not required to disclose its policy, meetings, actions, or transactions. It is in no way part of the federal government. It has no Constitutional authority to exist. And yet it has been entrusted with total control over the currency and economy of the United States. This is why Thomas Jefferson and Andrew Jackson eliminated the Central Bank during their tenure as President. Absolute power corrupts absolutely.

Joe Public's Balance Sheet

The following is the sum total of all taxes (federal, state, and local) that the average household pays. Note that this is the average household, and not the average person.

Taxes	Balance
Average Income ^[7]	\$53,652.50
Federal Taxes ^[7]	
Payroll Taxes (FICA)	-\$7,069.00
Individual Income	-\$7,062.00
Inflation	-\$2,296.33
Corporate Income	-\$2,155.00
Estate and Gift	-\$217.00
Gasoline Excise	-\$213.00
Customs	-\$205.00
Air Transport	-\$107.00
Telephone and Misc Excise	-\$92.00
Diesel Fuel Excise	-\$81.00
Alcohol Excise	-\$74.00

Tobacco Excise	-\$63.00
Federal Subtotal	-\$19,634.33
State/Local Taxes ^[7]	
Property Tax	-\$2,906.00
Sales / Gross Receipts	-\$2,240.00
Individual Income	-\$1,984.00
Other Business	-\$425.00
Corporate Income	-\$380.00
Gasoline Excise	-\$298.00
Selective Sales	-\$258.00
Public Utilities	-\$190.00
Insurance Receipts	-\$129.00
Personal Motor Vehicle Licenses	-\$120.00
Tobacco Excise	-\$108.00
Business Motor Vehicle Licenses	-\$67.00
Severance Taxes	-\$61.00
Special Assessments	-\$57.00
Personal Property	-\$50.00
Estate and Gift	-\$50.00
Alcohol Excise	-\$41.00
Other Personal	-\$36.00
State/Local Subtotal	-\$9,400.00
Total	\$24,618.17
Effective Tax Rate	54.12%

Firstly, it should be stressed that even this is an extremely conservative figure. The Consumer Price Index (CPI) for 2007 showed inflation to be 4.28%. It's worth noting that the CPI is not all inclusive, and lacks some key areas hit hard by rising prices such as energy. As such the CPI is almost certainly much lower than real inflation. Moreover, the printing presses at the Federal Reserve have been in overdrive printing money for the stimulus, buying GM, and other such outright abuses of taxpayer money.

Secondly, this is an average. Whereas most averages look like they are atop a bell curve, this is much closer to a midpoint on an exponential curve. The poorest 20% of Americans receive \$8.21 for every \$1.00 paid in taxes. Conversely, the richest households receive \$0.41 for every \$1.00 paid in taxes. In other words ... this is all skewed down heavily by the poorest 20%. If you're middle class or higher, you're paying higher than this^[7]. This is also true for the amount you're taxed, but that more closely resembles a traditional bell curve. If you're living in New York City, where even the city itself has an income tax, you're definitely paying more in taxes. There's also a higher average earnings there, but does it keep up with the higher taxation? My guess is no, but this sort of sliderule of local tax rates and local cost of living and local earnings is too variable and amorphous to say much more than your locality could result in higher (even much higher) or lower effective tax rates.

Conclusion

"When the people fear their government, there is tyranny; when the government fears the people, there is liberty." - Thomas Jefferson

It is worth briefly mentioning one major area overlooked in federal spending. So, given this huge amount of money the government is taking in, and the even bigger amount of money it is spending, surely we're getting everything we could possibly imagine, right? Wrong. The infrastructure in America is in deplorable shape. The American Society of Civil Engineers rates the

state of the infrastructure in this country. That covers, among other things, bridges, roads, airports, sewer, water, solid waste, rail, water, the grid, and dams. What is our grade? D^[9]. Some of the observations are simply staggering. Buffalo loses 40% of daily water production to leaks in the pipes. Alabama has one person responsible for inspecting thousands of dams. The bridge in Dover, ID linking the that area to Spokane is rated a 2 out of 100. You can literally pull chunks of concrete off the side walls with your hands. The metalwork is rusted over and literally warped out of shape and structure. You can put your hand through some of the I-Beams holding up I-95 in Philadelphia, PA. Major metros like St. Louis with a combined storm water and sewer system are easily overwhelmed by even light storms. Many times a year, St. Louis simply dumps raw sewage overflow into the Mississippi. The problem is so far out of hand, the EPA is suing the city. The litany is endless^[10]. This lack of spending on improving, or even maintaining, the foundation of the nation's economy, defense, and transportation system due to the aforementioned budget drains must be considered as another hidden cost of those agendas.

Frequently when I worked on Ron Paul's 2008 Presidential Campaign, I would see signs that said "Dr. Paul cured my apathy." I even thanked Ron Paul for curing my apathy when he visited Spartanburg^[11]. While I was voting, I was largely uninvolved in the political scene. This is one of the fundamental problems facing America. What do politicians have to fear when only 56.8% of the voting public bothers to turn out even for the most hotly contested major elections^[12]? Of those, how many do you think really keep up on the issues? Part of that is a media problem, as in the quest for ratings many of the mainstream media outlets in our country have devolved into something more closely resembling celebrity gossip than hard hitting investigative journalism, and part of that is just flat apathy among the electorate. How, aside from Politician X promising money and/or benefits, do you get the average American interested and informed about the political happenings in this country? I think a big part of that answer, at least for me, is the internet. It is the great information equalizer. If it wasn't for the internet I likely would have never even discovered who Ron Paul was. We must fight tooth and nail to defend the free and open nature of the internet at every step of the way. One additional way to get the American public's attention again is to put this tax burden right out in front of them where they can get a good whiff of it on a daily basis. This can be done through a tax overhaul called The Fair Tax, where all federal taxes are replaced with a 23% national sales tax. This eliminates the need for massive tax oversight and enforcement (IRS), forces illegals to pay into the system, taxes everybody equally, and doesn't penalize somebody just for being rich or poor. But most importantly it serves as an obvious and frequent reminder of the cost of all these federal bureaucratic nightmares to the average taxpayer. And while we're repealing bad decisions made in 1913 like the 16th Amendment with The Fair Tax, we might as well eliminate the central bank a third time. Perhaps we have learned our lesson, and the third time is indeed the charm.

There are some problems, however, that transcend apathy. One of the most important concepts that has been lost in the translation from Revolutionary America to today is the Constitution. If we strictly followed the Constitution many of the problems we face today likely would not exist. Programs like Medicare, Social Security, and Medicaid would require Constitutional Amendments. Congress would have to declare war up or down instead of letting the President do whatever he sees fit on foreign policy. The Income Tax nearly does not exist today because it was stricken down as unconstitutional, thus leading to the 16th Amendment, which barely passed. Some still debate the legitimacy of its passing even today. This lack of respect for the Constitution also shows in our eroding civil liberties. To quote George Carlin, "If you think you have rights one assignment for you: Next time you're at the computer go on the internet, go to Wikipedia. When you get to Wikipedia in the search field type 'Japanese Americans 1942' and you'll find out all about your precious fucking rights okay? ... Rights aren't rights if somebody can take them away, they're privileges. ... That's all we've ever had in this country is a bill of temporary privileges. And if you read the news even badly you know that every year the list gets shorter and shorter and shorter." We now face, in short, a government more dangerous to our civil liberties than the enemy it claims to protect us from.

"We have allowed our nation to be over taxed and over regulated and over run by bureaucrats. The Founders would be ashamed of us for what we're putting up with. If you look at every single problem we're facing today it's because of the lack of respect for the rule of law and the Constitution." - Ron Paul

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Recommended Reading

The Revolution: A Manifesto
by Ron Paul

Atlas Shrugged
by Ayn Rand

The Anti-Federalist Papers
by Various Authors

The Road to Serfdom
by F.A. Hayek

Free To Choose: A Personal Statement
by Milton Friedman

A Nation of Sheep
by Judge Napolitano

Common Sense
by Thomas Paine

Who Killed The Constitution?
By Thomas Woods, Jr.

Life and Death In Shanghai
Nien Cheng

It Can't Happen Here
Sinclair Lewis

Running On Empty
Peter G. Peterson

The Law
Frederic Bastiat

Economics In One Lesson
Henry Hazlitt

Capitalism and Freedom
Milton Friedman