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Congress: The Holder of the Purse

- Background: The House of Representatives and the Origination of Revenue Bills
- Background: House Committee on Ways and Means
- Background: Committee on Appropriations
- Word Study: A Taxing Time?
- Student Activity: The Politics of Taxation
- The Washington Post Reprint: "5 Myths About Tax Reform"

PHOTO DISC

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Congress: The Holder of the Purse

It is no accident that Congress's power to collect taxes is first on the list of its enumerated powers found in Article 1, Section 8 of the Constitution. Under the Articles of Confederation, which governed the states prior to the implementation of the Constitution in 1789, Congress had no power whatsoever to raise revenue or collect taxes. Instead, the power to tax was reserved to the individual states.

The Constitutional Congress Establishes the Ability to Raise Money

The absence of the national Congress's power to raise revenue for the new country was an important reason that the Founding Fathers called the Constitutional Convention. Without the ability to raise revenue, the national government would be unable to protect its citizens, provide necessary services, or pay its debt obligations. Because Congress is the only one of the three branches of government able to raise money, it is known as the purse-bearer, or the holder of the purse.

Article 1, Section 8 provides, in the relevant part, that

> The Congress shall have power to lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defense and general welfare of the United States;…
>
> To borrow money on the credit of the United States;
>
> To regulate commerce with foreign nations, and among the several states, and with the Indian tribes; …

As you can see, the very first clause of Section 8 grants Congress the ability to generate revenue for the purposes of providing for "the common defense" and "general welfare." Providing for "the common defense" refers to Congress's ability to raise and support the nation's Armed Forces (Army, Navy, Air Force, Marines).

To provide for the "general welfare" is a phrase less clear in its meaning. Without going into too much detail about the specific constitutional meaning of that phrase, it is enough to say that the "general welfare" refers to all services necessary to ensure the health and safety of the American people.

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The House of Representatives and the Origination of Revenue Bills

The key to the success of the Constitutional Convention of 1787 can be summarized in one word — compromise. The Founding Fathers disagreed on any number of issues, and their disagreement on which chamber of Congress would control the power to raise revenue was no exception.

Representatives from the more populous states were unhappy with the proposed limit of two senators for all states, regardless of their size. Politics is about compromise — giving something to get something else in return. So, these more populous states agreed to the two-senator provision, but they insisted that the House of Representatives be granted exclusive power to raise revenue through taxes. Because the larger states had a larger number of representatives in the House (since representation in the House is based on the population of a state), they could theoretically assert more influence in the revenue-raising efforts.

Another consideration that the Founding Fathers took into account was the form of government they knew best — the English system. In England, the House of Commons (the equivalent of our House of Representatives) had exclusive control over the ability to raise money. The English people wanted the power of the purse to remain with the legislative body most accountable to the people. Like their counterparts in the House of Commons, members of the House of Representatives were to be elected directly by the people.

Remember that until 1913, a state's legislature — not the people — elected its two United States senators. This system of indirect election continued until 1913 with the ratification of the Seventeenth Amendment, which required direct election by the people. Therefore, since the House of Representatives was the only body at that time directly accountable to the people through the process of popular elections, the members of the Constitutional Convention agreed that the House should be the sole chamber empowered with the ability to raise money. Although the Senate may propose amendments to a revenue bill originated by the House, it cannot originate its own revenue bill.

The constitutional provision that established this compromise can be found in Article 1, Section 7, which provides:

> All bills for raising revenue shall originate in the House of Representatives; but the Senate may propose or concur with amendments as on other Bills.

HOWARD CHANDLER CHRISTY/NATIONAL ARCHIVES

***The Scene at the Signing of the Constitution*, 1940**

This provision is known as the Origination Clause. If the Senate ever tries to violate this provision by originating its own revenue bill, the House may enforce the Origination Clause through a process referred to as "blue-slipping."

The process is called "blue-slipping" because the paper on which the notification was once printed was blue. Through "blue-slipping," the House warns the Senate that the Senate has overstepped its bounds and has infringed upon a power vested exclusively in the House. Under Clause 2(a)(1) of House Rule IX (the set of procedural rules governing the functioning of the House of Representatives):

> A resolution reported as a question of the privileges of the House, or offered from the floor by the Majority Leader or the Minority Leader as a question of the privileges of the House, or offered as privileged under clause 1, section 7, article I of the Constitution shall have precedence of all other questions except motions to adjourn.

In modern practice, historians and scholars agree that the Origination Clause means that the House is the appropriate chamber to originate bills whose primary purpose it is to raise revenue for the federal government's general operation.

WHITEHOUSE.GOV

Members of Congress gather in the House chambers in September 2009 to hear President Obama on health care reform.

SENATE PHOTO STUDIO

Members of the 111th U.S. Senate gather in the Senate chamber for their official class photograph.

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House Committee on Ways and Means

The oldest and one of the most powerful committees in Congress is the House's Committee on Ways and Means (*http://waysandmeans.house.gov/*). It is the principal tax-drafting committee, meaning that it is responsible for drafting laws that affect the taxes every American pays. Its jurisdiction includes a number of functions necessary to the generation of revenue to support the operations of the federal government. The Committee's four main responsibilities include the following:

(1) Federal revenue measures generally.
The Committee on Ways and Means has the responsibility for raising the revenue required to finance the Federal Government. This includes individual and corporate income taxes, excise taxes, estate taxes, gift taxes, and other miscellaneous taxes.

(2) The bonded debt of the United States.
The Committee on Ways and Means has jurisdiction over the authority of the Federal Government to borrow money. Title 31 of Chapter 31 of the U.S. Code authorizes the Secretary of the Treasury to conduct any necessary public borrowing subject to a maximum limit on the amount of borrowing outstanding at any one time. This statutory limit on the amount of public debt (the debt ceiling) currently is $11.315 trillion. The Committee's jurisdiction also includes conditions under which the U.S. Department of the Treasury manages the Federal debt, such as restrictions on the conditions under which certain debt instruments are sold.

(3) National Social Security programs.
The Committee on Ways and Means has jurisdiction over most of the programs authorized by the Social Security Act, which includes not only those programs that are normally referred to colloquially as Social Security but also social insurance programs and a whole series of grant-in-aid programs to State governments for a variety of purposes. These include:

- Old-age, survivors, and disability insurance
- Medicare
- Supplemental Security Income (SSI)
- Temporary Assistance for Needy Families (TANF)
- Child support enforcement
- Child welfare, foster care, and adoption assistance
- Unemployment compensation programs compensation payments
- Social services

(4) Trade and tariff legislation.
The Committee on Ways and Means has responsibility over legislation relating to tariffs, import trade, and trade negotiations. In the early days of the Republic, tariff and customs receipts were major sources of revenue for the Federal Government. As the Committee with jurisdiction over revenue-raising measures, the Committee on Ways and Means thus evolved as the primary Committee responsible for international trade policy.

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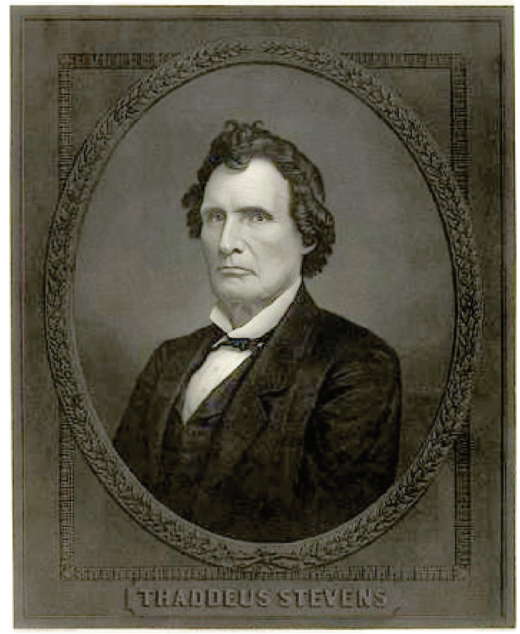
Committee on Appropriations

Until 1865, the Ways and Means Committee handled all money-related matters, including drafting tax legislation, deciding how money was to be spent, and regulating the national banking industry. However, because of an unprecedented increase in the volume of work required by the Committee as a result of the Civil War, Congress decided to create a separate committee responsible for appropriating the funds that Congress approves as part of its budget process. That committee is known as the Committee on Appropriations.

> **Article 1, Section 9, Clause 7 states:**
> "No money shall be drawn from the treasury, but in consequence of appropriations made by law…."

The First Congress vested the power to appropriate funds in the Committee on Ways and Means. This was true until December 11, 1865, when Congress created the Committee on Appropriations. This committee (*http://appropriations.house.gov/about/)* is important because its members decide how and where the money is spent.

Chairmen of the Committee on Appropriations



LIBRARY OF CONGRESS

Thaddeus Stevens

Thaddeus Stevens (Penn.) served as the first chair of the Committee on Appropriations from 1865-68 and previously the Ways and Means Committee (1861-1865). Elected to Congress in 1848 as a Whig, he is best known as a Radical Republican and fierce opponent of slavery. He was an influential member of Congress until his death in 1868. He wrote much of the legislation that paid for the Civil War.

Chair of the committee is a position of responsibility and distinctive congressmen. Representative George Mahon of Texas served from May 18, 1964, to January 3, 1979, the longest continuous term. The Cannon House Office Building is named after Joseph G. Cannon, (R-Ill.) who chaired the committee 1889-91 and 1895-1903 and served as Speaker of the House from 1903 to 1911. Several chairmen became senators and one a governor. Ohioan James Garfield, the fourth chairman, later became President.

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VOLUME 12, ISSUE 7

WORD study

A Taxing Time?

Say “taxes.” Did you see anyone smile?

Taxation is one of the obligations that have been required of citizens for centuries. Before we consider today’s taxes, let’s go back to earlier times. All the way to the 1200s.

In France, *taxer*, meaning “to impose a tax,” was the word used. It was rooted in the Latin verb, *taxare* that means to “evaluate, estimate and assess.” Do you get the idea that goods — items that can be touched and counted — are being viewed so a price can be placed on them?

Kings needed revenue, income from property or possessions. “Revenue” is based in the Old French word *revenir* which was formed from an older Latin verb, *revenire* which was a combination of *re* (meaning “back”) + *venire* (meaning “come”). So what the lords and others owned went back to the ruler in the form of revenue or taxes. By the 1670s, the definition of “tax” also meant bearing the burden.

To this day, property is assessed for its value. Homeowners learn the monetary worth of their land and the dwelling on the land when an official real estate assessment notice arrives in the mail. Local government uses this statement to determine the property taxes to be paid. “Assess” is from the Anglo-French word, *assesser*, meaning “to fix the amount” (of a tax or fine).

If you go back to the even older Latin word, *assessus* — *ad* (“to”) + *sedere* (“to sit beside”), you learn how assessment took place. One of the men who sat beside the judge had the job of determining the amount of a fine or tax by estimating the value of the property or possessions.

This person was not appreciated, especially if he estimated the value of your possessions to be very high. But, property owners liked publicans even less. These were the tax collectors.

Today, taxes are paid to local, state and national governments to provide public goods and services. This money is meant to benefit the community — with such items as paved roads and streetlights, teachers and policemen, and Social Security and Medicare.

When your parents pull out a stack of papers and receipts to begin their tax preparation, you know a taxing time has begun. Smile and thank them for contributing to the public goods and services. April 15 won't be such a taxing time.

The Politics of Taxation

News from the nation's capital over the last year has been a running storyline of political gridlock, specifically over how to handle the problem of the deficit. Woven into the debate is what role, if any, additional revenue in the form of tax increases should play.

In this back-and-forth, President Obama and most congressional Democrats continue to insist that additional revenue be part of a deficit reduction package and Republicans in Congress insist the package should consist of spending cuts alone, with a specific emphasis on reforming entitlement programs such as Social Security, Medicare, and Medicaid.

The president and Democratic leaders do not believe the burden of deficit reduction should be shouldered by the people who depend on these programs, while Republicans insist that increasing taxes on anyone, especially corporations and wealthier Americans, could threaten the overall health of the economy by harming the groups they believe are the "job creators."

These philosophical differences in how to deal with the deficit have led to a series of political "showdowns" between the two parties. Recently the battle over the so-called "fiscal cliff" at the end of 2012 and the current face-off over the "sequester," a series of random, across-the-board cuts to all federal programs set to take effect on March 1, 2013. As this and future debates over spending and taxation loom, it is helpful to take a deeper look at the philosophical differences between the two parties on taxation, specifically which interest groups have the greatest influence and where possible areas of compromise may exist.

As you follow the ongoing debate over tax policy in D.C. scan each day's *Washington Post* for the latest statements from President Obama, House Speaker Boehner, and Senate Majority Leader Reid.

Research these and other organizations and think tanks to learn more about what tax policies they advocate.

Americans for Tax Reform (Grover Norquist)	*http://www.atr.org/*
Cato Institute	*http://www.cato.org/*
Center for American Progress	*http://www.americanprogress.org/*
The Democratic Party	*http://www.democrats.org/*
The Hamilton Project	*http://www.hamiltonproject.org/*
The Heritage Foundation	*http://www.heritage.org/*
The Republican Party	*http://www.gop.com/*

e-Replica

Select two organizations — preferably one from each end of the political spectrum. Summarize where each stands on tax policy. Note in your summaries significant differences as well as any areas of agreement. In addition to garnering information from the organizations' websites, use the search feature of e-Replica to find recent statements by or references to these organizations in the news.

Key questions should include:

- Whether the organization supports increased taxes, and, if so, what type of taxes on whom?
- Are specific tax rates endorsed for specific income brackets?
- If they are opposed to any tax increases, then how do they fund government programs? Are there alternative revenue sources aside from taxes?
- What programs might they cut in order to balance the budget and reduce the deficit? By how much would these programs be cut?

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5 Myths About Tax Reform

BY GREG IP

As the nation's leaders seek to keep the country from heading over the "fiscal cliff" — a set of mammoth year-end tax increases and spending cuts — nothing has proved more contentious than taxes. President Obama wants the rich to pay more; Republicans want to keep tax rates where they are. One popular proposal is to eliminate the tax code's hundreds of loopholes and use the money to reduce the deficits without raising rates. But while tax reform is wonderful in theory, in practice it might not be as politically palatable — or economically effective —as adverstised.

1 Tax reform has bipartisan support.

The night he was reelected, President Obama said "reforming our tax code" was among his second-term priorities. A few days later, House Speaker John Boehner said tax reform could help solve the national debt.

Don't be fooled. Republicans and Democrats mean different things when they talk about tax reform. Republicans are much more interested in lowering rates than in closing loopholes. During his presidential campaign, Mitt Romney said he would slash individual income tax rates by 20 percent across the board but was noncommittal about what tax breaks he'd scrap. When Obama says he's for tax reform, he's talking about limiting the value of deductions for the wealthy to 28 percent of their income. He has yet to propose lower tax rates and wants to raise them for the top 2 percent.

The two parties also have different ideas about which loopholes to eliminate. Obama, for example, wants to cap, but not eliminate, the tax break for charitable giving. His stimulus expanded the tax credit for college education, and he wants to make that permanent. Republicans generally want to protect lower rates for capital gains and dividends.

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2 Eliminating tax breaks could raise more than $1 trillion a year in revenue.

To prove that there's plenty of money available to lower rates, tax reform advocates such as the bipartisan Simpson-Bowles deficit commission often cite the annual cost of tax breaks as $1.1 trillion. One study by the nonpartisan Congressional Research Service (CRS) estimated that eliminating all those tax breaks would generate enough revenue to lower the top rate from 39.6 percent to 23 percent.

But that same study noted how hard that would be. Most people benefit from some kind of tax break, making them very popular. Ending them would be administratively difficult and politically treacherous. Some are part of the social safety net, such as the earned income tax credit and the child tax credit, which benefit lower-income workers and families, as well as the exclusion of most Social Security benefits from taxation, which helps the elderly.

Other breaks encourage things most Americans approve of: charitable giving, saving for retirement and homeownership. The mortgage-interest deduction cost $75 billion in foregone tax revenue in 2011, but it's also immensely popular — 33 million households claimed it, according to the nonpartisan Tax Policy Center. Real estate agents, home builders and mortgage bankers would fight fiercely to preserve it.

After considering all these constraints, the CRS study concluded that it would be hard to gain more than $150 billion a year by eliminating tax breaks.

3 The 1986 tax overhaul is a good road map for reform.

"There's a model for tax reform that supports economic growth," Boehner said recently. "It happened in 1986, with a Democratic House run by Tip O'Neill and a Republican president named Ronald Reagan."

Unfortunately, the very success of that act limits its use as a model. Reagan's priority was to lower the top income tax rate, and he succeeded, bringing it to 28 percent from 50 percent. That option is no longer on the table; Obama has all but ruled out lowering the top rate. The only question is: Will it go up, and if so, by how much?

The 1986 reform also eliminated some of the most egregious distortions in the tax code, such as abusive tax shelters and the deductibility of interest on consumer loans, such as credit cards. So today there is less low-hanging fruit.

The overhaul was also meant to be revenue-neutral, meaning that every dollar raised by eliminating tax breaks went back to taxpayers in the form of lower rates. Because reducing the deficit is now the priority, tax reform would have to raise substantially more revenue, producing more losers and fewer winners, which makes the politics of reform much tougher.

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4 Fixing personal, not corporate, taxes is the priority.

With the George W. Bush-era tax cuts about to expire, negotiators are consumed with figuring out what rates individuals should pay and which of their tax breaks should be tossed out. Corporate taxes have been an afterthought. And that's a shame, because they're in far greater need of an overhaul than personal taxes.

After the 1986 reform, the corporate tax rate in the United States was well below the international average. Since then, nearly every other industrialized country has lowered its rate, and the U.S. rate of 39.2 percent (including state and local taxes) is now the highest in the industrialized world. This gives multinational firms an incentive to shift profits and perhaps operations out of the United States. Indeed, corporate taxes raise less than they should because companies are so adept at sheltering profits abroad and exploiting domestic tax breaks. Unlike with personal taxes, Obama and the GOP broadly agree on how to reform corporate taxes: Eliminate those breaks and use the revenue to lower the rate. Obama proposed doing just that earlier this year, though he has barely mentioned it since.

It could become part of broader negotiations next year. It wouldn't be easy; corporations would fight tooth and nail to keep their breaks. But the economic payoff would be bigger than with personal tax reform.

5 Tax reform would be great for the economy but is politically impossible.

Advocates of tax reform can turn giddy extolling its benefits. Advisers to Romney, for instance, said his plan would boost economic growth by 0.5 to 1 percentage point a year. That was pretty unlikely. More impartial analysis suggests that ambitious tax reform would, at most, boost growth by one- or two-tenths of a percentage point. Neither Reagan's nor Bush's tax cuts discernibly lifted the country's long-run potential growth. The reason is simple: Taxes have a much smaller influence on growth than do human capital, innovation and the vicissitudes of the business cycle.

The political benefits of tax reform may be larger than the economic ones. Republicans have caved on Obama's demand that taxes on the rich increase.

In return, the president would be smart to agree with Republicans that taxes should rise in the least harmful way — through tax reform rather than jacking up rates, which at the margin dampens investment and encourages tax avoidance.

That approach holds the best chance of producing a tax system that both sides will live with, rather than spending the next decade as they did the last, trying to tear down what the other party erected.

— December 14, 2012

Greg Ip is the U.S. economics editor of the *Economist* and the author of *The Little Book of Economics: How the Economy Works in the Real World.*