Before the Income Tax

by G. Edward Griffin

This report is adapted from two earlier articles by G. Edward Griffin appearing in the April 13, 1987 and February 29, 1988 issues of THE NEW AMERICAN*. Mr. Griffin, a journalist and film producer, is the author of The Creature From Jekyll Island: A Second Look at the Federal Reserve.*

It is a sobering thought that the federal government could operate - even at its current level of spending - without collecting any taxes whatsoever. All it has to do is create new money through the Federal Reserve System, a process called monetizing the debt. As a matter of fact, much of the money it *now* spends is obtained that way. The politicians who authorize that process know that this is not true debt, because no one in Washington really expects to repay it. It is merely a means of raising money to run the government without increasing taxes. Actually, the inflation that results from monetizing debt is just as much a tax as any other, but, because it is hidden and so few Americans understand how it works, it is far easier to collect than a tax that is out in the open.

So the question arises: Why does the federal government bother with taxes at all? Why not just operate on monetized debt? The answer is twofold. First, if it did, people would begin to wonder where the money is coming from, and that might cause them to wake up to the reality that inflation is a tax. Thus, open taxes, at some level at least, serve to perpetuate public ignorance regarding the reality of deficit spending. But the second reason is more to the point of this report. It is that taxes, particularly progressive taxes, are weapons by which social planners can wage war on one class of citizens for the benefit of another.

Tool for Social Planning

The January 1946 issue of *American Affairs* carried an article by Beardsley Ruml, who at the time was chairman of the Federal Reserve Bank of New York. Ruml devised the system of automatic withholding during World War II, so he was well qualified to speak on the nature and purpose of the federal income tax. His theme was spelled out in the title of his article: "Taxes for Revenue Are Obsolete."

In the introduction to the article, the magazine's editor summarized that Ruml's "thesis is that, given control of a central banking system and an incontrovertible currency [a currency not backed by gold], a sovereign national government is finally free of money worries and need no longer levy taxes for the purpose of providing itself with revenue. All taxation, therefore, should be regarded from the point of view of social and economic consequences."

Ruml explained that, since taxes are no longer needed to raise revenue for the government, there are only two purposes remaining. The first of these is to combat increases in the general price level. When people have money in their pockets they will spend it for goods and services, and this will bid up prices. The solution, wrote Ruml, is to take the money away from them and let the government spend it instead. This, too, will bid up prices, but never mind about that. Ruml explained it this way:

The dollars the government spends become purchasing power in the hands of the people who have received them. The dollars the government takes by taxes cannot be spent by the people, and therefore, these dollars can no longer be used to acquire the things which are available for sale. Taxation is, therefore, an instrument of the first importance in the administration of any fiscal and monetary policy.

The other purpose of taxation, according to Ruml, is to redistribute the wealth from one class of citizens to another. This must always be done in the name of social justice or equality, but the real objective is to override the free market and bring society under the control of the master planners. Ruml said:

The second principal purpose of federal taxes is to attain more equality of wealth and of income than would result from economic forces working alone. The taxes which are effective for this purpose are the progressive individual income tax, the progressive estate tax, and the gift tax. What these taxes should be depends on public policy with respect to the distribution of wealth and income. These taxes should be defended and attacked in terms of their effect on the character of American life, not as revenue measures.

Ruml's view will not be startling to anyone familiar with how the income tax came into existence. Beginning with the War Between the States, the Marxist philosophy of class conflict became manifest in America. Many people wrongly believe that Marxism is a battle of the poor against the rich. In reality, it is a campaign against the middle class - the class that Karl Marx called the *bourgeoisie.* In *The Communist Manifesto,* Marx wrote: "The distinguishing feature of Communism is, not the abolition of private property generally, but the abolition of bourgeois property." In order to accomplish this, he called for a "heavy progressive or graduated income tax."

Soaking the Rich?

Once this concept of class warfare had been transplanted to America, it found nourishment in the labor movement and eventually blossomed into a powerful political movement known as populism. The populists claimed that the farmers and the urban working class were being exploited by rich industrialists, largely through the unfair way in which taxes were levied. At that time, the nation's revenue was drawn primarily from internal excise taxes on the sale of such items as tobacco and liquor, and from tariffs on imports. Today, tariffs are viewed as a means of protecting jobs for American workers, but in the political debates of the 1890s they were seen as subsidies for big business, a means of protecting them from the rigors of foreign competition, thus allowing bloated profits that would not be possible without political protection. Furthermore, since these tariffs were passed along to the consumer in the form of higher prices, they were viewed as nothing but a tax levied against the little man to perpetuate the unearned profits of the rich.*

The populists advocated the elimination of tariffs and the institution in their place of a progressive income tax. The move was perceived as an act of justice and revenge. The rich, at long last, were going to be forced to pay their fair share - and more. In the House of Representatives, Congressman Thomas J. Hudson of Kansas expressed the prevailing populist sentiment: "I know that many wealthy men are generous and charitable.... On the other hand, the majority of the very wealthy are haughty, overbearing, autocratic, mean, and it is that class in particular that the income tax is designed to reach."

Yes, working, middle class Americans were in the firm majority, and any politician who promised to "soak the rich" was assured of victory at the polls. How ironic it was that those same politicians came from some of the wealthiest families in the world. Little did the common voters realize that in their greed to shift the tax burden to others, they were, in fact, placing that burden more heavily on themselves.

Our "progressive" income tax is not progressive at all. In fact, it is not even proportionate. If we had a flat-rate income tax with no exemptions or deductions, a person with 20 times the income of another would pay 20 times as much tax. By contrast, a progressive or graduated income tax may require a person with 20 times the income of another to pay considerably more than 20 times as much tax. But the way it was designed to operate is quite different. The same year that the income tax was adopted, Congress also created the tax-exempt foundation, a device whereby, under cover of charity and education, those family dynasties with great wealth can avoid paying either income tax or inheritance tax, while their fortunes remain under their control and continue to operate for their benefit.

Not far behind the super rich come the very rich, who also share in the spoils system. Over the years, the tax laws have become twisted and turned into a Gordian knot of exemptions, deductions, depreciations, shelters, and credits. Those with sufficient wealth can well afford to hire professionals to trace these convoluted paths, but the common man must be content with "standard" deductions and the crumb of a "simplified" tax return.

The federal income tax was never meant to treat all citizens alike. It will never be fair because it was designed to be unfair. Furthermore, it is difficult to imagine a tax that is more cumbersome and expensive to administer. So that each individual's income may be determined, the taxpayer must produce documentation on every aspect of his financial life. In order to assure compliance, a virtual army of agents, auditors, and computer technicians must be maintained at public expense. In the dust of this roving army are the hordes of camp followers, the accountants and tax attorneys, all of whom consume massive chunks of the national wealth without producing anything except paperwork and procedures just to measure income. In the process, every detail of our lives is recorded and made available to the bureaucracy. The right to privacy and protection against arbitrary search and seizure is trampled underfoot.

The income tax cannot be reformed. Its heart and soul are favoritism. Its muscle is political power. Its nature is waste and tyranny. It must be completely replaced.

But what should replace it? The world has been exposed to just about every kind of tax imaginable at some point in history. Nations have tried property tax, production tax, excise tax, import tax, manufacturing tax, carriage tax, window tax, chimney tax, liquor tax, tobacco tax, income tax, sales tax, value-added tax, and even a tax on death. The results have almost always been the same. The taxes become despised by the people and often lead to revolt or civil war.

Past Precedent

Fortunately, in our search for a fair tax that raises sufficient revenue, we do not have to begin from scratch. It may come as a surprise to learn that much of the work has been done and that the bulk of the plan has been drafted. Furthermore, it has actually been tested in America and found to be entirely workable. Where is this plan to be found? It is hidden where it is most unlikely to be discovered by the general public or Congress. It is in the Constitution of the United States.

After the Revolutionary War was won there was no way the colonists were going to create a new centralized government with the power to tax. They had had enough of that with England. So when the Articles of Confederation were finalized, they granted no taxing power at all. Whatever was needed had to be requested from the states, and the states were under no firm obligation to pay. Within a few years the impracticality of this arrangement was painfully obvious. The federal government had almost no funds with which to operate and, in fact, Congress did absolutely nothing for four years.

It is possible that the United States would have disintegrated into 13 separate nations with no way to protect themselves from foreign aggression had it not been for a series of tax revolts within the states. The most famous of these was Shay's Rebellion of 1786-87 in Massachusetts. In protest over excessive taxes levied by the state, a brigade of 2,000 armed insurgents blockaded the Springfield courthouse. The band was eventually dispersed by a few cannon volleys, but the incident served to dramatize the fact that none of the states was really prepared for military action on any sizable scale. The disturbance emphasized the need for a stronger central government, and a convention was called for the purpose of revising the Articles of Confederation.

Constitutional Convention

Once the convention was assembled in Philadelphia, the delegates quickly abandoned the idea of trying to revise the Articles. They were too flawed for repair. Everyone now agreed that the central government simply could not function unless it had some power of taxation. But what would that power be?

The overriding concern for all was that the new tax must act equally on the majority and the minority. Regardless of which citizens might find themselves in the majority, they must not be allowed to tax others in any way beyond what they tax themselves. There was unanimous consent on this principle.

Another principle was a direct outgrowth of the tradition of no taxation without representation. The colonists had just fought a war to establish that point. Conversely, if one has representation, then he must pay taxes. Since the whole purpose of representation was to consent - or object - to the levying of taxes, it follows that no one should have a voice in these matters who is not paying those taxes. All citizens are entitled to equal protection under the law, but only those who pay taxes shall be entitled to vote.

In an attempt to apply these broad principles of taxation, the convention delegates struggled with very practical problems. The seaboard states with extensive commercial shipping were reluctant to give up their right to collect import duties, because it was their main source of revenue. Those from the industrialized areas were fearful of taxes placed on manufacturing. Those from the agricultural provinces were hostile to land taxes. All parties were convinced that sooner or later a political majority would seize control and force them, as a potential minority, into tax servitude. After months of debate, it began to appear that the states were in hopeless deadlock. Then - many are convinced it was by divine intervention - a compromise was reached. No, it was more than a compromise. It was an absolutely brilliant plan for taxation. Unfortunately, it was never given a formal name. Those who drafted it were content merely to describe it in terms of its features. For the purposes of this report, however, we shall call it the "Uniform Apportionment Tax."

The Constitution acknowledges two kinds of taxes: direct and indirect. Direct taxes, as the name implies, are charged directly to the person who ultimately pays them. Examples of direct taxes are income and property taxes. Although they may be thought of as taxes on income or on property, remember that only people pay taxes: Money and property do not. Direct taxes, therefore, regardless of what they may be based on are charged directly to the ultimate taxpayer. Indirect taxes, on the other hand, are levied on a commodity with the expectation that the taxes will be passed along to the consumer as part of the market price of the commodity. Examples of indirect taxes are import and excise taxes. The taxpayer always knows when he is paying a direct tax, but is often unaware of the indirect tax.

Danger of Direct Taxes

Direct taxes were viewed by the Founding Fathers as dangerous because they give government great power over its citizens and also because, in order to assess such taxes, agents must have the authority to snoop into the private lives of the citizens. They agreed, therefore, that direct taxes are safer if administered by the states, where elected representatives are closer to the people and easier to control.

Indirect taxes, on the other hand, were viewed as less dangerous, because people could avoid them if they wanted merely by not purchasing the items being taxed. This assumes the establishment of taxes only on those items that are considered nonessential, such as liquor and tobacco, often called luxury taxes. Furthermore, the process of collecting indirect taxes does not endanger the individual's right of privacy.

For these reasons, the delegates to the Constitutional Convention agreed that indirect taxes would be more appropriate for the federal government. The compromise that allowed the states "to form a more perfect union" consisted of two provisions:

1) The federal government was to derive its primary revenue from indirect taxes, and these were to be uniform in all states.

2) In the event of war or similar emergencies, the federal government, with the consent of Congress, would have authority to levy direct taxes "passed through" the states to their citizens, but these were to be proportional to the number of representatives that each state had in Congress.

This process is called *apportionment*. In other words, if there were 100 representatives in Congress, and the state of Virginia had seven of them, the voters in Virginia would have to pay seven percent of the direct national, emergency tax. The specific wording establishing the Uniform Apportionment Tax is found in Article I of the Constitution, and specifies:

Representatives and direct taxes shall be apportioned among the several states which may be included within this Union.... 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; but all duties, imposts and excises shall be uniform throughout the United States.... No capitation [a head tax, sometimes called a poll tax], or other direct, tax shall be laid, unless in proportion to the census or enumeration herein before directed to be taken.

A sample of the extensive historical record of the founding era demonstrates the reasoning of the men who created the concept. Alexander Hamilton, who was to become the first Secretary of the Treasury, wrote in *The Federalist,* #21:

Imposts, excises, and, in general, all duties upon articles of consumption, may be compared to a fluid, which will in time find its level with the means of paying them. The amount to be contributed by each citizen will in a degree be at his own option, and can be regulated by an attention to his resources. The rich may be extravagant, the poor can be frugal; and private oppression may always be avoided by a judicious selection of objects proper for such impositions.... If duties are too high, they lessen the consumption; the collection is eluded; and the product to the treasury is not so great as when they are confined within proper and moderate bounds.... Impositions of this kind usually fall under the denomination of indirect taxes, and must for a long time constitute the chief part of the revenue raised in this country. Those of the direct kind, which principally relate to land and buildings, may admit of a rule of apportionment.

Emergency Measure

It was a cardinal point to these discussions that the power of direct taxation through apportionment was to be exercised only to pay for debt incurred as a result of war, insurrection, or similar emergencies, but not for the normal operation of the federal government. That function was to be financed by indirect taxes alone. James Madison commented:

When, therefore, direct taxes are not necessary, they will not be recurred to.... It can be of little advantage to those in power to raise money in a manner oppressive to the people.... Direct taxes will only be recurred to for great purposes.... If this country should be engaged in war - and I conceive that we ought to provide for the possibility of such a case - how would it be carried on?... How is it possible a war could be supported without money or credit? And would it be possible for a government to have credit without having the power of raising money? No; it would be impossible for any government, in such a case, to defend itself. Then I say, sir, that it is necessary to establish funds for extraordinary exigencies, and to give this power to the general government.

To the Founding Fathers, the primary purpose of apportionment was to block the central government from using the power of direct taxation - except in times of great national emergency. The barrier was not in the formula of distributing the tax load among the states, but in the procedure for doing so. To lay a direct tax, Congress had to do certain things that no government wants to do. Since each tax is a separate project, each would have to be written into a revenue act. The purpose and the amount of the tax would have to be clearly stated, and then debated and voted upon. When the tax was collected, the revenue act would expire, and the door to more money would be closed.

How different this is from the ongoing power of general taxation, under which the purpose is seldom known, the amount is always in doubt, and the process is endless. The rule of apportionment, therefore, was the greatest restraint on the power and reach of government that had yet been devised by man, and it is little wonder that it became a thorn in the side of federal politicians in the years to follow.

Of course, the Uniform Apportionment Tax was not flawless. In truth, there can never be a perfect tax if the people cannot afford it. When Hamilton became the first Secretary of the Treasury, he persuaded Congress to authorize the nation's first indirect tax. It was an excise on whiskey, a few luxury items, auction sales, and negotiable instruments. It was excellent in theory, but it was a heavy tax - resulting in a whopping 25 percent increase in prices - and it led to a full-scale revolt. Rumors quickly spread that the government was about to extend these taxes to all articles of consumption, including food and clothing. This would be the European experience all over again. Excessive excise taxes were what had driven many immigrants to seek refuge in America. So it is not surprising that this first experiment was met with large-scale public resistance.

The biggest ruckus came from the Western farmers. Because there was a shortage of money along the frontier, it had become common to use whiskey as a medium of exchange. Grain was too bulky for transport, so the farmers grew rye, distilled it into whiskey, and moved their produce into national trade in that form. For the frontiersman, therefore, a tax on whiskey was not an excise tax or luxury tax at all. It was a 25 percent tax on their basic crop, and they complained that no other farmers and no other producers of manufactured goods had to pay a similar tax - which was quite true. By 1794 the entire region was in open revolt. Tax collectors were tarred and feathered and their houses were burned to the ground. When a judge of the Supreme Court declared a state of insurrection in western Pennsylvania, President Washington called out the militia from adjacent states and, in a show of force, led these troops in full-dress uniform.

Fortunately, military confrontation was averted: The rebels surrendered in return for amnesty, no one went to jail, and within a few months the excise tax was repealed.

First Direct Tax

In 1798, Congress levied its first direct tax. It was in the amount of $2 million and was apportioned among the states on the basis of the current census, which was also the basis for the number of representatives each state had in Congress. The purpose of the tax was to extinguish part of the debt incurred by the Revolutionary War. Reduction of the national debt was viewed as one of those rare emergencies that would justify resorting to the extreme measure of a direct tax. In this case, the tax was levied on dwellings, land, and slaves. It did not provide for any deductions or exemptions, but, sadly, it was progressive in nature, with larger homes paying more per $100 of value than others.

Herein lay one of the hidden flaws in the tax concept of the Founding Fathers. They had inherited the feudal concept of *noblesse oblige,* the obligation of noblemen to take care of their inferiors and assume greater responsibility of government. By 1776, however, especially in America, this concept had lost its virtue. In a republic such as ours, there is no justification for allowing class distinctions into the law - and that includes tax law. If one class can be exempted from taxes on the basis of class, rank, or wealth, then that same group can be singled out later for extra taxes on the same basis, depending merely on the political majority at the time. The principle of taxing those with wealth at a higher rate than others must have seemed harmless at the time - perhaps even humanitarian - but it was destined to fester into a huge boil that would torment Americans for many generations to come.

All of these issues aside, the fact remains that the first direct tax in the United States was entirely constitutional. Congress had stated the purpose and the amount. It had been debated and passed. Most important, once collected, the tax would expire. In spite of these constraints, however, the tax met with considerable resistance and, in fact, soon led to a second revolt, this one among German settlers along the Eastern Seaboard. Pennsylvania's quota of the $2 million tax was $273,000, which fell mainly on land and houses. The valuation of houses was estimated by counting the number and size of windows, a practice inherited from England. But when the tax assessors arrived, the German residents thought they were reviving the hated European hearth tax. They organized into small bands and set out to assault the assessors and drive them from the district, which they did in short order. When some of the rebels were arrested and put into prison, an auctioneer named John Fries led a march on the courthouse and freed them. President John Adams once again called out the militia. Fries was captured, tried, and convicted of treason, but later received a presidential pardon.

Early Decentralization

By the time Thomas Jefferson became President, the nation had already experienced two uprisings over taxes - small to be sure, but revolts nonetheless. Hamilton and Adams had wanted to forge ahead with a powerful central government, and for this they needed revenue. The political tide now turned back to Jefferson's views of limited government. In his first Annual Message, Jefferson urged repeal of all internal taxation and a return to a reliance on tariffs alone. He said:

Considering the general tendency to multiply offices and dependencies and to increase expense to the ultimate term of burden which the citizen can bear, it behooves us to avail ourselves of every occasion which presents itself for taking off the surcharge; that it may never be seen here that, after leaving to labor the smallest portion of its earning on which it can subsist, government shall itself consume the whole residue of what it was instituted to guard.

Jefferson was not just making a speech to please the voters. He followed through. He cut government spending to the bone and even put much of the Navy into drydock. Meanwhile, Treasury receipts from tariffs were growing rapidly with the expanding nation. Lower taxes left the consumer with more money to buy imported goods. Jefferson proved his point. At the end of his term, the government actually had a surplus and had accelerated repayment of the federal debt - all as a result of tariffs alone.

The second time a direct tax was levied in accordance with the apportionment requirements of the Constitution was in 1813, principally to pay for the War of 1812. Another direct tax was assessed two years later for the same purpose. The first was for $3 million and the second for $6 million. The terms of assessment and proportion among the states were similar to those of the first revenue act. One interesting variation, however, was that the states were given the option of levying the tax entirely on their own according to whatever method of distribution they wished, saving the federal government the expense of administering the project. The states could take a 15 percent discount if they paid within six months, and a ten percent discount if they paid within nine months.

The first part of the 19th century was a period of great growth and prosperity for the United States. Excise taxes had been repealed, and the debts of war had been repaid. By and large, the central government was weak regarding internal affairs, which meant that the people were strong. The bureaucracy stayed out of the way and let Americans get on with their lives. Commerce flourished, wealth was created, and the standard of living for the common man soared. The Old World watched in amazement and envy. Then, with the War Between the States, the long retreat from greatness began.

With the outbreak of war between the northern and southern states, there was urgent need on both sides for massive armies and equally massive funding. In the South, almost the entire amount was raised by fiat money - paper bills with no backing in gold or anything of tangible value. In the North, however, Congress struggled to raise revenue in accordance with the Constitution. War was exactly the kind of "exigency" foreseen by the Founding Fathers when they established the principle of apportionment. So on August 5, 1861, Congress enacted the nation's fourth direct-tax revenue bill for the stated amount of $20 million. It was similar to the previous bills except that this time slaves were no longer taxed as property - only land, "improvements," and dwellings. The big departure, however, was that it also contained a provision to tax incomes. Congress did not like the idea of having to get taxes on a piecemeal basis. It wanted a continual flow of income without having to justify its specific purpose and without stated amounts. It looked for a way to bypass the apportionment process.

But how? All direct taxes had to be apportioned. That is what the Constitution mandated. The solution was easy: Since an excise tax is an indirect tax and does not have to be apportioned, they simply redefined the income tax as an excise tax.

The "excise" tax was a flat three percent of all income over $800 a year. Considering that the per capita income at that time was only about $150, that was a substantial exemption. Putting aside the merits or demerits of an income tax in general, we are dealing here with the concept of exemptions from that tax. This is, once again, the feudal tradition of *noblesse oblige,* but under a slightly different form. It is directly contrary to the concept of taxation with representation. If some are exempt from the tax, for whatever reason, and if they continue to have representation, then those who do pay it are denied an increment of consent and representation which is in direct proportion to the exemption.

Inflation Tax

In retrospect, the war-emergency income tax proved to be a relatively unimportant source of revenue. By far the greater part came from government debt and fiat money, which, incidentally, also was contrary to clear provisions of the Constitution. The Lincoln Administration raised a total of about $2.7 billion in bonds and "greenbacks." The direct tax on property pulled in about $17 million. The income tax, over the ten-year period it remained in force, raised about $347 million. Wars are seldom financed out of tax revenue alone. Inevitably, they are funded by government debt, the monetization of which causes inflation - a form of taxation few people understand. Americans in the northern states paid, in addition to the property tax, a hidden tax of a full one-half of all their savings as a result of a 50 percent decline in the purchasing power of their money during that period.

America's first income tax was sold to the citizens as a temporary necessity, a wartime emergency. As such, it contained a date for its own termination. As is often the case in such matters, Congress managed to extend it a few years longer, but it finally did expire in 1872. By this time, however, the theories of Karl Marx were sweeping through the intellectual and educational institutions of America, and the populists were capturing political power. Politicians dreamed longingly of a permanent income tax because of the bountiful stream of revenue that would flow from it. But the masses also were fascinated with the progressive - or "graduated" - feature because it gave expression to their envy of the rich and salved their sense of hurt over high protective tariffs. Senator William Peffer of Kansas expressed this prevailing mood:

Wealth is accumulated in New York, and not because those men are more industrious than we are, not because they are wiser and better, but because they trade, because they buy and sell, because they deal in usury, because they reap in what they have never earned, because they take in and live off what other men earn.... The West and the South have made you people rich.

High Court Spike

With pressure from both the public and the politicians for a progressive income tax, who could stand in the way? But five men did do exactly that. They were Justices of the Supreme Court.

In 1893, President Grover Cleveland jumped on the populist bandwagon, asking Congress to lower tariffs and make up for lost revenue by taxing the income of corporations. The bill was expanded to include personal incomes as well and passed through Congress the following year. Before it even went into effect, however, it was declared unconstitutional by the Supreme Court. In the case of *Pollack v. Farmer's Loan and Trust Co.,* the High Court declared that a tax is not lawful if it is levied on income from investments, because that would be the same as a tax on property. As such, it is a direct tax, which according to the Constitution must be levied in accordance with the rule of apportionment.

At the time of this ruling, the populists were in firm control of the Democratic Party and were making inroads into the Republican ranks as well. They castigated the Supreme Court as a tool of the rich and an enemy of the people. President Theodore Roosevelt advocated a progressive inheritance tax in 1906, and in his 1908 message to Congress called for a new income tax, suggesting that it be worded in such a way as to prevent the Supreme Court from striking it down. When William Howard Taft became President, the political winds were at gale force. It was no longer a question of *if* an income tax was to become law, only of *how*.

In April 1909, Senator Joseph Bailey, a wealthy Democrat from the South, introduced an income tax bill that he expected to be opposed by the Republicans. But the Republicans decided to steal the show by introducing a plan of their own. Under the leadership of Senator Nelson Aldrich of Rhode Island, and with the help of President Taft himself, they proposed an amendment to the Constitution as a means of circumventing the Supreme Court. It is sometimes claimed that these men were secretly opposed to an income tax and resorted to this stratagem merely to appease populist sentiment, while hoping that the amendment would never be ratified by three-fourths of the states. There is ample reason, however, to believe that they proposed the amendment because they truly wanted it.

Aldrich, in particular, is highly suspect in this role. His daughter, Abbey, was married to John D. Rockefeller Jr., and Aldrich was the man who arranged the secret meeting on Jekyll Island in Georgia in November 1910 that led to the creation of the Federal Reserve System. He also played a pivotal role in making sure that the income tax law did not apply to foundations. This made it possible to shift the tax burden to the middle class by allowing tax-exempt status to the great fortunes of such families as Rockefeller, Morgan, Carnegie, and Aldrich.

A Modern Serfdom

At the very least, it must be concluded that these men, sensing the unstoppable clamor for a soak-the-rich income tax, decided to run to the head of the parade, lead it away from Wall Street, and render the law harmless to themselves and their friends. It is not paranoia, however, to sense that there was more to it than that. It is quite possible that they represented a cabal of monetary and political scientists that planned the entire scenario and even helped create the public clamor that would serve as an excuse for their action. Their objective, in this more sinister view, would have been the creation of a modern serfdom with themselves as lords and masters. The serfs would be convinced of their self-importance by the delusions of representative government and the socialist tax that they honestly believed was to their benefit. The age-old dream of contented serfs would at last be realized.

The Senate approved the 16th Amendment by an astounding vote of 77 to zero! The House followed suit with a roll call of 318 to 14. The measure then went to the states for ratification. On February 12, 1913, the 42nd state voted for approval, and the following words became a part of the United States Constitution:

The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.

Casting the Die

The 16th Amendment was sold to the people with solemn assurance that the income tax would be simple to compute, fair to all, and would never apply to any part of a person's income needed to sustain a decent standard of living. It was generally understood that only very large incomes derived from investments would be taxed, not the wages of the working man. That was, of course, a farce. The very first federal tax form issued in 1913 listed wages and salaries as income on which tax was to be paid.

The first tax was delicate by today's standards. After a whopping exemption on the first $4,000 of family income, the government took only one percent of the first $20,000, two percent at $50,000, and the highest rate was seven percent on incomes in excess of $500,000. These were all astronomical incomes in 1913, so it was only the very wealthy who paid any tax at all.

But the die was cast. Now that the federal government had a direct and perpetual access to the wealth of its citizens and no longer had to justify its financial needs through specific revenue acts, its spending began to rise like a hot-air balloon. With each round of spending came a reduction in the amount of exemptions, an increase in the tax rate, and a compounding of the complexity. At first it was the incomes of corporations; then of the very wealthy; then of the well-provided widow and the highly paid worker; and finally the wages of the janitor and the tips of waitresses.

No one in America fully understands the constantly changing Internal Revenue Code. Agents of the IRS do not, judges do not, congressmen do not, and most assuredly taxpayers do not.

When one considers the complexity of the tax code and the astronomical expense of operating the IRS itself, it is obvious that every other tax that has ever been tried in history is easier to compute and more efficient to collect than the income tax. And every time there is a tax "reform" bill rushed through Congress, the tax code always seems to emerge more complex and unfair than before. It is the nature of the beast.

The result of this reality is aptly described in the beginning of Prentice Hall's booklet, *Research in Federal Taxation.* Under the heading, "Opportunities Unlimited," it says:

Today's tax professionals face the prospect of the most promising future in the history of their profession.... With each passing year the federal tax laws affect American business and the individual taxpayer more and more. No businessperson, however expert in the business practices, can do without a tax advisor. He or she needs help on business transactions that have tax implications, because many daily business decisions are regulated to a degree by the tax consequences and results. And the great majority of taxpayers are becoming increasingly aware of the impact of the federal tax on their income and personal wealth. Their investments, provisions for retirement, wills, and business-connected (or sometimes even personal) expenditures require tax planning.

America has become infested with a swarm of tax professionals who are a drain on every business and private transaction that occurs. A significant part of everything we purchase goes to pay for a vast workforce of bookkeepers and accountants who must maintain reams of records to substantiate every cost of doing business, while producing nothing to expand the physical or cultural well-being of the nation.

Retarding the Economy

In the long run, any income tax, even one that is based on the same percentage for everyone, will serve to lessen the incentive to produce and, thus, will retard the nation's economic growth - which, in turn, will lower everyone's standard of living. One of the most powerful advocates of this idea in 1879 was Henry George, better known for his advocacy of a single tax on land. We do not have to agree with his thesis on the single tax to appreciate the wisdom of his opposition to a direct tax on income or personal property. In his treatise *Progress and Poverty,* George wrote:

If I have worked harder and built myself a good house while you have been contented to live in a hovel, the taxgatherer now comes annually to make me pay a penalty for my energy and industry by taxing me more than you. If I have saved while you wasted, I am [milked] while you are exempt.

If a man built a ship, we make him pay for his temerity as though he had done an injury to the state; if a railroad be opened, down comes the tax collector upon it as though it were a public nuisance.... We punish with a tax the man who covers barren fields with ripening grain; we fine him who puts up machinery and him who drains a swamp.

To abolish these taxes would be to lift the whole enormous weight of taxation from productive industry.... The state would say to the producer, "Be as industrious, as thrifty, as enterprising as you choose. You shall have your full reward!"

Since the income tax was created in 1913, it has been a long, bumpy ride and the American people have been jarred into a state of annoyance. We no longer are misty-eyed over political rhetoric that promises a utopia to be paid for by someone else. We have learned the hard way that there is no free lunch. Our "lunch," in fact, has cost us a fortune.

It has been necessary to review some history and taxation theory in order to come to an understanding of how we got to where we are and, most important, to learn from the mistakes of the past. Hopefully the information presented here will help crystalize the thinking of those who are opinion leaders. But specific proposals must be constructed in such a way as to have broad, immediate appeal to the American public. With that objective in mind, let us turn, finally, to what now must be done to restore tax sanity to our government.

Presidential candidate Steve Forbes has made his "flat-tax" plan a major campaign issue. A flat-rate income tax is certainly an improvement over a graduated income tax. But if a flat-rate tax were adopted, it still would be a direct tax and would still allow Congress to have continual access to our pocketbooks without ever having to explain or justify why it needed the money. Tax reform will never become a reality until Congress is once again required to live within a modest means - as would automatically happen if it had to depend only on indirect taxes - or, if extraordinary revenue is wanted, to specify the exact amount and to justify it in a specific revenue act.

Eliminate the Income Tax

The flat-tax plan is not the answer. What we need is to follow the greatest proposal for tax reform the world has ever seen, and it is already in our Constitution. What we need is to take the chains off the rule of apportionment and put them back where they belong, on the Congress of the United States. What we need is to repeal the 16th Amendment.

This single act would accomplish almost everything the current proposals for tax reform claim to seek. For the first time since 1913, the federal government would have to prepare a realistic budget, because it would no longer be able to rely on an ongoing, limitless supply of revenue. Like the rest of us, it would have to live within its means, which would be from indirect taxes only. If it exceeded this budget, it would have to face the voters with a specific request for a specific amount on a specific date. It is difficult to conceive of a more effective plan for trimming the scope and reach of the federal bureaucracy. It would be necessary to scrutinize the budget to try to discover the hidden boondoggles and subsidies. Cut back the funds, and these automatically would wither away. The rule of apportionment is the only realistic answer.

Yes, we are talking about the elimination of the income tax. Many people would naturally ask, "But where would the money come from to run the government?" This question presupposes that all the money the federal government now receives is necessary. The reality is that - if we were to cut out the waste, subsidies, foreign giveaways, transfer programs, interest on the national debt, transfusions into the International Monetary Fund, and support for the World Bank, plus the cost of running the IRS itself - the federal government could easily operate, as it was intended to do, on indirect taxes alone. Many important sources of revenue would not be affected by apportionment, most specifically tariffs (for revenue only, not for subsidizing a politically favored industry) and such excises as a gasoline tax for the maintenance of roads, fees for admission to national parks, postage stamps for the operation of the post office, and similar items. It is totally workable.

* Although sometimes referred to as a populist, Patrick Buchanan's position for protectionist tariffs runs contrary to the turn-of-the-century populists, who wanted to replace tariffs with an income tax.

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