The Family Heritage Series

A weekly discussion of Americanist truths and traditions for those "heirs of all the ages" who will have to preserve that most important inheritance of all — freedom. Produced by the Movement To Restore Decency.

Volume II Lesson Ninety-Six

The Income Tax

LESSON IDEA

To explain the history and purposes of the federal income tax, and to show the similarities between the monopolistic capitalists and the socialist-communists.

PREPARATION

Define tariffs and excise taxes for family members before beginning this lesson so that they will understand the terms when they are used.

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IN 1862, Abraham Lincoln instituted the first income tax law in American history. Before that time, the government of the United States paid its bills with the money it received from tariffs and a few excise taxes. The advantage was that limited funds limited government powers — that is, government did not have the money to hire bureaucrats to interfere in the business and personal affairs of its citizens. Instead it confined itself to the purpose for which it was created, that of protecting people in the enjoyment of their God-given rights. But the War Between the States changed that. The income from tariffs and excise taxes was not sufficient to feed, clothe, equip, and pay an army in the field. More money was needed; and Congress, following Lincoln's suggestion, decided to pick the pockets of its employers — the voters — even though the Constitution expressly forbade it. Most lawmakers tacitly agreed that the income tax was unconstitutional, but they decided it was both necessary and justifiable to set aside the Constitution to finance the army and the war. Expediency overrode principle.

Under the 1862 tax law, everyone with a net income of $600 a year or more was charged a flat three percent. ($600 was a sizable income in those days, when prices were so low that, for example, an all-wool suit of clothes sold for $6.00.) To collect the tax, Congress used the "honor system"; taxpayers were asked to estimate their incomes and submit the sum to the newspapers for publication. The pressure of public opinion was supposed to ensure honesty and compliance.

Not surprisingly, the honor system and the three percent tax did not bring in enough money to finance the war; and within two years Lincoln was proposing a graduated income tax. The rate on incomes between $600 and $5,000 was raised to five percent; those between $5,000 and $10,000 were taxed at 7½ percent, and incomes in excess of $10,000 at a top rate of ten percent. In 1865, the rate on all income over $5,000 was set at ten percent. Revenues from the income tax rose to a peak of seventy-three million dollars in 1866.

As a quick and efficient means of financing a war, Lincoln's graduated income tax was tolerable, but as a long-term principle of government, it would have been a threat to the nation's health. Such a tax punishes those who have the ability to earn money — the greater the ability, the greater the punishment, in fact. And it supposes that those of superior abilities will continue to exercise their talents as money-makers — even though the tax punishment increases with each step upward. History proves the error of this thinking. More than 2000 years before the first American tax law, the Greeks instituted a progressive income tax under which a man who made twice as much as his neighbor might pay ten times as much. The results were accurately predicted by Isocrates, the leading Athenian intellectual. "It would appear," he said, "that success is to be punished; that exorbitant taxes have made it a crime for a man to prosper. The end result of such an order can only be the removal of incentive, the discouragement of our people, and the destruction of our free society." Isocrates lived long enough to see his prophecy realized and his country destroyed by the totalitarians of Sparta.

Karl Marx, writing the *Manifesto to the World* for the Communist League in 1848, undoubtedly had such historical facts in mind when he listed "a heavy progressive or graduated income tax" as one of ten weapons to be used to destroy capitalist nations. Whether Americans of the 1860's understood these facts or merely acted instinctively, they began to work for repeal of the progressive income tax as soon as the war ended. In 1867, two years after the army left the battlefield, all gradations of taxes were eliminated in favor of a flat rate of five percent on incomes over $1,000. The rate was reduced in 1870, and the tax terminated in 1872. Clearly most Americans felt the taxation of incomes was generally obnoxious, perhaps unconstitutional, and tolerable only as a temporary measure. It would take forty years, two depressions, and an infection with revolutionary European thinking to change their minds.

THE FIRST DEPRESSION that softened the hardheaded American attitude toward taxation began in 1873 and was rooted in the same government acts that cause most depressions: the printing of paper money and the interference of government in the business life of the nation — in this instance, with the railroads. Unfortunately, the hard-pressed Americans of that era were no smarter than those of today; they looked everywhere but in the right place for the "villain" who had caused their suffering. Government escaped; and the full weight of the voters' fury fell on the scapegoat the socialists and communists were promoting to fit their class-war doctrine — that is, the bourgeoisie, or the capitalists, and their alleged greed.

So, as the turn of the century neared, more and more Americans nodded in agreement with the socialists and communists. They had found a "villain" and were satisfied — just as a child is satisfied when the mother spanks the wall against which the child has struck its head. "And," says political analyst Frank Chodorov, "the words that hung on the lips of the country were 'plutocracy' and 'robber barons' and 'bloated rich' and 'money bags,' with suitable overtones. Also, since the opulence of the country was concentrated in the East, sectionalism added fire to the class-war doctrine, and 'Wall Street' became the ultimate cause of all the economic ills of the country.

In many classrooms today, we still hear the terms "robber baron" and "fat capitalist" applied to anyone who is successful in business. Is there any justification for this? Why do anti-capitalistic teachers and textbooks fail to distinguish between monopolistic capitalists like John D. Rockefeller, who acquired his fortune by destroying all competitors, and competitive capitalists like Henry Ford, who became a millionaire by besting his competitors in an open and fair race? [***In the discussion, explain that the monopolistic capitalist not only wants to destroy his competitors but he wants the government to help him do it — to throw the fight, so to speak. A competitive capitalist, on the other hand, enjoys competition and wants government to act only as a referee to keep the fight fair and clean so all may compete on equal terms. Failure to understand the distinction between these two types of capitalists will leave the student vulnerable to many socialistic distortions.***]

MONOPOLISTIC capitalists like John D. Rockefeller and socialist-communists like Lenin had many things in common. Both wanted power, and both hid their goals behind such perfumed phrases as "the good of the people." When Rockefeller forced a competitor into bankruptcy, he did it "for the good of the oil industry — to stabilize prices and eliminate the uncertainty of highs and lows." When Lenin ordered the executions of property owners and merchants, he did it "for the good of the worker — to end his exploitation by capitalists."

Both monopolists and communists want power and control; and the natural enemy of each is the middle class, that great mass of independent property owners who have enough education and money to resist any form of totalitarianism. How can this formidable enemy be weakened and destroyed? The communists had ten potent weapons they planned to use, and one of the ten was "a heavy progressive and graduated income tax." The problem was to convince a nation of individualists who had always had a strong prejudice against taxes that a graduated income tax was "good for them." The idea was finally sold under the pretext of "soaking the rich."

The political dupes who led the parade and popularized the "soak the rich" slogan were the social doctors of the times, "a loud-mouthed lot," Chodorov called them, "who acquired the generic name of Populists." By 1891 they had formed the People's Party, and the progressive income tax was one of the planks of their platform. More paper money — called greenbacks in those days, but called Federal Reserve notes today — was another. The depression of 1893, the second in twenty years, only added fuel to their cries for reform and revenge on the rich and greedy "robber barons."

IN 1894 CONGRESS passed the Wilson bill, calling for a two percent tax on all incomes over $4,000 and a deep cut in tariffs, the traditional income producer for the federal government. Before the bill became effective, however, the Supreme Court declared it unconstitutional. Joseph H. Choate, the noted attorney who argued the case against the Wilson bill, bluntly stated that the income tax was "Communistic in its purposes and tendencies and dependent upon principles as Communistic and Socialistic as ever have been addressed to any political assembly in the world."

In announcing the Court's decision, Justice Fields called the income tax law an "assault upon capital" and added that its passage would "mark the hour when the sure decadence of present government will commence."

The Populists disagreed, of course. They had accepted the socialist view that government was the ideal agency for the economic redemption of mankind and had expounded the virtues of the income tax to such an extent that it began to sound like the American passport for reentry into the Garden of Eden. Representative David De Armond of Missouri, for example, assured his fellow lawmakers that the passage of the Wilson bill with its income tax provisions would "mark the dawn of a brighter day, with more sunshine, more of the songs of birds, more of that sweetest music, the laughter of children, well fed, well clothed, well housed. Can we doubt that in the bright, happier days to come, good, even-handed Democracy shall be triumphant? God hasten the era of equality in taxation and in opportunity."

What these bright-eyed social doctors did not understand as they galloped around the country promising "bright, happier days" was the age-old fact that whenever the government creates "more sunshine and laughter" for some, it does so at the expense of others, meanwhile acquiring power for itself. "The end product of government intervention in the economy of the country," as Chodorov so ably summed it up, "is more power for government. It never gives up power; it never abdicates."

Another historic fact which escaped the Populists was that laws designed to "soak the rich" had always missed the goose and hit the gander. The so-called little man was the one who did the suffering and paying while the millionaire slipped under the legal wire and escaped the "soaking." Monopolists like Rockefeller and Andrew Carnegie, for example, fashioned tax-exempt foundations in which they could deposit their fortunes and thus escape the deluge of confiscatory taxes being planned for them. At the same time, they shrewdly and discreetly poured money into the Populist movement. Their purpose was so to influence the direction of the Populists' demands that the resulting tax law would leave their escape hatches untouched while inflicting the maximum penalty on everyone else — and especially upon their competitors.

The Pollyanna Populists may have wondered why they were suddenly blessed with money and influential friends, but they undoubtedly concluded that their good fortune was due to the rightness of their ideas. Without a hint of suspicion, Representative Bourke Cochran naively boasted that "some of the wealthiest men in the country support it [*income taxation*]. I know that Mr. Gould in an interview favored it, and I am told by the gentleman from Missouri that Mr. Carnegie favors it." Apparently it did not occur to Cochran that the victims-to-be of the "soak the rich" movement would not support their own "soaking" unless chicanery was involved.