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Chapter 14 Taxes and Government Spending

This article from the January 2004 *Wall Street Journal Classroom Edition* traces the history of the income tax in America. “More Taxes, Please” by Wall Street Journal Staff Reporter Cynthia Crossen illustrates the differing views of tax fairness.

Before reading the column below, you may want to look up the following terms: *allegations, autocratic, burgeoning, clamored, constituents, contended, deficits, denounced, depriving, entrenched, harbinger, haughty, inequities, perpetuate, plutocrats, requisite, and taint.*

Less than a century ago, the U.S. Congress, responding to pressure from its constituents, voted to start collecting taxes on people’s income.

Many Americans, especially small-business owners, farmers, trade unionists and people who lived in the Midwest, West and South, cheered the new tax. Finally, with this new tax, they might get some relief from their financial struggles.

Today, when most political rhetoric focuses not on whether taxes should be cut, but by how much, earlier debates about levying new, universal taxes seem almost otherworldly. Why, by 1913, had so many people clamored for an income tax that the U.S. Constitution was amended to allow it? How crazy is it to beg to be taxed?

Abraham Lincoln was responsible for America’s first income tax during the Civil War, when he needed cash to pay his army. Under the 1861 law, a citizen declared his own income and published the figure in the newspaper. The assumption was that no one would publicly lie. When the income-tax law expired in 1872, Americans went back to their old system of paying for their burgeoning government--collecting tariffs on hundreds of imported goods, including such necessities as sugar, steel, textiles,

paper, gloves and lumber.

Tariffs acted much like a national sales tax: Every consumer, whatever his or her means, paid the same amount on the same goods. Meanwhile, American producers of these items could take advantage of the high cost of imports, making a tidy profit while undercutting foreign competition. The result was that some American industrialists accumulated giant fortunes but paid the same amount of tax as a laborer. To many people who were getting squeezed by low wages and artificially high prices, this didn’t seem right. Wealth began to take on a taint of selfishness.

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“I know that many wealthy men are generous and charitable,” said Congressman Thomas Hudson, a Kansas Democrat, in 1894. “On the other hand, the majority of the very wealthy are haughty, overbearing, autocratic, mean.” William Allen White, a Kansas editor and columnist, noted that when wondering how a man had become rich, people

“were ready to believe--and were too often justified in the belief--that he was a scamp.”

The inequities of wealth, tariffs and taxation contributed to the rise of a new party, the Populists, who began agitating for a tax on “what you have, not what you need.” Their adversaries were mostly Republicans, who denounced free trade as economi-

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cally revolutionary, and the income tax as a harbinger of communism. Such a tax, declared Congressman Justin Morrill, a Vermont Republican, in 1864, was nothing more than “seizing the property of men for the crime of having too much.”

In 1894, a second federal income-tax bill was introduced in Congress, sparking what John F. Witte, author of “The Politics and Development of the Federal Income Tax,” called a “magnificent” debate. Under this bill, the first \$4,000 of income would be exempt from tax, which meant that of America’s 65 million people, only 85,000 would owe any taxes at all. Most of the taxpayers would be residents of the industrial Northeast.

Arguing against the bill in the House, Bourke Cochran from New York contended that because so few people would pay taxes, the government was depriving most of their patriotic right and privilege to support their government. The only people who would end up paying taxes, Mr. Cochran added, were those “who had made the best use of benefits common to all.”

But Benton McMillin of Tennessee, responding to allegations that the income tax was a “tax on thrift” and a “penalty on success,” declared, “As you have been enabled to accumulate this wealth by the blessings of free institutions, contribute something to perpetuate them.”

Although Congress eventually passed the income-tax bill, in 1895 it was ruled unconstitutional by a divided Supreme Court. “Today’s decision shows that the corporations and plutocrats are as securely entrenched in the Supreme Court as in the low courts, which they take such pains to control,” editorialized the *St. Louis Post Dispatch*.

The federal government continued to grow, however, as did its deficits. It was only a matter of time before the idea of an income tax would resurface, especially following the short but costly Spanish-American war in 1898. In 1909, Democratic legislators were joined by a new group of liberal Republicans to propose the 16th Amendment to the Constitution. The first \$3,000 of a person’s income was exempted, and the top tax rate on incomes over \$500,000--was 6%. By 1913, the requisite 36 states had ratified the amendment.

Ward McAllister, a wealthy social leader in New York, had once said that he would leave the U.S. if the government ever imposed an income tax on its citizens. In response, William Jennings Bryan declared, “Of all the mean men I have ever known, I have never known one so mean that I would be willing to say of him that his patriotism was less than 2% deep.”

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QUESTIONS FOR DISCUSSION

1. When and why was the first U.S. income tax introduced?

2. **Analyzing Information** What was the main drawback of a national sales tax?

3. **Drawing Conclusions** Do you agree with Benton McMillin of Tennessee that an income tax is a way to give something back to the free institutions that have enabled people to accumulate wealth? Why?
