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Death and Taxes

AN ADAGE AFFIRMS THAT death and taxes are all we can expect with certainty. As maxims go, this one has a superior track record. But the truth it expresses extends far beyond its traditional signification.

Your Money or Your Life

Consider first that despite the insistence of public-choice theorists that political relations have the nature of an exchange in which the subjects pay “tax prices” to acquire services supplied by the government, the transaction in question bears little resemblance to market exchange. Unlike General Motors or Safeway, whose offers you may take or leave, the government threatens to kill you if you steadfastly resist entering into its deal. Hence, in “political exchange,” death and taxes go together just as they do in the Mafia’s proverbial “offer you can’t refuse.”

In the United States, members of Congress and the tax authorities enjoy describing our tax system as based on voluntary compliance, but everyone of normal intelligence appreciates that this is pure buncombe. As West Virginia Chief Justice Richard Neely noted in 1982, “Cheating on federal and state income tax is all pervasive in all classes of society; except among the compulsively honest, cheating usually occurs in direct proportion to opportunity” (quoted in Charles Adams, *For Good and Evil: The Impact of Taxes on the Course of Civilization*. New York: Madison Books, 1993, p. 379). Without the government’s massive surveillance and harsh criminal sanctions, the number of tax-paying citizens would converge toward zero.

Of course, in this country the taxpayers can always protest. At the very beginning of our national life, when Congress enacted an excise tax on whiskey in 1792, the farmers of western Pennsylvania took offense. For these isolated producers, whiskey served as an important medium of exchange. Denouncing tyranny and waving banners proclaiming such un-American slogans as “Liberty, Equality, and Fraternity,” they staged the Whiskey Rebellion in 1794. To put a point on their protest, the Whiskey Boys, as they called themselves, took to tarring and feathering tax collectors and the sheriffs who accompanied them.

Treasury Secretary Alexander Hamilton, who had proposed the whiskey tax in the first place, urged President George Washington to suppress the

rebellion by armed force in order to teach the people a lesson in submissiveness. As Hamilton had explained to Washington in 1792, the whiskey excise was desirable so that “the authority of the National Government should be visible in some branch of internal Revenue; lest a total non-exercise of it should beget an impression that it was never to be exercised & next that it ought not to be exercised” (quoted in W. Elliot Brownlee, *Federal Taxation in America: A Short History*. Washington and New York: Woodrow Wilson Center Press and Cambridge University Press, 1996, p. 18). Washington raised an army of 15,000 militiamen—a larger army than he had ever commanded during the revolution—and personally led it into western Pennsylvania, where the rebels saw fit to capitulate and accept an amnesty. Ultimately their cause was vindicated, however, when under Jefferson the government abandoned nearly all its previous attempts to collect excise and direct taxes.

Your Money and Your Life

Historically, major wars and steep tax increases have coincided. As Bruce D. Porter has written, “War has been the lever by which monarchs and central governments have imposed increasingly larger tax burdens on increasingly broader segments of society, thus enabling ever-higher levels of spending to be sustained, even in peacetime” (*War and the Rise of the State: The Military Foundations of Modern Politics*. New York: Macmillan, 1994, p. 14). In the introduction to his three-volume collection of articles on war finance, Larry Neal observes that “many, if not most, of the lasting innovations in the way governments have collected taxes...have emerged under the duress of war” (*War Finance*, vol. 1. Aldershot, England: Edward Elgar, 1994, p. x). Neal presents nearly 1,800 pages of fascinating documents to support his claim.

Certainly in American history, major wars have brought both higher tax rates and new kinds of taxes. During the Civil War, when federal receipts increased tenfold and internal revenues rose from zero to more than \$300 million (or more than half of total tax receipts), Congress placed excises on a wide range of goods and services, besides taxing incomes, inheritances, and real estate. According to Republican politico James G. Blaine, the revenue act of 1862 created “one of the most searching, thorough, comprehensive systems of taxation ever devised by any Government” (quoted in Jeffrey Rogers Hummel, *Emancipating Slaves, Enslaving Free Men: A History of the American Civil War*. Chicago and La Salle, Ill.: Open Court, 1996, p. 222).

To collect its new internal taxes, Congress established the Office of the Commissioner of Internal Revenue, a precursor of today’s fervently despised Internal Revenue Service. After the war, Congress eliminated most of the new levies but retained the “sin taxes” on tobacco and liquor. These yielded at least a third of all federal tax revenues in the period lasting from the 1870s to World War I. The government financed the Spanish-American War

in large part by doubling the taxes on alcohol and tobacco products. Enforcing the liquor excise, the Treasury's "revenueurs," as they became known in the hidden hollows of Appalachia, made themselves a plague upon the numerous operators of illegal stills—spiritual descendants of the Whiskey Boys of the 1790s.

The pecuniary cost of making war increased exponentially. At \$3.4 billion, Civil War expenditures exceeded by 90 percent the total spending of the U.S. government in its entire preceding history (\$1.8 billion). Roughly speaking, World War I cost ten times more than the Civil War, and World War II ten times more than World War I. Even though the Treasury financed most of its spending for each major war by borrowing, its tax bite outpaced its war spending: taxes amounted to about 9 percent of spending for the Civil War, 24 percent for World War I, and 41 percent for World War II (see Claudia D. Goldin, "War," in *Encyclopedia of American Economic History: Studies of the Principal Movements and Ideas*, vol. 3, edited by Glenn Porter. New York: Charles Scribner's Sons, 1980, p. 938).

The huge wartime tax burdens gave rise to widespread efforts to escape payment. In turn the government expanded its tax bureaucracy. Personnel of the Bureau of Internal Revenue increased from about 4,000 in 1913 to 15,800 in 1920. During World War II the Treasury brought on board another 40,000 employees. But enforcement alone had its recognized limits. Accordingly, during World War I and even more extensively during World War II the government resorted to insidious propaganda efforts aimed at persuading taxpayers to comply (see Carolyn C. Jones, "Class Tax to Mass Tax: The Rise of Propaganda in the Expansion of the Income Tax during World War II," *Buffalo Law Review* 37 [1989]: 685–737). Moreover, in 1943 Congress enacted a law requiring that taxes due on wages and salaries be withheld at the source, thereby ensuring workers would have little opportunity to keep their earnings out of the clutches of the tax collector (see Charlotte Twight, "The Evolution of Federal Income Tax Withholding: The Machinery of Institutional Change," *Cato Journal* 14 [Winter 1995]: 359–95).

World War II has often been described as a popular war, but the high wartime taxes were extremely unpopular. In 1944, for the first time ever, Congress overrode a presidential veto of a revenue bill, rebuking President Franklin D. Roosevelt's attempt to raise taxes even higher. Late in the war, tax protesters mounted a major effort to repeal the Sixteenth Amendment, and seventeen states passed resolutions in support of the proposal. In the words of political scientist John F. Witte (*The Politics and Development of the Federal Income Tax*. Madison: University of Wisconsin Press, 1985, p. 123), these events revealed "the depth of opposition—even during a period of national crisis—to high taxes."

A time-honored means of dealing with opposition to taxation, of course, is to levy the hidden tax by inflating the money stock. U.S. governments did so during each major war. As a result, roughly speaking, the value

of the money dropped by about half during the Civil War (excluding the Confederacy, where the paper currency became totally worthless), World War I, and World War II. In the last case, the government concealed the decline of the dollar's value during the war by imposing comprehensive price controls, then allowed the dollar's shrunken value to reveal itself in 1946 and 1947 after the real damage had been done.

Rulers have appreciated how inflation serves as a tax since the days when monarchs clipped the coins. Once governments had begun to issue paper currency, the hidden tax became even easier to levy. During the War of Independence, which the Continental Congress and the breakaway states financed overwhelmingly by issuing paper money, Benjamin Franklin wrote that Congress

hoped, notwithstanding its quantity, to have kept up the value of their paper. In this they were mistaken. It depreciated gradually. But this depreciation, though in some circumstances inconvenient, has had the general good and great effect of operating as a tax, and perhaps the most equal of all taxes, since it depreciated in the hands of the holders of money, and thereby taxed them in proportion to the sums they held and the time they held it, which generally is in proportion to men's wealth. (Franklin to Thomas Ruston, 9 October 1780, quoted in Margaret G. Myers, *A Financial History of the United States*. New York: Columbia University Press, 1970, p. 51)

By supposing that inflation served as a neutral wealth tax, Franklin erred. Obviously, some people held much more of their wealth than others did in the form of money and other assets denominated in nominal units of money. Moreover, some people surely anticipated better than others did the fall in the value of the paper money occasioned by its profuse issue. Of course, the Continental Congress had no power to levy explicit taxes and the states resisted its requisitions, so without inflationary finance it had little capacity to acquire the resources needed to conduct its military operations.

Further Reading and a Warning

Anyone who seeks to learn about the relation between death and taxes will find articles and monographs in abundance. Wide-ranging yet analytically competent studies are another matter. For the United States, the books by Brownlee and by Witte cited earlier contain much valuable material. Adams's book, also cited, ranges wider in time and space and makes for entertaining as well as instructive reading. "Sin" taxes receive fresh and multifaceted analysis in the new Independent Institute book edited by William F. Shughart II, *Taxing Choice: The Predatory Politics of Fiscal Discrimination* (New Brunswick, N.J.: Transaction Publishers, 1997).

Finally, for readers who may be inclined to tempt fate by asserting a Lockean claim to the fruits of their own labors, a warning: the people who are attempting to tax you are armed and dangerous; proceed at your own

risk. Al Capone got away with murder, but they sent him to prison for tax evasion.

ROBERT HIGGS