What’s Wrong with the Progressive Income Tax?

by Burton Folsom

Note this date on your calendar: May 11, 1999. That’s “Tax Freedom Day”—the day when Americans stop working for government and start working for themselves. Each year the Tax Foundation in Washington, D. C. calculates the date based upon how many days of work the average citizen’s tax bill represents. This year, that average citizen will have to work 130 days to pay off his total tax bill, earning his “tax freedom” only on the 131st day, May 11. That’s one day later than last year and several months later than Tax Freedom Day was when the progressive income tax was first established in 1913.

The principle behind the progressive income tax—which asserts that the more you earn, the larger the percentage of tax you must pay—is not what the nation’s Founders wanted. An attempt by Congress to impose one late in the nineteenth century was declared unconstitutional by the Supreme Court. It took a constitutional amendment, ratified in 1913, for such a tax to be legal.

The income tax of 1913 started small, but grew quickly in size and scope. The top rate was first set at a mere 7 percent—and married couples were only taxed on income over $4,000 (equivalent to $80,000 in today’s dollars). During the tax debate, William Shelton, a Georgian, supported the income tax “because none of us here have $4,000 incomes, and somebody else will have to pay the tax.” Or, as another wag later said, “Don’t tax you, don’t tax me, tax that man behind the tree.” The seeds of class warfare were sown in the strategy of different rates for different incomes.

It took the politicians less than one generation to sharply increase the tax and expand the base of those who had to pay it. Presidents Herbert Hoover and Franklin Roosevelt, using the excuses of depression and war, permanently enlarged the income tax. Under Herbert Hoover, the top rate was hiked from 24 to 63 percent. Under Franklin Roosevelt, the top rate was again raised—first
to 79 percent and later to 90 percent. In 1941, in fact, Roosevelt proposed a 99.5 percent marginal rate on all incomes over $100,000. “Why not?” he said when an advisor questioned this tactic.

After that proposal failed, Roosevelt issued an executive order to tax all income over $25,000 at the astonishing rate of 100 percent. He also promoted the lowering of personal exemptions to only $600, a tactic that pushed most American families into paying at least some income tax. Congress rescinded Roosevelt’s executive order, but approved the dropping of personal exemptions to only $600.

The progressive income tax allows politicians to protect friends, punish enemies, and to tax certain groups to give benefits to other groups. In the 1920s, Senator James Couzens of Michigan said, “Give me control of the Bureau of Internal Revenue and I will run the politics of the country.” When President Nixon discussed who he wanted as commissioner of internal revenue, he said, “I want to be sure that he is … ruthless … that he will do what he is told, that every income-tax return I want to see, I see. That he will go after our enemies and not go after our friends. It’s as simple as that.”

Fear and loathing of today’s IRS and disgust with an incomprehensible federal tax code has prompted a debate over the federal income tax that is sure to heat up as next year’s presidential campaign approaches. Some people want to replace the current system with a flat-rate income tax; others prefer a national sales tax. Perhaps the federal government’s bloated spending habits that require high taxes will be addressed as well.

The size and complexity of the progressive income tax, its pervasiveness, and its susceptibility to political manipulation make it one of the most dramatic political and economic changes to have occurred in the twentieth century. In 1864, when the progressive income tax first became an issue in American politics, Congressman Justin Morrill of Vermont noted that “in this country we neither create nor tolerate any distinction of rank, race or color, and should not tolerate anything else than entire equality in our taxes.”

What Morrill said then applies to today as well: As Americans we should insist on equality in our tax code—and begin the next millennium by making the progressive income tax an oddity of our history, not a burden of our future.

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