

Wish the income tax a happy 100th birthday

One hundred years ago, our national political leaders set in motion a radical transformation of the traditional 19th-century revenue system of the United States. This “fiscal revolution” moved the nation from a

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regressive system of public finance based on customs duties, excise taxes and

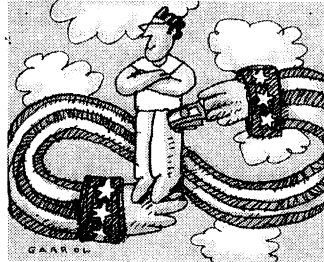
protective tariffs to the modern system based on the progressive income tax.

The revolution began during the summer of 1909 when both houses of the Republican-controlled 61st Congress approved a resolution for a constitutional amendment authorizing a national income tax.

Ironically, the initiative for the income tax amendment came from William Howard Taft, the Republican president who presided over a deeply divided party.

The constitutional amendment was part of a plan concocted by Taft and Nelson W. Aldrich, the conservative Republican leader of the Senate, to defeat proposals for a progressive income tax. Their strategy backfired, and an income tax was enacted in 1913.

Consequentially, we now “celebrate” (if that is the right term) the 100th anniversary of the 16th Amendment and the federal income tax.



What were Taft and Aldrich (conservatives to the bone) thinking? Both were opposed to the progressive income tax – a favorite of Democrats, populists, radical agrarians and progressive (“insurgent”) Republicans.

Aldrich chaired the powerful Senate Finance Committee and was chief defender of the system of high protective tariffs that Republicans had erected in the decades following the Civil War. The tariff generated huge surpluses throughout the 19th century but was now under attack from the left.

Taft came to the rescue, looking to appease progressives in his own party. Appearing before a joint session of Congress on June 16, 1909, the president recommended a 2 percent excise tax on corporate income. Aldrich reluctantly supported the corporate tax, publicly admitting that he voted for it only “as a means to defeat the income tax.”

Then Taft made an even stranger move – endorsing a constitutional amendment

granting Congress the authority to impose an unapportioned “direct” income tax. Following the Supreme Court’s infamous Pollock decision of 1895 (which declared the income tax of 1894 unconstitutional), some 33 resolutions had been introduced to amend the Constitution to authorize such a tax. All were blocked by conservatives, but the issue festered.

To avoid splitting the fragile political coalition of the Republican Party, the president threw his support behind a constitutional amendment.

Both Taft and Aldrich wanted to defeat the income tax, believing that the amendment never would be approved by the requisite three-fourths of the state legislatures. They were soon in for a surprise.

First, a joint resolution for an amendment authorizing a national income tax was introduced in the Senate on June 17 by Norris Brown, a progressive Republican from Nebraska. The Committee on Finance reported the resolution to the Senate on June 28. Aldrich allowed one day of floor debate on July 5, after which the Senate unanimously approved the resolution by a vote of 77 to 0 (with 15 senators abstaining).

True to his word, Aldrich voted for the resolution.

On July 12, the House took up consideration. After one afternoon of debate, the resolution passed by a lopsided margin of 318 to 14 (with 55 abstentions). The 14 “nays” mostly came from “Old Guard” con-

servative Republicans. Later that same day, the proposed amendment was forwarded to the state legislatures for approval.

Here is where the Taft-Aldrich strategy backfired. Thirty-six states were required for ratification. Alabama approved the amendment by the end of 1909, and eight states followed suit the next year.

But there still was a long way to go. Then Democrats scored an unexpected victory in the 1912 presidential election when Republicans split their votes between Taft and Teddy Roosevelt – running for a second full term under the banner of the “Bull Moose” Progressive Party. The split gave Democrats the White House as well as control of several more state legislatures. With that, the ratification process quickly moved ahead.

On Feb. 3, 1913, Delaware became the 36th state to approve the amendment, sealing the deal.

In the closing days of the Taft administration, Secretary of State Philander Knox (a former Republican senator from Pennsylvania) certified the amendment as part of the U.S. Constitution. Three additional states ratified soon after. Eventually the total reached 42, while six states either rejected the amendment or took no action.

The 16th Amendment granted Congress the “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.”

That summer, tariff reform legislation was introduced that included a mildly progressive income tax, with rates ranging from 1 percent on income above \$3,000 to 7 percent on income above \$500,000.

With Democrats holding majorities in both the Senate and House, the bill passed easily. President Woodrow Wilson signed the Underwood-Simmons Tariff Act into law on Oct. 3, 1913. With that, more than five decades of controversy over the authority of the national government to levy an income tax was resolved, and the United States had an important new source of revenue.

During World War I, the progressive income tax became the principal source of revenue for the national government. Today, it provides more than 50 percent of federal revenue. Indeed, it is difficult to imagine how the United States could function without the income tax.

As such, we can trace the origins of the modern American state and so much of our current fiscal policies to these fateful decisions (and miscalculations) made by the conservative Republican leadership 100 years ago.

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