The First National Income Tax, 1861–1872

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The federal income tax is the single most important source of revenue for the national government of the United States, generating more than 55 percent of total annual receipts.[1] While the tax has played this vital role in the revenue system of the national government since the First World War, it has been consistently rejected by conservatives within the Republican Party. They opposed the ratification of the 16th Amendment, which expressly granted Congress the authority to enact a national income tax.[2] Likewise, they opposed the enactment of the modern income tax in 1913.[3] Having lost those political battles, conservative Republicans periodically have campaigned to repeal the income tax; unfailingly, they clamor for lower marginal tax rates.[4] At the same time, the left wing of the Democratic Party has consistently supported tax increases targeted at the wealthy. The result has been a sharp political divide between the two national parties over federal

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[1] The federal income tax (individual and corporate combined) raised nearly $1.3 billion in fiscal year 2011. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2013: Historical Tables*, January 13, 2012, Table 2-1 (“Receipts by Source, 1934–2017”), 31. In fiscal year 2011, the individual income tax alone raised more than $1 trillion.

[2] The 16th Amendment of the Constitution was ratified on February 3, 1913, and provides that “Congress shall have 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.”

[3] For an account of the politics behind the proposal for the 16th Amendment and the enactment of the modern income tax in 1913, see John D. Buenker, “The Ratification of the Federal Income Tax Amendment,” *Cato Journal* 1 (Spring 1981): 183–223.

[4] For an account of the rise of an antitax ideology in the Republican Party, see Sheldon D. Pollack, *Refinancing America: The Republican Antitax Agenda* (Albany: State University of New York Press, 2003).

income tax policy since the end of the Second World War, when the infamous Republican-controlled 80th Congress battled the Truman administration over tax cuts.[5]

The political division intensified following the election of Ronald Reagan in 1980. Reagan himself was willing to compromise with his political opponents. Indeed, he acquiesced to several tax increases following the enactment of major tax-reduction legislation in 1981. Notwithstanding, the so-called Reagan Revolution invigorated the antitax wing of the Republican Party. When Republicans took control of the 104th Congress following their victory in the 1994 mid-term elections, they held majorities in both houses for the first time since the 1950s. It was a heady time for antitax Republicans. Buoyed by the success of their so-called Contract With America, they dreamed not only of cutting tax rates but also repealing the income tax altogether. Bill Archer, the Texas Republican who chaired the House Ways and Means Committee, famously proclaimed his desire to "tear the income tax out by its roots and throw it overboard."[6] Such sentiments were widely shared among conservatives. While more modest ambitions were expressed in the Bush tax cuts of 2001 and 2003, a strong antitax ideology dominated the Republican Party throughout the decade.[7] It still does.

Based on such experiences, we have come to view Republicans as intractable foes of income taxation (especially an income tax with progressive rates), and conversely, Democrats as supporters of the impost. As far as it goes, this is a reasonably accurate representation of the contemporary politics of the federal income tax. But from a broader historical perspective, the

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[5] For a summary of the conflict between the Democratic president, Harry S. Truman, and congressional Republicans during the 80th Congress, see Anthony Badger, "Republican Rule in the 80th Congress," in *The Republican Takeover of Congress*, ed. Dean McSweeney and John E. Owens (New York: St. Martin's Press, 1998), 165–184.

[6] Quoted in Barbara Kirchheimer, "Archer Addresses Contract Compromises and Reform," *Tax Notes* 66 (February 20, 1995): 1083.

[7] Economic Growth and Tax Relief Act of 2001, Pub. L. 107-16, 115 Stat. 38 (June 7, 2001); The Jobs and Growth Tax Relief Reconciliation Act of 2003, Pub. L. 108-27, 117 Stat. 752 (May 28, 2003).

portrait is misleading and simplistic. It ignores important episodes in the long political battle over income taxation in the United States when partisan lines were not so clearly drawn. In particular, Republicans were not always so unified in their opposition to income taxation. Indeed, an examination of the history surrounding the enactment of the first national income tax during the opening years of the Civil War reveals a very different partisan alignment. Many will be surprised to learn that the first income tax was actually proposed and enacted by Republicans, who at the time controlled all three branches of the national government. As we will see, in the congressional debate surrounding the Civil War income tax, Republicans articulated varied and complex positions—both in favor of, and opposed to the income tax. Perhaps even more surprising, numerous Republicans made the case in favor of a national income tax expressly in terms of "equity," "justice," and "fairness." While the modern Republican Party is dedicated to an unwavering antitax rhetoric, there was a diversity of opinion on the matter within the party during its first decades.[8] Arguments advanced by Republicans in the 1860s are seldom, if ever, heard in the contemporary political discourse over tax policy—certainly not within the Republican Party.

In the account that follows, I explore the contours of the political debate over the adoption of our first national income tax as it played out in Washington during the Civil War years when the Republican Party dominated our national political institutions. To be sure, circumstances were unique to the period. For one thing, the nation was in the grip of a bloody civil war that threatened the survival of the union itself. The fiscal crisis occasioned by the war forced political leaders to take drastic and extreme measures—including the adoption of a variety of "onerous" taxes,

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[8] A comprehensive history of the early years of the Republican Party is William E. Gienapp, *The Origins of the Republican Party, 1852-1856* (New York: Cambridge University Press, 1987). The classic account of the eclectic factions that came together in the Republican Party, especially concerning the slavery question, remains Eric Foner, *Free Soil, Free Labor, Free Men: The Ideology of the Republican Party Before the Civil War* (Oxford University Press, 1970).

including a national income tax. Few Republicans were happy about it; most acquiesced out of necessity. But a handful of moderate Republicans openly championed an income tax over the various alternatives based on ethical considerations. At the same time, conservative Republicans remained hostile to all forms of taxation of wealth—most particularly, an income tax. The irony is, in the ensuing political debate, we discern a wide range of positions, many of which are commonly heard in the contemporary discourse over federal tax policy—except that in the 1860s, the full range of views was voiced *within* the Republican Party rather than across the party divide. In that initial debate over the Civil War income tax, we hear early incarnations of themes commonly invoked in the contemporary political debate over the "equity" of income taxation. Ultimately, such discussions relate to the *distribution* of the tax—namely, who will bear the burden of the tax. Accordingly, we should not be surprised to learn that the arguments advanced during the Civil War raised much the same issues as are salient in the contemporary political debate over federal tax policy. These are the fundamental issues raised by *all* public policies.

The Civil War and the Income Tax

A national income tax was first proposed by Treasury Secretary Alexander J. Dallas in January 1815 to raise revenue for the ongoing war with Britain. During the first year of the war, the Jefferson administration had been forced to adopt a system of "internal" taxes—similar to what the Federalists had enacted and the Jeffersonian-Republicans had denounced and repealed when they took office in 1801. During the summer of 1813, Congress enacted new taxes on land, dwellings, and slaves, as well as excise taxes on carriages, refined sugar, alcohol, and other "luxury" commodities (including a duty on imported salt). But the military conflict ended in December 1815 before the Treasury Secretary's proposal for a national income tax was taken up by Congress.[9] With the end of the war, the entire system of internal taxes were repealed and the nation returned to its traditional nineteenth-century sources of revenue—customs duties, the tariff, and the occasional sale of public land. These proved more than adequate to finance the limited activities of the early nineteenth-century national government during peacetime as well as service the massive war debt, which was fully retired by the end of the second Jackson administration.[10] In the decades that followed, receipts from the tariff alone typically exceeded all governmental expenditures. This pattern of fiscal stability and budget surplus prevailed until the onset of the Civil War.

With the election of the Republican candidate Abraham Lincoln in November 1860, the congressional delegations of eleven states from the South departed Washington, leaving the Republican Party with control of the White House as well as overwhelming majorities in both Houses of Congress.[11] Declarations of secession by the Southern states were viewed with alarm in Washington, but when armed hostilities broke out at Fort Sumter in South Carolina on April 12, 1861, many in the North believed the insurrection would be suppressed in a matter of months. That confidence was shattered on July 21, when Confederate troops routed a disorganized and ill-prepared Union army on a battlefield near Manassas, Virginia. Following the Union debacle at the First Battle of Bull Run, national policymakers set about building a powerful fiscal/military state in

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[9] The proposal is found in "State of the Treasury at the Close of the Year 1814," 13th Cong., 3rd sess. (January 17, 1815), No. 438, reprinted in *American State Papers* (Washington, D.C.: Gales and Seaton, 1832), vol. 6, 885–887.

[10] The national debt peaked at just over $127 million in 1816 following the War of 1812 and stood at $58.4 when Jackson took office in March 1829. Under fiscal policies pursued by the Treasury Department, the debt was officially retired as of January 1, 1835.

[11] When the 37th Congress convened, two members of the Virginia delegation returned to the House of Representatives with the intent to join the delegations other states. *Congressional Globe*, 37th Cong., 1st sess. (July 4, 1861), 2–3.

the North.[12] This involved a vast mobilization of the citizenry and the formation of a large standing army as well as a centralized bureaucracy to supply and support the troops.[13] Such a massive undertaking in state building necessitated new sources of revenue for the Union government. Treasury officials and the Republican leadership of Congress soon realized that the demands of the war effort would exceed the national government's traditional sources of revenue as well as its capacity to borrow, and accordingly, that new taxes were necessary. The only question was, *which* new taxes.

With expenditures for the war effort consistently surpassing federal receipts, government officials were forced to take more drastic measures to raise revenue. A debate ensued in Congress over wartime fiscal policy. Given its dominance over the national political arena, that debate took place entirely *within* the ranks of the Republican Party. The issues were framed when, in light of the impending fiscal crisis, Treasury secretary Salmon P. Chase requested $80 million in new tax revenue to supplement receipts from duties on imported goods as well as $240 million in new borrowing.[14] Recognizing that higher tariffs would be necessary but insufficient to make up the projected revenue shortfalls, Chase laid out a comprehensive plan for a new system of internal taxation (unknown in the United States since the War of 1812), including an *ad valorem* tax on real

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[12] The creation of the powerful Union government in the North is the subject of Richard F. Bensel, *Yankee Leviathan: The Origins of Central State Authority in America, 1859–1877* (New York: Cambridge University Press, 1990).

[13] The story of the expansion of the procurement department and the support apparatus of the Union army is told in Mark R. Wilson, *The Business of the Civil War: Military Mobilization and the State, 1861–1865* (Baltimore: The Johns Hopkins University Press, 2006).

[14] *Report of the Secretary of the Treasury on the Finances* (Washington, D.C., July 5, 1861), 6, reprinted in Senate Ex. Doc. No. 2, 37th Cong., 1st sess., 6. A founder of the Free Soil Party (who coined the phrase, "Free Soil, Free Labor, Free Men"), Chase served in the Senate under that party banner from 1849 to 1855. He was then elected the first Republican governor of Ohio in 1855. After failing to gain his party's presidential nomination in 1860, Chase was returned to the Senate as a Republican. He resigned three days after taking office in March 1861 to become Lincoln's first Secretary of the Treasury. While a political rival, Lincoln nominated Chase to be chief justice of the Supreme Court in December 1864. Unlike most Republicans, Chase was not an advocate of high protective tariffs.

and personal property as well as excise taxes on a host of luxury goods (alcohol, tobacco, jewelry, and "legacies"). Treasury officials calculated that a land tax imposed at a rate of three-tenths of one percent on real property located within those states still under the authority of the Union government would alone raise nearly $23 million.[15] Chase's proposal also included an income tax of 10 percent, although no details were offered. In the end, Chase left it "to the superior wisdom of Congress" to decide the specific combination of new taxes.[16] In response, Congress opened a debate on the relative merits of the various elements of the plan, all of which were widely viewed as "odious" and undesirable by Republicans.[17]

Providing members with virtually no advance notice to read the text, the Republican leadership of the Committee on Ways and Means reported a revenue bill to the floor of the House for debate on July 24, 1861.[18] Leading the discussion was Thaddeus Stevens of Pennsylvania, the powerful chairman of Ways and Means, who initially committed to Chase's proposal for a national land tax (to be apportioned among the states based on population) and new "internal taxes" levied only on specific personal property (luxury items such as carriages, horses, and watches) as well as new excise taxes on liquors and other luxury commodities. Conceding the many "disagreeable" aspects of such taxes, Stevens nonetheless proclaimed that they were necessary to "sustain the Government" against the attacks by the "rebels, who are now destroying or attempting to destroy

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[15] Ibid., 9–10. In his report, Chase suggested that valuations of property would be made by state officials. He also dismissed constitutional objections against such an unapportioned "direct" tax.

[16] Ibid., 9.

[17] The record of the debate on the income tax of 1861 is generally found at *Congressional Globe,* 37th Cong., 1st sess. (July 24, 1861), 246–255; 1st sess. (July 29, 1861), 323–331; and 1st sess. (August 3, 1861), 415–416.

[18] As the debate progressed, it immediately became clear than many members had not read the bill. At one point, Thaddeus Stevens exclaims in exasperation: "I wish to make a suggestion to the House. It is evident that this bill has not been read; and I do not wonder of it, for the printed bill was only brought in this morning, and it is a very long bill. We cannot discuss it so as to understand each other at all until gentlemen have read it." *Congressional Globe,* 37th Cong., 1st sess. (July 24, 1861), 249 (Representative Thaddeus Stevens of Pennsylvania).

this Government." Acknowledging that a national land tax apportioned among the states based on population inevitably would be inequitable (given that variations in population and assessable land would result in unequal *per capita* rates in the various states), Stevens justified the impost in light of the seriousness of the financial situation. As he bluntly put it, "the annihilation of the Government is the alternative."[19]

Fiscal crisis or not, the proposal for a national land tax was vehemently opposed by several influential Republicans in the House—most notably, Roscoe Conkling of New York, who denounced the impost as "obnoxious" and warned that its collection would require an "army of [federal] officers."[20] Schuyler Colfax (elected the Speaker of the House the following year) likewise condemned the land tax as the "most odious tax of all we can levy."[21] Expressing sentiments widely held among representatives from the West, Isaac N. Arnold of Illinois (an ardent supporter of Lincoln who had migrated from the Democrat Party to the Free Soil Party in the 1840s and then to the Republican Party in the 1850s) complained that an apportioned land tax would be highly inequitable to resident landowners in the Western states. Arnold pledged that "the State of Illinois is willing, in this hour of peril to the country, to contribute the last man and the last dollar to crush out this wicked rebellion; but her people desire that this tax be apportioned fairly, justly, and equitably."[22] Equally hostile to a national land tax, John McClernand (a Unionist from Illinois who would soon resign his seat in Congress to command a brigade of state militia volunteers on the battlefield) complained that the tax would "fall with very heavy, if not ruinous effect, upon the great

[19] *Congressional Globe*, 37th Cong., 1st sess. (July 24, 1861), 247 (Representative Thaddeus Stevens of Pennsylvania).

[20] *Congressional Globe*, 37th Cong., 1st sess. (July 24, 1861), 247 (Representative Roscoe Conkling of New York).

[21] *Congressional Globe*, 37th Cong., 1st sess. (July 24, 1861), 248 (Representative Schuyler Colfax of Indiana).

[22] *Congressional Globe*, 37th Cong., 1st sess. (July 29, 1861), 325 (Representative Isaac N. Arnold of Illinois).

agricultural States of the West and Southwest. . . . Why should land be thus burdened, and property of other sorts exempted from taxation?"[23] Owen Lovejoy, another Lincoln Republican from Illinois, opined that "the honest and just method is to lay the tax upon all products alike, and compel each person to pay a tax on all he is worth, whether it be real or personal property."[24]

At this point in the debate, the sentiment of the House began to shift in favor of a more "equitable" system of taxation—one with a broader tax base that would include *all* forms of property, not just land.[25] Thaddeus Stevens himself reconsidered limiting the tax base to real estate and thereafter raised the possibility of an income tax: "We [the members of the Committee on Ways and Means] have not gone into the question of an income tax. That question is a large one. . . . An income tax may be the most equitable that can be raised."[26] Along these lines, Frederick A. Pike (a freshman Republican congressman from Maine) praised the success of income taxation in England and recommended that Congress adopt a similar system of taxation for the United States.[27] Pike proposed a broad-based income tax that would reach inheritances as well as the profits derived from *both* personal property (e.g., interest paid on bank notes and mortgages) and real property (i.e.,

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[23] *Congressional Globe*, 37th Cong., 1st sess. (July 29, 1861), 248–249 (Representative John A. McClernand of Illinois).

[24] *Congressional Globe*, 37th Cong., 1st sess. (July 29, 1861), 248 (Representative Owen Lovejoy of Illinois).

[25] Today, economists and scholars of public finance and taxation commonly refer to the principle that all income should be taxed at the same rate as "horizontal" equity. This is often proclaimed a primary goal of "good" tax policy. See, e.g., Boris I. Bittker, "A 'Comprehensive Tax Base' as a Goal of Income Tax Reform," *Harvard Law Review* 80 (1967): 925–85:

[26] *Congressional Globe*, 37th Cong., 1st sess. (July 29, 1861), 248 (Representative Thaddeus Stevens of Pennsylvania).

[27] To finance its ongoing wars with France, the United Kingdom enacted an income tax in 1799 under the government of William Pitt the Younger. The tax was repealed in 1816. For an account of the enactment of the tax, see Edwin R. A. Seligman, *The Income Tax: A Study of the History, Theory and Practice of Income Taxation at Home and Abroad* (New York: The Macmillan Company, 1911), 72–81; see also Margaret Levi, *Of Rule and Revenue* (Berkeley and Los Angeles: University of California Press, 1988), 122–44.

rental income from land).[28] Citing concerns over equity, William Kellogg (a friend of Lincoln from Illinois) argued in favor of a tax on *both* real and personal property. He defended such an impost on the grounds that it would neither discriminate in favor of, nor against any particular interest or class (e.g., neither landowners in the West nor "moneyed" men and "capitalists" in the Northeast), but rather would fairly apportion the burden of government on landholders and the wealthy: "A taxation on real estate, as well as personal property, would be more just, more equitable, more reasonable. . . . I wish to equalize and make just the taxation which is necessary to carry on the war and to raise money for the support of the Government, and do not wish to screen any particular interest."[29]

Justin Smith Morrill, a founder of the Republican Party in Vermont and an influential member of the Committee on Ways and Means, now joined the fray, recommending a national income tax over a land tax. Morrill warned his fellow Republicans that if Congress failed to enact such an impost, it would be necessary to "give up this Government [i.e., the Union]."[30] The revenue demands of the Union military campaign necessitated that Republicans accept some forms of taxation that otherwise would be objectionable. Among these, Morrill favored an income tax with a broad base. Moreover, Morrill predicted that such a tax would raise twice as much revenue as the land tax.[31] That would be a major advantage considering the severity of the financial crisis facing the Union government. A further advantage of an income tax was that it was an "indirect" tax that would not have to be apportioned among the states based on population—at least that was the view of Morrill and other Republican leaders. Since the Hylton case of 1796, it was widely

[28] *Congressional Globe*, 37th Cong., 1st sess. (July 24, 1861), 251–252 (Representative Frederick A. Pike of Maine).

[29] *Congressional Globe*, 37th Cong., 1st sess. (July 24, 1861), 249 (Representative William Kellogg of Illinois). Kellogg expressed similar sentiments at *Congressional Globe*, 37th Cong., 1st sess. (July 29, 1861), 326.

[30] *Congressional Globe*, 37th Cong., 1st sess. (July 24, 1861), 252 (Representative Justin Morrill of Vermont).

[31] *Congressional Globe*, 37th Cong., 1st sess. (July 29, 1861), 330 (Representative Justin Morrill of Vermont).

assumed that only capitation taxes and taxes on land were “direct” taxes for which apportionment was required under the U.S. Constitution.[32] Ultimately, this view was affirmed by the Supreme Court in *Springer v. United States* (1880).[33] Even still, some remained unconvinced of the necessity or desirability of enacting a wartime income tax. In particular, the representatives of manufacturing and financial interests in the Northeast and Midwest objected to an income tax, the burden of which would fall directly on their well-heeled constituents. In the end, a majority of House Republicans sided with Morrill and Pike, recognizing the seriousness of the financial crisis that necessitated some new form of taxation, and given the options, preferring a national income tax over the land tax. A revenue bill that substituted an income tax for the “direct” land tax and excise taxes was approved by the House on July 29 by a 77 to 60 vote.[34] Republicans were found on both sides of the vote, but a majority within the party voted for the income tax bill.

In the Senate, an income tax was similarly viewed by Republicans as the least objectionable among the various unpleasant options. But several influential Republican leaders were supportive of the proposal, arguing that an income tax was necessary to assure that the wealthy pay their “fair share” of the taxes necessary to fund the war effort. James F. Simmons of Rhode Island, a Republican member of the Finance Committee, defended an income tax with a high personal exemption of $1,000 precisely on the grounds that it would affect *only* the wealthy, leaving the rest of the citizenry untouched—unlike the proposed land tax, which would impose a severe burden on

[32] “No capitation, or other direct, tax shall be laid, unless in proportion to the census or enumeration herein before directed to be taken.” U.S. Constitution, Article I, Section 9. In the Hylton case, the Supreme Court held that a federal carriage tax enacted by the Federalists could not be a “direct” tax since it could not be apportioned without producing arbitrary and inequitable results. *Hylton v. United States*, 3 U.S. 171 (1796). The Court noted that capitation and land taxes were examples of direct taxes within the meaning of Article I, Section 9 of the Constitution.

[33] *Springer v. United States*, 102 U.S. 586 (1880) (finding the Civil War income tax constitutional as an indirect tax that need not be apportioned among the states based on population).

[34] The House vote is recorded at *Congressional Globe*, 37th Cong., 1st sess. (July 29, 1861), 331.

cash-poor farmers who owned their own land. Simmons declared: “Let us tax property in the last resort, when we have to reach the poor as well as the rich, people of small means as well as those with large; but I do not believe this country has come to pass to be driven to a resource [the land tax] of such extreme measures.”[35] Such sentiments were shared in the Senate, which moved quickly to approve the income tax bill. The Senate version of the impost was less “burdensome” with a $800 exemption—as opposed to the $600 exemption provided for in the House bill. Recognizing that only a “small number of persons in each state” would be subject to the tax, the conference committee recommended a barebones administrative apparatus that included just one assessor and one federal tax collector in each state to enforce the statute.[36] (So much for Conkling’s ominous warning about an “army” of federal revenue collectors.) With no further debate or objections, the bill reported by the conference committee was approved by both Houses of Congress, and President Lincoln signed the measure into law on August 5, 1861.[37] This was the first national income tax in the United States. While no identifiable faction within the governing party (or otherwise in the national political arena) affirmatively advocated income taxation based on principle, a majority of Republicans were willing to accept such an impost as a political necessity and the lesser among evils. For most, the impost was justified in light of the military and fiscal crisis facing the Union. At the same time, the income tax was viewed by a handful of Republicans as the most *equitable* form of taxation.

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[35] *Congressional Globe*, 37th Cong., 1st sess. (July 24, 1861), 254 (Senator James F. Simmons of Rhode Island). Simmons served in the Senate from 1841 to 1847 as a Whig and was reelected in 1856 as a Republican. He resigned from the Senate in September 1862 to avoid expulsion for financial improprieties.

[36] *Congressional Globe*, 37th Cong., 1st sess. (August 3, 1861), 415 (Representative Thaddeus Stevens of Pennsylvania).

[37] Act of August 5, 1861, 37th Cong., 1st sess., chap. 45, sec. 49, 12 Stat. 309 (August 5, 1861).

The income tax of August 5, 1861, the first national income tax, provided for a flat tax of 3 percent on annual income above the relatively high personal exemption of $800. The income of citizens residing abroad was taxed at 5 percent, while interest income from securities was taxed at 1.5 percent.[38] The higher tax rate was imposed on the income of citizens residing abroad during the war, according to Thaddeus Stevens, to ensure that they bear an appropriate (or in the common parlance, "equitable") share of the financial burden of the war. As Stevens explained: "Where persons reside abroad who hold property in this country on which they derive an income, which they spend abroad, we have laid an income tax of five per cent. We thought it right that they should bear more of the burden of the country than those who spend their income in the United States."[39] The notion was that because those citizens living abroad were untouched by the many restrictions on ordinary life experienced during wartime in the United States and otherwise contributing little to the war effort, equity (as conceived by Stevens) demanded that they pay a *higher* percentage of their income to the Union government than their fellow countrymen.

It was widely understood that on account of the $800 personal exemption, only the wealthy would be subject to the tax, with the vast majority of citizens exempt.[40] In fact, no revenue at all was collected under the income tax of 1861. Not unreasonably, Treasury secretary Chase questioned the wisdom of implementing a tax that was projected to yield less in revenue than the cost of collection.[41] The problem was, no collection apparatus had been provided under the statute.

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[38] John Witte refers to the special rate for interest paid on government bonds the "first loophole" in the tax code. John F. Witte, *The Politics and Development of the Federal Income Tax* (Madison: University of Wisconsin, 1985), 68.

[39] *Congressional Globe*, 37th Cong., 1st sess. (August 2, 1861), 415 (Representative Thaddeus Stevens of Pennsylvania).

[40] Estimates vary and comparisons of purchasing power are difficult to make, but $800 in 1861 would be equivalent to anywhere from $30,000 to $40,000 today.

[41] "The Secretary is acquainted with no statistics which afford the means of a satisfactory estimate of the amount likely to be realized from the income tax. Considering, however, how large a proportion of incomes, after the

Several months before the first payments of tax were due on June 30, 1862, Congress heeded Chase's recommendation and postponed enforcement of the statute while they considered a revised (and more comprehensive) version of an income tax—one that would include a slightly graduated rate to bring in more revenue and an enforcement apparatus. These deliberations produced a more sophisticated statute, which was signed into law by President Lincoln on July 1, 1862. Under the income tax of 1862, a tax of 3 percent was imposed on the "annual gains, profits or incomes" above $600 of any person residing in the United States, "whether derived from any kinds of property, rents, interest, dividends, salaries or from any profession, trade, employment or vocation carried on in the United States or elsewhere, or from any source whatever."[42] The rate increased to 5 percent on income in excess of $10,000 and as before, on income earned by U.S. citizens residing abroad.[43] The income tax of 1862 was part of a broader revenue package that included a tax on the gross receipts of certain corporations—namely, railroads, banks, trust companies, and insurance companies.[44] Furthermore, withholding at the sources was imposed on the tax imposed on government salaries as well as interest and dividends paid by the afore-mentioned companies.[45]

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deductions sanctioned by law, will fall within the exemption limit of $800 a year; and considering also what numerous questions will certainly perplex its assessment and collection, he respectfully submits to consideration of Congress whether the probable revenue affords a sufficient reason for putting in operation, at great cost, the machinery of the act, with a view. . . to the collection of the income tax." *Report of the Secretary of Treasury on the State of the Finances for the Year Ending June 30, 1861* (Washington: December 9, 1861), 15, reprinted in Senate Ex. Doc. No. 2, 37th Cong., 2nd sess., 15.

[42] Randolph Paul observed that the tax apparently did not reach capital gains other than gains from real property held for a short term—originally less than one year and later two years. Randolph E. Paul, *Taxation in the United States* (Boston: Little, Brown and Company, 1954), 13.

[43] Act of July 1, 1862, 37th Cong., 2nd sess., chap. 119, sec. 89 et seq., 12 Stat. 473 (July 1, 1862).

[44] Act of July 1, 1862, 37th Cong., 2nd sess., chap. 119, sec. 82–85, 12 Stat. 485 (July 1, 1862).

[45] Act of July 1, 1862, 37th Cong., 2nd sess., chap. 119, sec. 86 and sec. 91, 12 Stat. 485 (July 1, 1862).

The legislation also included the first national inheritance tax.[46] These drastic measures were accepted by the public in light of the dire financial circumstances. Some affirmatively favored the new income tax. For instance, the editors of the *New York Times* praised the impost, "levied upon a person's purse," as "probably one of the most equitable and bearable taxes that can be imposed."[47]

To collect the revenue from all these new taxes (in particular, the income tax), Congress established the Office of the Commissioner of Internal Revenue as a bureau in the Department of Treasury.[48] The agency was charged with collecting taxes within 185 collection districts, each with one assessor and one collector (appointed with the consent of the Senate). George S. Boutwell of Massachusetts was recommended by Treasury Secretary Chase and appointed by Lincoln as the first Commissioner of Internal Revenue. A former governor of Massachusetts who helped organize the Republican Party in that state, Boutwell later served in Congress and was subsequently appointed Secretary of Treasury by President Ulysses S. Grant.[49] During the summer of 1862, he began the daunting task of collecting revenue under the new income tax with a staff of only three clerks. By January of the next year, he expanded his administrative staff to 3,882 civilian employees—most of them assessors and collectors who earned a commission on the taxes collected.[50]

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[46] The inheritance tax was imposed on estates in excess of $1,000 at a rate of .75 percent on legacies to lineal descendants, reaching 5 percent on legacies to unrelated parties. Bequests to a spouse were exempt. Act of July 1, 1862, 37th Cong., 2nd sess., chap. 119, sec. 111, 12 Stat. 485 (July 1, 1862).

[47] *New York Times*, January 8, 1862, 4.

[48] Act of July 1, 1862, 37th Cong., 2nd sess., chap. 119, sec. 1, 12 Stat. 432 (July 1, 1862).

[49] Years later, Boutwell recounted his experiences as the first commissioner in organizing the Internal Revenue Office in George S. Boutwell, *Reminiscences of Sixty Years in Public Affairs* (New York: McClure, Phillips & Company, 1902), 303–315.

[50] Senate Ex. Doc. No. 20, 37th Cong., 3rd sess., 1. Collectors were paid a commission of 4 percent of the first $100,000 collected and two percent on amounts in excess of $100,000. For an account of the organization of the IRS, see John C. Chommie, *The Internal Revenue Service* (New York: Praeger Publishers, 1970), 10; Harry Edwin Smith, *The United States Federal Internal Tax History from 1861 to 1871* (Boston: Houghton Mifflin Company, 1914), 271–291.

For the next two years, the income tax made a modest but welcome contribution to the Treasury, which still relied largely on revenue from the tariff and public borrowing to finance the Union war effort. The income tax raised only $2.7 million in the fiscal year ending June 30, 1863, but revenue rose to a respectable $20.3 million the next year.[51] At that time, Commissioner Boutwell proposed an even more progressive rate structure to boast receipts.[52] This turned out to be much more controversial than the original proposal in 1861 for an income tax. Rejecting Boutwell's advice, the Committee on Ways and Means recommended a flat rate of 5 percent. Thereafter, in April 1864 the House commenced to debate the merits of the alternative rate structures. Ironically, one of the strongest critics of the proposed graduated rate was Justin Morrill, who had been a leading advocate for the income tax only three years earlier. But the income tax of 1861 was imposed at a modest flat rate of 3 percent. In 1864, Congress was considering a graduated rate structure that would require the wealthy to pay income tax at significantly higher rates. Morrill objected to this in unusually harsh terms, evoking the imagery of class warfare that would be a common theme of Republicans for the next 150 years. Morrill denounced the progressive rates as a manifestation of the "spirit of agrarianism" and hostile to the "very theory of our institutions," which is "entire equality; that we make no distinction between the rich man and the poor man." To impose a *higher* rate of taxation on the rich man would violate this theory of "entire equality." Morrill further complained that progressive tax rates "punish men because they

[51] The Treasury Department reported just $1.7 million in revenue collected from all forms of "direct taxation" for fiscal year ending June 30, 1862. Figures on collections under the Civil War income tax from U.S. Bureau of the Census, *Historical Statistics of the United States*, series Y 359, Table III ("Individual Income Tax Collections: 1863 to 1895"). For a fuller account of fiscal policy during the Civil War, see James D. Savage, *Balanced Budgets and American Politics* (Ithaca, N.Y.: Cornell University Press, 1988), 123–131.

[52] Boutwell recommended that Congress increase the tax rate to 5.5 to 6.0 percent on annual income in excess of $20,000. *Report of the Secretary of the Treasury on the State of the Finances for the Year ending June 30, 1863* (Washington, D.C.: Government Printing Office, 1864), 70, reprinted in Senate Ex. Doc. No. 3, 38th Cong., 1st sess., 70.

are rich" and amount to nothing less than "seizing the property of men for the crime of having too much."[53] For Morrill, a flat income tax of 3 percent provided an equitable balance to the regressive tariff while a tax with a graduated rate structure was "confiscatory." Equally adamant in his opposition to the proposed graduated rates, Thaddeus Stevens lamented that this was a "strange way to punish men because they are rich."[54]

Notwithstanding such ominous warnings, the motivation behind the progressive rates was neither the spirit of "agrarianism" nor any desire to "punish" the wealthy by seizing their property. After all, this was a Republican Congress dominated by Eastern interests. These were "Radical Republicans" with respect to policies toward the South, slavery, and reconstruction—but not the redistribution of wealth in the United States. In 1864, progressive rates were not so much the reflection of populist ideology but rather a reasoned response to the Union government's urgent need for revenue. To a majority of Republicans, the income tax was the most equitable mechanism for raising that vital revenue. Out of necessity, they were willing to accept a national income tax—even one with a modestly progressive rate structure. To be sure, there were proponents of progressive taxation expressly based on principles of equity. For instance, Augustus Frank, a wealthy Republican banker from western New York, argued that "it is just, right, and proper that those having a larger amount of income shall pay a larger amount of tax."[55] Here we hear the early precursors of the case for progressive income taxation advanced by early twentieth-century Progressive Republicans as well as modern liberal Democrats.

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[53] *Congressional Globe*, 38th Cong., 1st sess. (April 28, 1864), 1940 (Representative Justin Morrill of Vermont).

[54] *Congressional Globe*, 38th Cong., 1st sess. (April 26, 1864), 1876 (Representative Thaddeus Stevens of Pennsylvania). Stevens further claimed that a graduated rate amounts to "nothing more than a punishment of the rich man because he is rich."

[55] *Congressional Globe*, 38th Cong., 1st sess. (April 26, 1864), 1876 (Representative Augustus Frank of New York).

In the end, the House agreed that a new rate structure was needed and approved a bill that taxed income above the $600 exemption at a rate of 5 percent, rising to 7.5 percent on income above $10,000 and topping out at 10 percent on income above $25,000. Because $25,000 was an extraordinary income in the 1860s, few (if any) taxpayers would actually face the 10-percent rate.[56] That said, the progressive rate structure was a dramatic departure from the original Civil War income tax, which was initially imposed in 1861 at a flat rate of 3 percent and was amended the next year to include a second-tier bracket of 5 percent. The maximum rate proposed in 1864 would be *double* that.

The Senate bill initially followed the basic contours of the House proposal, although the rate structure of the income tax was modified slightly. A compromise revenue bill that included the 10-percent tax bracket was approved by both Houses of Congress in June and quickly signed into law by Lincoln.[57] Under the 1864 statute, a tax of 5 percent was imposed on income above the $600 personal exemption, 7.5 percent on income over $5,000, and 10 percent on income over $10,000, rather than the $25,000 provided for in the House bill.[58] With this graduated rate structure, the revenue collected under the income tax increased dramatically, reaching nearly $61 million in 1865 and exceeding $73 million in 1866—the latter constituting one-fifth of total receipts of the federal

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[56] $25,000 in 1864 would be equal to anywhere from $5000,000 to $750,000 in current dollars. It is unknown how many taxpayers paid tax on income above $25,000, nor do figures show how many taxpayers paid at the 10-percent rate. However, we know that $277,462 in tax was collected on incomes above $10,000 in 1863 and $6.86 million was collected in 1864. *Annual Report of the Commissioner of Internal Revenue on the Operations of the Internal Revenue System for the Year 1872* (Washington, D.C., November 30, 1872), Table E ("Table Showing the Total Collections From Each Specific Source of Revenue"), 138, reprinted in House Ex. Doc. No. 4, 42nd Cong., 3rd sess., 138.

[57] Act of June 30, 1864, 38th Cong., 1st sess., chap. 173, sec. 1 et seq., 13 Stat. 223–306 (June 30, 1864).

[58] Ibid., sec. 116, 13 Stat. 281.

government for the year.[59] The legislation also increased the inheritance tax with respect to legacies of personal property and added a new tax on devises of real property.[60]

The Income Tax after the Civil War

The income tax became an important source of revenue for the national government by the end of the Civil War, although it still generated considerably less than customs duties, excise taxes, and the tariff. Significantly, the burden of the Civil War income tax fell disproportionately on the Northeast, which contributed nearly 75 percent of the revenue from the tax. Three states (New York, Pennsylvania, and Massachusetts) alone contributed more than 61 percent of the revenue from the income tax.[61] Not surprisingly, regional opposition to the impost surfaced as soon as the war ended in 1865, and pressure mounted in Congress to repeal the tax.[62] But repeal was by no means a foregone conclusion. A number of influential Republicans in Congress favored retaining some form of income taxation during peacetime. The extraordinary fiscal crisis experienced during the Civil War explains the reluctant acceptance of a national income tax by Republicans *during* the war, but why did these Republican leaders support retention of an income tax *after* the conflict?

One major reason was financial. The Northern war effort left the nation $2.3 billion in debt, and there was a widespread recognition that some of the extraordinary wartime revenue measures

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[59] Figures from *Historical Statistics of the United States,* series Y 359, Table III ("Individual Income Tax Collections: 1863 to 1895").

[60] The modifications to the inheritance tax, supported by Justin Morrill, are found at Act of June 30, 1864, 38th Cong., 1st sess., chap. 173, sec. 124 et seq., 13 Stat. 223–306 (June 30, 1864).

[61] *Annual Report of the Commissioner of Internal Revenue on the Operations of the Internal Revenue System for the Year 1872* (Washington, D.C., November 30, 1872), 115, reprinted in House Ex. Doc. No. 4, 42nd Cong., 3rd sess., 115. During the ten years it was in effect, the Civil War income tax raised a total of $376 million.

[62] Roscoe Conkling, now in the Senate, complained that New York contributed one-third of total receipts collected under the income tax but had only one-eleventh of the population of the nation. *Congressional Globe*, 41st Cong., 2nd sess. (June 23, 1870), 4760 (Senator Roscoe Conkling of New York).

would have to be retained for some time to pay off that debt. In the House, Thaddeus Stevens and Justin Morrill counseled retention of a modest income tax during peacetime. Supporters in the Senate included William P. Fessenden of Maine and John Sherman of Ohio, who between them controlled the Committee on Finance during the critical period from 1861 to 1877.[63] From his vantage point on the Finance Committee, Sherman played a critical role in convincing his Republican colleagues to retain the income tax as a fiscal tool of the national government. For a number of years, a majority heeded his advice as Congress temporarily renewed the income tax in 1866, 1867, and 1870. Reflecting what would become a long-standing division within the Republican Party in the ensuing decades, moderates accepted a minor income tax in conjunction with modest reductions in tariff rates while conservatives campaigned for repeal of the income tax and higher protective tariffs.

As economic conditions improved, it became increasingly difficult to justify retention of an income tax during peacetime on financial grounds. Revenue from the income tax decreased while customs duties soared in the wake of increased foreign trade that commenced following the war. Revenue from the income tax had already begun to decline after 1866. The downward trend was exacerbated in 1867 when the graduated rate structure was repealed and replaced with a flat tax of 5 percent on income above the personal exemption, which was increased to $1,000.[64] Under the Act

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[63] William P. Fessenden was elected to the Senate in 1854 as a Republican from Maine. He chaired the Committee on Finance from March 1861 to July 1864, at which time he served a brief stint as Treasury secretary (replacing Salomon Chase, Lincoln's first Treasury secretary). In March 1865, he returned to his Senate seat and resumed chairmanship of the Committee on Finance. From 1865 to 1867, he also chaired the Joint Committee on Reconstruction. John Sherman of Ohio was elected to the House as a Republican in 1854. He served as chairman of the House Committee on Ways and Means from 1860 to 1861 and thereafter was elected to the Senate in 1861 to fill the seat vacated by Salomon Chase, who had resigned to become Treasury secretary. Sherman served as chairman of the Committee on Finance during Fessenden's tenure at Treasury and returned to that position following Fessenden's retirement from the Senate in 1867. Sherman remained chairman of the Committee on Finance until 1877.

[64] "An Act to Amend Existing Laws Relating to Internal Revenue," 39th Cong., 2nd sess., chap. 169, sec. 13, 14 Stat. 477–480 (March 2, 1867).

of July 14, 1870, Congress further reduced rates for the income tax, raised the exemption to $2,000, and provided that the impost would expire at the end of 1871.[65] On account of these changes (in particular, the higher exemption), less than 0.2 percent of the population was now subject to the tax.[66] Revenue from the income tax amounted to just $37.8 million in 1870. As revenue declined, support further waned. The editors of the *New York Daily Tribune* lamented that the "House of Representatives has been at work . . . revising and codifying our Internal Revenue System, and has concluded to let the Income Tax stand as it is." They further denounced the income tax as "the most odious, vexatious, inquisitional, and unequal of all our taxes."[67] Likewise, the editors of the *New York Times* (who in 1862 had praised the income tax as one of the most "equitable" and "bearable" of taxes) urged repeal in 1871 given the limited revenue it raised as well as the "odium" of its collection:

> The income tax has been unpopular from the moment of its enactment. . . . It has been tolerated, just as various other obnoxious taxes were tolerated—because it was one of the inevitable burdens entailed upon us by a great war. . . . We have reached the time when the income tax can be no further defended. . . . The income tax is not worth its cost. . . . Let Congress redeem the session from utter barrenness by averting the vexation and unpopularity which will inevitably arise from the continued infliction of the impost.[68]

[65] "An Act to Reduce Internal Revenues," 41st Cong. 2nd sess., chap. 255, sec. 6 and sec. 8, 16 Stat. 257–258 (July 14, 1870). Under the legislation, the inheritance tax was repealed altogether.

[66] With the exemption set at $600 in 1866, an estimated 1.3 percent of the populace paid income tax. With an exemption of $1,000 from 1867 to 1870, only 0.7 percent paid any income tax. With the exemption raised to $2,000 for 1871 and 1872, only 74,775 persons paid any income tax in 1871 and 72,949 persons in 1872. This amounted to about 0.2 percent of the population. Figures from *Annual Report of the Commissioner of Internal Revenue on the Operations of the Internal Revenue System for the Year 1872* (Washington, D.C., November 30, 1872), vi, reprinted in House Ex. Doc. No. 4, 42nd Cong., 3rd sess., vi; data compiled by Robert Stanley, *Dimensions of Law in the Service of Order: Origins of the Federal Income Tax, 1861–1913* (New York: Oxford University Press, 1993), Table 1–5, 40.

[67] *New York Daily Tribune*, February 5, 1869, 4, col. 5. Later that year, the editors declared: "We do not believe there is a tax levied by the Government so onerous upon so large a class of people as the Income Tax. It is not equal—its exactions are unjust, and it discriminates against persons of limited means. . . . The law is not equal." *New York Daily Tribune*, December 10, 1869, 4, col. 4.

[68] "The Income Tax," *New York Times*, January 19, 1871, 4.

Once deemed necessary to tolerate this odious tax on account of the fiscal crisis occasioned by the Civil War, the modest peacetime income tax now brought in so little revenue that it simply was "not worth the cost." At the reduced rates, the income tax was withering as a source of federal revenue, and most Republicans were willing to let it die. Certainly there was no faction in the Republican Party campaigning for higher rates to increase revenue collections.

Proponents of a peacetime income tax had a second argument beyond the enhancement of public finance. Republicans such as John Sherman recognized that the burden of the tariff (which began to generate budget surpluses as the nation enjoyed peacetime trade and economic prosperity) fell most heavily on laborers as well as farmers and rural communities in the South and West while the benefit was enjoyed by wealthy financial and manufacturing interests in urban areas in the Northeast and Midwest. For this reason, a case could be made for retaining the income tax on the basis of "equity" and "fairness." Again, the ethical argument for an income tax was based on the premise that such an impost on capital would partially offset the regressive impact of the system of high protective tariffs that the Republicans had erected over the course of the nineteenth century.[69] On this basis, Sherman advocated a broad system of internal revenue under which the wealthy would make a contribution to the Treasury through the income tax, rather than entirely avoiding the cost of government by shifting the burden of taxation to those of lesser means via the tariff and regressive excise taxes.[70] As Sherman would put it: "The income tax expires with the collection of

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[69] The first protective tariff was enacted by Congress as the Tariff Act of 1816, which provided exemptions or reduced rates for articles that could not be produced in the United States. The best account of how the tariff was used to implement protectionist policies from 1816 through the Civil War is found in Dall W. Forsythe, *Taxation and Political Change in the Young Nation, 1781–1833* (New York: Columbia University Press, 1977), 62–106.

[70] Sherman complained that wealthy individuals (such as the son of the late John Jacob Astor of New York, the wealthiest man in the United States when he died in 1848) would bear a much lighter burden of the cost of government compared to the working man if the income tax was repealed altogether, leaving the government to rely on regressive consumption taxes. "We are afraid to touch the income of Mr. Astor. Is there any justice in that? Is there any propriety

the tax of 1871. . . . A few years of further experience will convince the body of our people that a system of national taxes which rests the whole burden of taxation on consumption, and not one cent on property or income, is intrinsically unjust. While the expenses of the national Government are largely caused by the protection of property, it is but right to require property to contribute to their payment."[71]

Notwithstanding the power that Sherman exercised in the Senate and the esteem in which he was held by his fellow Republicans, he was unable to persuade a majority of his colleagues of the equity of retaining a peacetime income tax. Protectionists such as William D. Kelley of Pennsylvania favored reducing or eliminating the income tax while at the same time raising tariffs.[72] Joining the protectionists were the representatives of the "money interests" in the Northeast (powerful constituents within the Republican Party), who were strongly disinclined toward extending the income tax. Theirs was a determined and well represented voice in the House. As Washington Townsend (a Republican from West Chester, Pennsylvania) honestly revealed, the "clamor for the abolition of the income tax is . . . a manufactured cry. It does not come from the masses of the people," but from "the men of gigantic capital. . . men of colossal fortunes and extraordinary income."[73] Taking the path of least resistance, Congress allowed the Civil War

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in that? Why, sir, the income tax is the only one that tends to equalize these burdens between the rich and the poor." *Congressional Globe*, 41st Cong., 2nd sess. (June 22, 1870), 4715 (Senator John Sherman of Ohio).

[71] *Congressional Globe*, 42nd Cong., 2nd sess. (March 15, 1872), 1708 (Senator John Sherman of Ohio). In his speech, Sherman went on to predict: "As wealth accumulates, this injustice in the fundamental basis of our system will be felt and forced upon the attention of Congress. Then an income tax, carefully adjusted, with proper discriminations between income from property and income from personal services. . . will become part of our system." While accurate, his prediction was off by forty-one years.

[72] *Congressional Globe*, 41st Cong., 2nd sess. (June 1, 1870), 3994–3995 (Representative William D. Kelley of Pennsylvania). William Darrah Kelley (known as "Pig Iron" Kelley) was a Republican from Philadelphia who was swept into office on Lincoln's coattails and thereafter represented the state's iron and steel industry for thirty-five year as an advocate of high protectionist tariffs.

[73] *Congressional Globe*, 41st Cong., 2nd sess. (June 2, 1870), 4023 (Representative Washington Townsend of Pennsylvania).

income tax to expire at the end of 1871 as scheduled. At that time, the Republican Party (and with it, the national government) returned to its longstanding commitment to a system of public revenue based almost exclusively on high protective tariffs. The nation would not have another income tax contributing to the Treasury for another forty-two years.

Conclusion

The nation's first national income tax was reluctantly enacted by Republicans who faced a budgetary crisis with the outbreak of the Civil War. While the war effort was funded largely by the tariff and public borrowing, Republican policymakers were pressured to find new sources of public revenue. In the context of the extant system of public revenue (regressive excise taxes and the tariff), a national income tax was viewed by moderate Republicans as the most equitable means to raise additional revenue. The income tax was preferred over a national land tax, which imposed an "unjust" burden on farmers and landowners. A majority of Republicans were even willing to accept a modestly progressive rate structure for the income tax as the war dragged into its third and most costly year. Likewise, a progressive inheritance tax was adopted out of necessity.

Certainly, the Civil War income tax was enacted in a very different context than that which prevails today for fiscal and tax policy. The financial deficits resulting from the prolonged military conflict were part of the most serious national crisis the nation ever faced. Quite simply, this necessitated the enactment of a national income tax. The ruling Republican majority accepted that much. Furthermore, within the context of the regressive system of federal excises and protective tariffs, it was recognized by moderate Republicans that a national income tax would provide a measure of balance to a regressive system of public revenue that otherwise shifted the burden of taxation to farmers and laborers, allowing the wealthy to escape their "fair share" of the war effort.

In many respects, these circumstances were special and unique to the period. True, policymakers today also face an extraordinary fiscal crisis, with persistent budget deficits and a soaring national debt. A foreign war drags on into its tenth year. Likewise, a regressive system of taxation provides a significant portion of current governmental revenue—namely, the regressive Social Security wage tax. Indeed, a majority of Americans now pay more under the wage tax than under the federal income tax. Unsurprisingly, in such an environment, many of the same arguments advanced in the 1860s to justify the adoption of an income tax with progressive rates are heard in the contemporary debate over tax policy. But there are significant differences. For one thing, neither the current military conflict facing the United States nor the extraordinary national debt threaten the nation's survival. Moreover, the modern Republican Party is very different than the party during the 1860s. Notably, the modern GOP is not a hegemonic party but rather reflects a reasonably evenly divided electorate. As a consequence of the restructuring of the party system after the 1970s (with conservative Southern Democrats leaving the party for the GOP after the election of 1968), the two major national political parties have become more ideologically pure and extreme. Conservatives dominate the Republican Party while Democratic activists have become considerably more liberal. Today, the Republican party faithful are overtly hostile to *any* form of federal income taxation. Arguments that were commonly advanced *within* the Republican Party during the 1860s are never heard from Republicans in the contemporary debate over tax policy. In this respect, there is considerably less diversity of opinion within the GOP today than when the first national income tax was enacted by the Republican majority that dominated our national political institutions during the Civil War.