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By Sheldon Richman

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Let's Abolish the Income Tax

Can we live without the Sixteenth Amendment, the income tax, and the Internal Revenue Service?

It might be better to ask if we can continue to live with them. The income tax is based on a fundamentally immoral notion: that the state has a prior claim on the fruits of a person's labor. That notion, which is a half step removed from the slave principle, is at odds with the Jeffersonian idea that lies at the foundation of the American Republic: that every human being has a natural right to life, liberty, and the pursuit of happiness, which of necessity includes the right to use and dispose of honestly acquired property.

When the state is permitted to tax income a process is set in motion that inevitably reverses the traditional American relationship between citizen and government. In the original Jeffersonian vision the citizen was the master and the government was the servant. But with the advent of income taxation, that relationship began to change and eventually was reversed. When government seeks to tax income it will inevitably assume the powers required to carry out that mission. Those powers will enable it to delve deeply into people's personal affairs, destroying their financial privacy, putting them permanently on the defensive, and leaving them vulnerable to demands that they prove they have not violated the law. Intentions are irrelevant. Admit the principle of income taxation and all those things follow logically. Citizens become subjects.

Sheldon Richman is the editor of *Ideas on Liberty*.

Income taxation also undermines the market economy. By draining the people's savings and capital, the tax necessarily impedes their ability to create prosperity, to achieve financial independence, and to make a better society for everyone. Meanwhile, the income tax gives the state unprecedented access to wealth, bringing in huge revenues with which politicians and bureaucrats can attempt to shape society according to their liking and buy political support so they may stay in power and tax some more. The policymakers use the tax code to encourage and discourage behavior arbitrarily, undermining the spontaneous productive forces of society. Adam Smith's invisible hand has been turned into the very visible pointing finger and clenched fist of the politicians and tax authorities.

Income taxation has made the modern American megastate what it is. In *The Rights of Man*, Thomas Paine wrote that government does not raise taxes so it can fight wars; rather, it fights wars so it can raise taxes. Whichever is the case, the power to tax incomes has freed the national government to venture full force into areas foreign and domestic in which it had, at worst, only dabbled in the days before the Sixteenth Amendment.

Since World War II, the personal income tax has been the largest source of federal revenue. In fiscal year 1997, it was expected to raise more than \$791 billion, more than 45 percent of all receipts, in a budget of more than \$1.7 trillion. (That share has dropped slightly in recent years.) The corporation income tax was expected to bring in almost \$198 billion more (12 percent), and the category known as "social insurance taxes and retirement receipts"—payroll taxes—was to capture

more than \$596 billion more (34 percent). That is more than \$1.5 trillion from individual and business income. The people's income has proven to be a mother lode for the U.S. government. Cut off from that kind of money, the size and scope of government would shrink fast. Imagine what would be possible with that amount left in people's pockets!

Of course, a \$1.5 trillion tax cut—not to be replaced with new taxes—would leave “only” about \$200 billion for the government to spend. Admittedly, that is a radical reduction in the size of government. (For some, however, it may be too small a cut.) How would it manage? Maybe it is not as drastic as it looks. A government that lived up to the Jeffersonian vision would not have to spend a lot of money. If it were reduced to the core functions spelled out in the Constitution (essentially territorial defense and courts to handle the few crimes put under federal jurisdiction), perhaps \$200 billion would be too much money.

According to the Office of Management and Budget, the federal government in 1941 spent, in 1987 dollars, about \$135 billion. A year later, it spent \$315 billion. That government was hardly Jeffersonian in scope, considering that the New Deal was in place and the United States was increasing military spending in anticipation of involvement in the new European and Asian war. From 1947 to 1951, the government spent between \$193 billion and \$286 billion a year (1987 dollars). The budget was in surplus four of those five years. Again, that government was not small. The New Deal had not been rolled back, and the Cold War was beginning. If that government could get by on less than \$300 billion, why can't today's government? True, income taxes raised the major

part of even those budgets. But alternative, voluntary financing would have an easier time raising \$300 billion than \$1.3 trillion. There is nothing magic about \$300 billion. It just happens to be what's left if all income taxation were abolished.

The Burden of Government Spending

Too many discussions about changes in the tax system try to avoid the issue of government spending. They tend to accept “revenue neutrality” as an opening condition. Reforms are designed so that the tax system will raise the same amount of revenue as the current system (if not more). Revenue neutrality aims at separating two issues: the structure of the tax system and the amount of revenue raised. It is a device to simplify discussion. Tax reformers wish to propose changes in the tax structure without saying how they would cut the federal budget to adjust for lower revenues. Any suggested spending cut, of course, would prompt opposition to the whole plan from whoever benefited from that spending. Critics of lower taxes have shrewdly used the public's concern about the federal deficit to attack any tax plan that can be shown to “lose” revenue. Revenue neutrality is a concession to those critics.

The supply-siders avoid the revenue-neutrality ground rule through the Laffer effect. The economist Arthur Laffer popularized the idea that government can increase revenues by lowering tax rates. The rates can be so high that people shelter, hide, and even abstain from earning income. Reduced rates can make such tax avoidance unnecessary. So rate cuts can increase revenues and have done so before.

While the Laffer effect is sound, raising rev-

enue is not a good reason to cut tax rates—which brings up the alternative to the revenue-neutral and revenue-enhancing rules. It is the revenue-cutting rule: reducing government revenues is a good thing. The wisdom of that rule is rooted in the fact that people have a right to their money and know better how to spend it than government does. Moreover, when government spends people's money, it mostly does mischief. The rule suggests another approach to tax reform, one that combines a discussion of the tax structure with the amount of revenue. The weight of government includes total spending (revenues raised plus borrowing) as well as the method of tax collection. (The burden of regulation is put aside for this discussion.) The burden of the income tax is directly related to how much it raises. To address how taxes are collected without looking at the amount raised, or vice versa, is to cheat the taxpayers.

No New Taxes

Thus the proper response to an indictment of the income tax is not a new tax designed to raise the same amount of money. Any alternative tax that can raise what income taxes today raise would be, for that reason alone, a burdensome tax. True, a different tax might be less intrusive of civil liberties. Then again, it might not be. A sufficiently high tax of any nature will stimulate evasion, which in turn could prompt the government to take draconian measures. Empirically, if not theoretically, the income tax is an especially bad tax. But any tax intended to raise more than a trillion dollars a year is, by definition, confiscatory, even in a \$7 trillion economy. If an alternative tax is less intrusive than the income tax,

that simply means the government can engage in a less painful form of confiscation. But that could allow even greater levels of confiscation precisely because the tax inflicts less “collateral” pain.

The only way to avoid taxes that raise \$1 trillion is for the federal government to spend far less than it spends today. Real slashes in spending cannot be made by halfhearted attempts to eliminate “waste, fraud, and abuse.” Only completely rethinking the idea of government can accomplish that.

What Government Should *Not* Do

Thus, a discussion of the income tax appropriately ends with a discussion of what government should *not* be doing. Once people are clear on that issue they will be less likely to acquiesce in a tax system that extracts astronomical revenues. Few people want any tax for its own sake. If they support, or abstain from opposing, a tax, it is usually because they want whatever the revenue can finance. (There are exceptions: the especially envious might simply want to see high-income people dispossessed, and puritans, driven by, in H. L. Mencken’s words, the “haunting fear that somewhere someone is happy,” support “sin taxes” to discourage drinking and smoking.) Thus, if people give up their attachment to expansive government, they will feel free to fight the income tax.

In the original Jeffersonian, or libertarian, vision of America, the federal government had a few specified constitutional functions. Under the U.S. Constitution the federal government was permitted to exercise no powers other than those delegated by that document. All other powers were reserved to the states or the people. It is important to keep that framework in mind. If a power was

not specified, the federal government could not assume it. That point was made over and over when, during the ratification debates, people demanded a Bill of Rights. Why is there a need for a Bill of Rights, defenders of the proposed Constitution asked? The federal government can do only the few things expressly delegated. Alexander Hamilton wondered why a prohibition on abridging the freedom of the press was necessary, when the Constitution granted the government no power to regulate the press in the first place.

As a result of that philosophy, the federal government was limited. It has been noted that for much of the nineteenth century, an American could live his life without having contact with a federal official, except a postmaster.

The Progressive Mindset

Somewhere along the line, the Founders' philosophy was turned on its head. Presidents, congressmen, judges, statist intellectuals, and later almost everyone else came to believe that the federal government should be able to do anything that is not expressly prohibited. That was the essence of the Progressive mindset. In the Progressive world-view, government needs the flexibility to respond to any contingency, to address any social problem, to right any wrong, to relieve any pain. Progressives did not like the antiquated thinking that saw the Constitution as a barrier to government expansion. The "living Constitution" was born. That benign-sounding phrase (coined later) was conjured up to justify changing the Constitution, without formal amendment, from a limit on power to a blank check. What was impermissible to the federal government by an earlier interpretation became permissible once the Constitution

was construed as an evolving document. But by that philosophy, the Constitution is no limit on government power at all. A constitutional government that defines its own powers is a contradiction in terms.

The early advocates of big government in America were offended that entrepreneurs were amassing fortunes in the industrial revolution. They were offended by income disparities. They were offended by newfangled factories. They were offended by the poverty that had always existed but which the new prosperity now made more conspicuous. They failed to realize that free-market capitalism did not create poverty and was steadily reducing it. They looked at the remains of the older, precapitalist world and assumed it was the fault of economic freedom and property rights. Thus, they wanted the Constitution to accommodate their aspirations to restrict, if not do away with, economic freedom and private property.

Many of the people prospering under capitalism also wanted a new role for the state. Finding the competitive, profit-and-loss system too uncertain, businessmen often turned to government for protection from foreign and domestic competitors. Taxes, subsidies, and regulations often were intended to help one group against others. Few people, it turned out, were willing to take their chances with freedom and free enterprise. They felt more comfortable with a little insurance from the government.

But for the government to play the role of economic and social insurer, it must get into the wealth-transfer racket. Increasingly, government took wealth from producers and gave it to nonproducers because it had no resources of its own. Although from the beginning the federal

government engaged in some transfer activities (the tariff primarily), the Progressives helped turn it into a veritable transfer machine. The machine became a monster thanks to two world wars, the New Deal, and the Cold War. While taxation for the purpose of defense and internal improvements appeared to be for the general welfare (though that spending was rife with transfers also), more and more of what government did looked as though it was intended to help particular interests at the general population's expense in order to win political support.

Eventually it became accepted by almost everyone that the government was there to provide "services." Today there is no shame in seeking favors that others must pay for. Gone are the days when congressmen could vote against appropriations to relieve some hardship on grounds that the Constitution does not authorize charity. It is hard to know whether the people seeking government favors ever admit to themselves that the money first has to be taken from others before it can be given to them. Perhaps they rationalize by thinking that the money belongs to everyone. Or maybe they think that if they don't take the money someone else will. However they explain it, the moral compunction against asking the state to steal from one's neighbor gradually weakened and disappeared. The unwritten moral constitution of the people, without which a written constitution is virtually worthless, has taken a dramatic turn from the days of the nation's founding.

A Right to the Loot

Today it is not unusual to hear retired people say they have a right to Social Security benefits even if they know they receive more than they

paid while working. It is a rare business owner who objects on principle to protective tariffs or subsidies. How many middle-class parents object to government college loans for their children? Getting something apparently for nothing has become acceptable, even shrewd. Of course, it is not “for nothing,” since, as Frederic Bastiat put it, everyone tries to live at everyone else’s expense. People see the favors they get, but they don’t compare them to what it costs to provide favors to other.

The irony is that even people who claim to support limits on government power play the transfer game. The late libertarian teacher Robert LeFevre used to ask conservative businessmen to list the government activities they liked. These people, who claimed to favor limited government, would each write a short list of programs. The lists would differ, though; so when they were consolidated, the result was a government that had its hands in many areas of the economy. The point of LeFevre’s exercise was that the political process can produce big government even when self-styled limited-government advocates are calling the shots.

Observe the transfer state in action. Social Security imposes taxes on working people and hands the money to retired people. Medicare does almost the same thing, except the money goes to doctors and hospitals. Agricultural programs take money from taxpayers and consumers and give it to farmers for not growing or for growing particular crops. Welfare programs give the taxpayers’ money to people who do not work. Subsidies reward well-connected business people with the hard-earned money of the middle class and working class. Foreign aid indirectly subsidizes particular American businesses by giving tax money

to foreign governments that will buy American products and services. Government cultural agencies transfer wealth to artists, musicians, broadcasters, and humanities scholars. The education bureaucracy subsidizes trendy social experiments on children. The defense bureaucracy floods contractors with cash for equipment that is not needed and for missions that are improper. The list goes on and on.

In each case, people seeking re-election and aspiring to prestigious “public” careers extract wealth from the general population to finance their schemes and benefit those with the time and resources to gain influence. The textbook model of democratic government responsive to the people is not found in the real world. Rather, government is a vast auction hall (to use Mencken’s metaphor) in which people enter bids for access to politicians and the vast booty collected by the tax system.

Can that ever be reversed? It won’t be easy. Several things stand in the way. As mentioned, the state has engaged in its transfer activities so long that most people don’t think of it as expropriation any longer. The few bones thrown its way (such as student loans) keeps the unorganized middle class from raising a fuss, although if people paid attention they would see that the system costs them more than they get back in subsidies. In case an average citizen decides to look more closely, the government has made it difficult to learn what it is really up to. It engages in deception and obfuscation to shroud the plunder. Try reading a typical piece of legislation some time. Chances are you will give up after a couple of paragraphs. It is not meant to be accessible to lay people. The same goes for the budgets written by the president and the Congress, and the regulations churned out by

the regulatory mill. Whether by design or by accident, the process of government has become so esoteric that it encourages what economists call “rational ignorance.” By making it expensive to become an informed citizen, the policymakers ensure that fewer people will find it worthwhile to learn what is really going on—and to perhaps rock the boat. Complexity breeds apathy. Apathy breeds incumbency. Thus the “ins” perpetuate their rule at the expense of nearly everyone else.

Thomas Jefferson understood that. It was he who said that the price of liberty is eternal vigilance and that the natural tendency is for government to grow and liberty to yield. The second statement implies a lack of confidence that the people can be counted on to exercise eternal vigilance. Liberty after a while is taken for granted. People understandably turn to such concerns as making a living and raising families. They leave the hen house to the foxes. It is a perverse form of the division of labor.

The Unwritten Constitution

The written Constitution was never enough to stop the growth of government. Constitutions are always interpreted by officers of the state, who usually have an interest in weakening any limits. The paper document must be buttressed by an unwritten constitution in the hearts and minds of the people. That is what provides the ultimate limits on the state. When that constitution is weak and deferential to power, the state grows. When it is jealous of liberty, as Jefferson hoped, government is held in check. The tragic story of America lies in the weakening of the people’s unwritten constitution and the resultant growth of government power. Author Joseph Sobran illustrates this

by noting that for many years presidents used their inaugural speeches to assure the public that they understood and would respect the limits on the federal government set by the Constitution. That's how deeply the people cared about those limits. But for decades we have heard little from presidents and other leaders about constitutional limits. It's now a quaint notion. Only once in the past sixty years has the U.S. Supreme Court ruled that Congress overstepped its constitutional bounds set by the Commerce Clause, for example.

Can the unwritten constitution be revived? If it is possible at all, it will be accomplished only through a libertarian moral revival. People will have to become excited about liberty once more. Fourth of July lip service to freedom will not be enough. What is needed is the orneriness about intrusions on their liberty that the colonists and first Americans exhibited. When the residents of the colonies got mad at the Crown's stamp and tea taxes, they were showing a sensitivity to taxes that has not been seen in the United States for a long time. A libertarian moral revival would include that kind of high sensitivity to any talk about higher or new taxes. It would also prompt opposition to welfare-state programs, economic regulation, violations of civil liberties, and intervention in foreign conflict, on grounds that those all diminish freedom. The revival would see the megastate as the major threat in the world today.

In sum, when people come to understand what liberty truly means, and when they value it as much as they say they do, they will be far less tolerant of government. They will be appalled at a political process that takes their money and gives it to their fellow citizens, with the politicians and bureaucrats taking a hefty cut in the process. They

will be outraged at a tax system that treats them like milch cows.

People must again believe that liberty is a necessity, not a luxury. Why is liberty important? Political liberty is the absence of aggressive physical force (and fraud). It is the condition in which people control their persons and their legitimate possessions without physical interference by others. Liberty is important because people need it to live as human beings. The human way of life requires thinking, planning, and the production of values for consumption or exchange. If people are to be able fully to engage in those activities, they need an environment in which their rights to life, liberty, and property are respected. The threat to those rights from common criminals is an ever-present danger. But it cannot compare with the threat that government has posed to mankind, especially in the twentieth century.

There are some hopeful signs. A few years ago 39 percent of Americans polled by the Gallup organization said that the federal government was an “immediate threat” to their liberty. Fifty-two percent endorsed the sentiment when the word “immediate” was removed. Libertarian ideas are discussed more prominently in the news media than they have been in decades. Indeed, the word “libertarian” has entered the mainstream political lexicon.

A Libertarian Crusade

What will turn this modest start into a full-fledged libertarian crusade? No one can say for sure, but it will certainly require a multipronged effort. It will no doubt include economic analysis of how much wealth the government drains from people’s pockets via taxation and regulation. But

that won't be enough. It will also require a moral appeal declaring that violations of liberty do not merely take points off the gross domestic product but also make society less human and humane. The heroic men who launched the American Revolution understood the power of such an appeal. We see in their example how the moral case for freedom could bring about American independence from what was the world's most powerful empire. That was a phenomenal achievement and a tribute to the power of an idea. If a moral crusade for liberty could succeed once, it can succeed again.

The crusade has to start somewhere. What better opening target than the income tax? It combines the most egregious features of government power: theft, intimidation, violation of privacy, and arbitrariness. It is the perfect device for teaching people about the threat of power. According to the Tax Foundation, the biggest tax burden that the American people face is the tax on earnings. At the median income, a two-earner couple works eighty-seven days a year to pay their federal income and payroll taxes. Ironically, because of the structure of the income tax, that burden increases when the economy grows and falls when the economy slows. Americans are punished for being productive. (All taxes at all levels required the average American to work 128 days in 1996.) Besides the financial burden, Americans must also endure the threat of an inquisition by the tax authorities if they are singled out for investigation.

Abolition vs. Reform

A campaign against the Sixteenth Amendment, the income tax, and the Internal Revenue Service would be doubly valuable. It would move us to-

ward the explicit goal of abolition, and it would prepare people for the campaigns to follow against other forms of tyranny. The income tax cannot be reformed, because taxation of income has no place in a free society. It calls into being a multitude of evils that should offend anyone who values liberty. It has parallels with the slavery that once blotted America. The parallels extend even to the proposals for opposition. Some opponents of slavery called for gradual emancipation because they thought immediate freedom for slaves would harm them and disrupt the economy of the South. Some even suggested that slave owners be compensated for their “losses.”

Similarly, some opponents of the income tax wish to modify the system by going to a flat rate and other forms of simplification, such as elimination of deductions. Whether such reform is intended as an end in itself or as a gradual step toward abolition of the income tax, the flat tax is a bad idea. Flat-tax advocates are willing to trade tax deductions for a lower single rate, ignoring that rates can be added and raised in the future. More important, the flat tax affirms the principle of income taxation and keeps the IRS in place. But it is the very principle of income taxation that permits most of the evils. We must cut the poisonous vine out at the root. Trimming the leaves is not enough.

In the debate over slavery, the abolitionists represented by William Lloyd Garrison declared that “gradualism in theory is perpetuity in practice.” They knew that the political process could reverse reforms at any time. Small steps won’t get us where we want to go. They can be co-opted by the defenders of the status quo, and they give the people too little stake in a drawn-out reform pro-

cess. Abolition of the income tax, on the other hand, is something people can rally around because the benefits are palpable. The shining vision of a future free of income taxation is something that can energize people for the long struggle.

Thus we should apply Garrison's principle to the fight against the income tax. We must call for nothing less—and settle for nothing less—than the end of the Sixteenth Amendment, all taxation of income, and the IRS. That is the indispensable step on the road to freedom.

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