Written by Michael Tennant on February 1, 2013

A Century of Income Taxation: Vastly More Revenue, Even Vaster Debt

On February 3, 1913 — just a few days shy of 100 years ago — the 16th Amendment to the U.S. Constitution was ratified, enabling Congress to impose a graduated income tax on Americans. Since that time, reports CNSNews.com, federal revenues have grown by an astounding 267,869 percent, in large measure as a result of this revenue stream.

CNSNews.com's parent organization, the Media Research Center, asked Pete Sepp, executive vice president of the National Taxpayers Union, to calculate how much federal revenue had increased in the era of the income tax. "He found that the U.S. government estimates it collected $921 million in direct revenues for tax year 1912, compared to the $2.468 trillion it collected in 2012," the website writes. "That outlandish increase would be even bigger if you take out postal receipts, which accounted for about $250-$275 million for 1912."

Of course, the dollar was far more valuable in 1912 than it is today. In terms of 2012 dollars, the federal government took in just $21.4 billion in 1912, making the increase in revenue over the last century 11,533 percent in real terms — still an almost unfathomable amount.

Not all of this revenue is derived from the income tax. The Internal Revenue Service brings in about 59 percent of all federal receipts. Approximately four-fifths of that comes from the individual income tax, with the remainder coming from the corporate income tax. All but a small fraction of the remaining revenue is derived from social insurance (e.g., Social Security, Medicare) taxes, most of which are similar to the income tax in that they are based on earnings and are withheld from individuals' paychecks. In fact, without the constitutional amendment that made the income tax possible, these taxes — and their method of collection — could not exist.

Americans' first taste of income taxation occurred during the War Between the States. The tax was modified in the immediate postwar period and was finally allowed to expire in 1872.

Tariff revenues then became the federal government's primary revenue source, but the tariff brought in far more than was necessary because it was not being used purely as a revenue-raising measure. "The reason the tariff was so high was, ostensibly, to protect America's burgeoning industries from foreign competition," John Steele Gordon wrote in the *Wall Street Journal*.

> Of course, the owners of those burgeoning industries — i.e., the rich — were greatly helped by the protection, which enabled them to charge higher prices and make greater profits than if they had had to face unbridled foreign competition.

But the tariff is a consumption tax, which is simply added to the price of the goods sold. And consumption taxes are inherently regressive. The poor, by definition, must spend all of their income on necessities and thus pay consumption taxes on all of their income. The rich, while living in luxury, bank most of their income and largely escape these types of taxes.

This naturally caused some resentment among the poor and middle classes, who viewed the tariff as a means to further enrich a few wealthy individuals at the expense of the masses.

Politicians, knowing that the masses voted, felt compelled to respond to their concerns. As usual, however, the politicos' solution to a problem they had created was not to reform or repeal the law that had caused the problem but to pile on a new one. Thus, in 1894, a new income tax aimed directly at the very rich — fewer than one percent of households at the time would have been subject to it — was enacted. The Supreme Court found it unconstitutional because it was a direct tax, that is, one not apportioned among the states by population, "something obviously impossible with an income tax," noted Gordon.

"The income tax was dead," he observed. "But the pressure to tax the incomes of the largely untaxed rich only increased, especially as the Progressive wing of the Republican Party grew in strength under Theodore Roosevelt. By the time of the administration of President William Howard Taft (1909-13) the pressure was becoming overwhelming."

Taft proposed what became the 16th Amendment. He also signed into law a corporate income tax (considered constitutional because it was an excise tax), which Gordon pointed out was "originally intended only as a stopgap measure" until the personal income tax could be enacted. But like most such supposedly temporary measures, it was never repealed, producing the current situation in which corporate earnings are taxed twice, once when earned by the corporation and again when distributed to its stockholders.

Then, in 1913, the 16th Amendment was ratified, and the floodgates of revenue were opened. The initial tax rates were modest — the highest rate was seven percent — and applied only to the wealthy. Over time the tax was imposed on Americans of increasingly modest incomes, tax rates went up, the tax code became devilishly complex, and withholding — another of those "temporary" measures that became permanent — was introduced. This provided Uncle Sam with a seemingly limitless source of new funds.

Politicians, naturally, were quick to seize the opportunity to lavish this newfound wealth on their campaign contributors and constituents. Then, with the aid of deficit spending and that other creature of 1913, the Federal Reserve, they spent even more. Today Washington [burns through](#) more cash in two days than the government took in for all of 1912 (in constant dollars). And despite taking in over 115 times as much in taxes (again, in constant dollars), it runs deficits of $1 trillion and has tens of trillions of dollars' worth of unfunded liabilities. Then politicians have the nerve to tell us that we need to pay more taxes, not slash spending.

"Pick whatever measurement you choose from government statistics, but the conclusion is inescapable. The early 20th century marked the beginning of the federal government's massive fiscal expansion, and the income tax itself played a key role in that expansion," Sepp told CNSNews.com.

"Through the income tax and, later, withholding from citizens' paychecks, Washington at last had the infrastructure that gave it a much longer reach into the economy and into American’s [sic] daily financial lives. How many of us think we as a nation are better off as a result?”