

The Political Forum

*A review of social and political trends and events
impacting the world's financial markets*

Mark L. Melcher
Publisher
melcher@thepoliticalforum.com

Stephen R. Soukup
Senior Editor
soukup@thepoliticalforum.com

Monday, January 25, 2009

THEY SAID IT

Size is not grandeur, and territory does not make a nation. The great issue, about which hangs a true sublimity, and the terror of overhanging fate is, What are you going to do with all these things? You are making a novel experiment in politics on the greatest scale, which the world has yet seen. Forty millions at your first centenary, it is reasonably to be expected that at the second these states will be occupied by two hundred millions of English-speaking people, spread over an area as large as that of Europe, and with climates and interests as diverse as those of Spain and Scandinavia, England and Russia. You and your descendants have to ascertain whether this great mass will hold together under the form of a republic and the despotic reality of universal suffrage; whether state rights will hold out against centralization, without separation; whether centralization will get the better, without actual or disguised monarchy; whether shifting corruption is better than a permanent bureaucracy; and as population thickens in your great cities, and the pressure of want is felt, the gaunt specter of pauperism will stalk among you, and communism and socialism will claim to be heard. Truly America has a great future before her, great in toil, in care, in responsibility; great in true glory if she be guided in wisdom and righteousness; great in shame if she fail. I cannot understand why other nations should envy you or be blind to the fact that it is for the highest interest of mankind that you should succeed; but, the one condition of success, your sole safeguard, is the moral worth and intellectual clearness of the individual citizen.

Thomas Huxley, Speech at the dedication exercises of Johns Hopkins University,
September 12, 1876.

THE WASTE LAND. Someday someone will write a book about him. A dark, inverted Horatio Alger-like story. Seedy guy, corrupt to the marrow, disheveled, unhealthy looking, big gut covered by a wrinkled shirt and cheap tie. But smart, and ambitious. At the risk of mixing metaphors here, we would describe him as a New England version of Faulkner's antihero Flem Snopes. Started out running a homosexual whorehouse out of his home on Capitol Hill in Washington D.C. and eventually became Chairman of the First National Bank of the United States, after the nationalization that he personally set in motion by destroying Freddie Mac and Fanny May. Eventually even got a hot dog named for him at Fenway Park. The Barney Frank.

Subscriptions to The Political Forum are available by contacting:
The Political Forum

8563 Senedo Rd., Mt. Jackson, Virginia 22842
Tel 540-477-9762, Fax 540-477-3359, Email melcher@thepoliticalforum.com,
or visit us at www.thepoliticalforum.com

Turbo Tax Ted (to borrow a line from our friend Ed Yardeni), won't merit a book all by himself, but he will surely be mentioned by historians as a sign of the times, a guy who made a few "careless" mistakes on his taxes – like claiming the cost of his kids' summer camp as a day care credit -- and was put in charge not only of the IRS but the nation's entire Treasury as well. And then there's Miss Hillary, whose most famous, and possibly only encounter with diplomacy was when she threw a lamp at her priapic husband. She will be the head diplomat of the "world's last remaining super power" during what will surely be one of the most dangerous times in its history. Of course, there is also "Pardon Me" Holder, Bill Clinton's water boy at the Justice Department during his years of shame at the White House. Holder will now be the chief law enforcement officer of the land.

You know you can't make this stuff up. And while a few individuals, with a sense of the absurd, will get a sardonic laugh out of it, the American people will not, because the nation is strangely without a figure who can convey the farcical nature of it all, a satirist in the mold of Aristophanes, Rabelais, Erasmus, Dryden, Pope, Swift, Twain, Will Rogers, Bill Nye, C line, Orwell, Waugh, Wyndam Lewis, or even Lenny Bruce. Here we are in this strange time in American history, so full of examples of human folly and vice, such a rich mother lode of topics deserving of ridicule, derision, and burlesque, and there is no one around to take literary advantage of it, to help us to understand it, to get through it, maybe even with laugh once in a while between the tears.

And why is there no such person? Because the times are unfit for satire, that's why. Because there is no longer a widely recognized moral code against which anyone can produce true satire. Referencing Wyndam Lewis's autobiography *Rude Assignment*, Russell Kirk put it this way: "If no values exist, then follies and crimes are not follies and crimes at all, but merely phenomena of meaningless life; and no one will appreciate satire because no one will believe that the satirist attacks anything of importance."

We have reached the time when exceptionality is no longer expected or demanded of our political leaders. Reminds one of the old phrase "good enough for the kind of girls I go out with." And wouldn't you know it, there's no one around to help the nation appreciate the irony of this long trek toward moral and social mediocrity by a nation that once prided itself, in the words of President Reagan, as "a beacon light that guides freedom-loving people everywhere."

And bats with baby faces in the violet light
Whistled, and beat their wings
And crawled head downward down a blackened wall
And upside down in air were towers
Tolling reminiscent bells, that kept the hours
And voices singing out of empty cisterns and exhausted wells.

THE TAX MAN COMETH. * This week we thought we would say a few words about the history of taxation in America and, in doing so, explore the question of what a loyal citizen owes his country in the form of financial support and what his country owes to him or her in return. There are, of course, no "right" answers to either of these questions. But we thought it might be useful to explore the topic in light of three upcoming probabilities.

The first is that the cost of government is going to grow by staggering amounts in coming years, which will result in greatly increased demands by the government on the earnings and assets of its citizens. The second, as we've mentioned quite often in these pages, is that the federal government is likely to become progressively more corrupt in response to the huge amounts of newly printed money that will be floating around and, as we noted above, a concomitant and increasingly noticeable decline in public expectations of rectitude among government officials. The third is that this highly explosive combination is likely to lead to an increase in tax cheating. Why just this week a fellow named Ted Geithner . . . oh, you already know that.

Why is this important? Because, if we are correct, it will slowly bring the nation ever closer to full banana republic status, to a time when the practice of patriotism as a virtue will be passé because corruption will, to borrow a thought from Alasdair MacIntyre, have severed the tie between love of country and obedience to its government.

To be more specific, it will bring us closer to the day when your faithful, earmarked and heavily highlighted Graham & Dodd will be as useless and out of date as your old shade-tree mechanic's guide to changing the points and plugs on your flathead V-8.

Or, from yet another perspective, it will provide the answer to the questions raised by Huxley in the "They Said It" section above: that is, whether this great mass will hold together under the form of a republic and the despotic reality of universal suffrage; whether state rights will hold out against centralization, without separation; whether centralization will get the better, without actual or disguised monarchy; whether shifting corruption is better than a permanent bureaucracy; and whether communism and socialism will "claim to be heard," as the population thickens and the pressure of want is felt and the gaunt specter of pauperism stalks the land.

After all, given that the issue of tax fairness was central to the creation of the United States and has played a major part in its history throughout its existence, it would make sense that this would be the issue upon which the nation's future as a great power will eventually rest.

In the beginning, there was the Boston Tea Party in 1773, which not only set the stage for the American Revolution but also sent the first strong signal to the entire world that Americans take seriously John Locke's contention that the foundation of individual freedom is that no one has a right to take another man's property without his consent. Lincoln stated this idea this way:

Property is the fruit of labor...property is desirable...is a positive good in the world. That some should be rich shows that others may become rich, and hence is just encouragement to industry and enterprise. Let not him who is houseless pull down the house of another; but let him labor diligently and build one for himself, thus by example assuring that his own shall be safe from violence when built.

It quickly became clear after the revolution that Americans expected that those who replaced the British as their political leaders would clearly understand the message that was delivered on that fateful night when the British tea was dumped into Boston harbor. To drive this point home, in 1786 a group of farmers in Massachusetts led what became known as Shay's Rebellion, which was named after its leader, Daniel Shays, a former Captain in the American Revolutionary Army. The principal demand of the rebels was lower property taxes.

This “rebellion” was actually little more than a local riot. But it had a profound impact on the future of the young nation, because it sent a strong signal to the rest of the states that they had better stop squabbling among themselves, get together, and do something about the Articles of Confederation, which everyone understood were not working well, largely due to the fact that they provided no taxing authority to the federal establishment.

Thus it can, we think, be accurately stated that not only did a tax revolt set the stage for the American Revolution, but another tax revolt provided the impetus for the gathering in Philadelphia in that hot summer of 1787 when America’s founders wrote the Constitution of the United States.

Popular culture tends to emphasize that the most important topic of discussion regarding the formation of the Constitution was the trade off between freedom and order. Now it is certainly true that this was a key issue in the deliberations. But the issue that was, without question, the most contentious and the most important to the success of the entire venture was the one dealing with taxes, because everyone in the room knew that if they didn’t get this right, nothing else would matter.

In fact, we think it is fair to say that the principal reason that the founders chose not to try to simply rewrite the Articles of Confederation was that these Articles not only provided no authority to tax, but also did not contain the mechanisms necessary to assure that taxation would be fair and just should taxing authority be added as a simple addendum to the document.

It is thus important to note that when the dust settled in Philadelphia, not only did Americans have a new constitution, but they also had been granted the legal right to a federal tax policy that was “uniform throughout the United States.” This quaint phrase can still be found in the Constitution, although it is, unfortunately, as much an artifact of another time as is the North Bridge at Concord or George Washington’s house at Mount Vernon.

There was considerable subsequent debate on what exactly the phrase “uniform throughout the United States” was intended to mean. But it was generally agreed that it meant that all Americans would be taxed the same; that no citizen or group of citizens would pay greater taxes than any other citizen or group of citizens.

In fact, in Federalist Paper No. 36, Hamilton argued this phrase adequately guarded against the possible abuse of the power of taxation, and he capitalized the word UNIFORM in the essay in order to drive home the importance of this word.

These were brilliant men and they understood that federal taxation absolutely required not only the consent of the public, but ironclad assurances that majority groups would not unite to impose higher taxes on minority groups than they themselves were required to pay. Thus, farmers, even though they were in the majority, could not unite to impose the bulk of the tax burden on city folk, and vice versa. Needless to say, the idea of an income tax under which “the rich” would be required to pay a higher percentage of their income than “the poor” would have been considered ludicrously unconstitutional at the time.

By 1790, Rhode Island became the 13th state to ratify the new constitution, and the United States of America became a reality. The celebration of this marvelous event was hardly over when the “uniformity” provision in the Constitution was challenged by a proposal advanced by Secretary of the Treasury Alexander Hamilton for a 25% excise tax on whiskey, which happened to fall exclusively on the farmers of Western Pennsylvania, for whom whiskey was the principle form of currency. You see, these farmers did not have the means to transport the rye they grew across the mountains to Philadelphia, so they converted it to whiskey. Needless to say, this tax made these farmers unhappy, and in 1794 another historically significant tax revolt broke out, one appropriately called in the history books, the Whiskey Rebellion.

This rebellion was eventually put down by a federal militia ordered into action by President Washington. Thus, most popular histories maintain that the principal significance of the event was that it provided the first real test of the federal government’s prerogatives and law enforcement power. We would argue that what was more significant was the fact that another courageous group of Americans stood up for their rights against unjust, and need we say it, unconstitutional, taxation.

A short time later, in 1798, President John Adams persuaded Congress to levy its first direct tax on American citizens in the form of a tax on land, houses, and slaves. This tax, which was to raise \$2 million, was “apportioned among the several states” as provided by the Constitution. But once again the citizens of Pennsylvania didn’t like the idea of being taxed, so they fought back. And once again, the federal government won the fight. This incident is called Fries Rebellion after its leader John Fries.

While this particular tax revolt was quickly quelled, it, like its predecessors, played an important roll in the nation’s history. By providing a focal point for public unhappiness over the tax policies of the federalists, it helped solidify support for Thomas Jefferson’s bid for the presidency and led directly to the dissolution of the Federalist Party.

And now we come to the most controversial tax revolt in the history of the United States. Indeed, it is controversial just to call it a tax revolt. We are referring, in case you might not have guessed by now, to the Civil War.

Now we are well aware that slavery was ultimately the issue of prime importance in this conflict. But it cannot be denied that part of the impetus for the South to fire upon the North at Ft. Sumter was anger over the fact that northern commercial and manufacturing interests had forced through Congress import taxes that were strangling the South. John Calhoun put it this way in a message he sent to Congress from his deathbed in response to a speech by Daniel Webster on preserving the Union.

The North has adopted a system of revenue and disbursement, in which an undue proportion of the burden of taxation has been imposed on the South, and an undue proportion of its proceeds appropriate to the North . . . The South as the great exporting portion of the Union has in reality paid vastly more than her due proportion of the revenue.

We all know the outcome of this particular tax revolt. And from a social and moral viewpoint, we would, of course, argue that the right side won. But unlike prior tax revolts, which sent what we believe were useful messages to the politicians running the show at the time, this one had dire consequences for the prospects for freedom from unfair taxation.

You see, this extremely costly war prompted Congress to enact a graduated income tax in 1862. And while this tax was suspended by President Grant seven years after the war ended, it was just a matter time, once the idea of a such a tax had been tried as a short-term measure, before it became a long-term reality.

Congress made its first attempt in 1894, during the administration of Grover Cleveland, the first Democrat elected to the White House after the Civil War. But the Supreme Court ruled it unconstitutional the very next year in the famous case *Pollock V. Farmers Loan & Trust Co.* The formal decision was made on technical grounds, but the true objection was that a graduated tax violated the “uniformity” requirement of the constitution by exempting some citizens from the tax altogether and by taxing some at higher levels than others.

Reflecting the views and concerns of the founding fathers, Justice Field, writing for the majority, argued that “every citizen should contribute his proportion, however small the sum, to the support of the government, and it is no kindness to urge any of our citizens to escape this obligation.”

This, of course, did not put the matter to rest, but simply stirred the populist tax advocates to greater frenzy, and in 1913, in the final days of the Taft administration, the 16th amendment to the Constitution was ratified, an amendment which formally put to rest the Constitution’s “uniformity” requirement on which the founding fathers had placed so much faith.

No longer did the government need to be “uniform” in its taxation, or even fair. Indeed, from that point on the majority ruled when it came to taxation. In case you haven’t read it lately it goes as follows.

The 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 of enumeration.

And today, just four years short of a century since that fateful day when Taft’s Attorney General Philander Knox quietly (and some insist, to this day, fraudulently) signed the 16th Amendment into law a few days before Taft left office, the nation finds itself with a president who has pledged to lead an aggressive new effort to make the federal tax system even more progressive, in violation not only of the good sense of the founding fathers and sound economic policy, but, risking the social stability of the nation as well.

We are by no means predicting a rebellion of the kind catalogued above. But we have no doubt that social tensions will increase dramatically if the federal government makes unfair and disproportionate demands on the income and resources of those citizens who work and save and invest and live within their means, especially if it attempts to gain leverage over these people by the use of class war arguments, attacking them as being greedy and “having too much.”

In short, if the Democratic majority doesn't fairly deal with the inevitable and huge upcoming increases in government demands on the public's income and assets, we may see a political battle over the "fairness" of the tax laws *that will replace the recent cultural wars as the most dangerous fault line in American society.*

At this point, many Americans will be confronted with the terrible choice that their forefathers faced when they had to decide after April 19, 1775, when the shot was fired that was heard round the world, whether they are traitors or patriots if they refuse to pay taxes to government that they feel is acting unjustly. And what a terrible shame that would be.

* We are in debt for much of the historical presentation in this article to a speech entitled "Tax Revolts, An American Tradition," given at Hillsdale College several years ago by our good friend, former Secretary of State of Ohio, Ken Blackwell. Ken is currently Vice Chairman of the Republican National Committee's Platform Committee and The Political Forum's choice among a great many fine candidates for the chairmanship of the Republican National Committee.

THE POLITICAL FORUM

Copyright 2009. The Political Forum. 8563 Senedo Road, Mt. Jackson, Virginia 22842, tel. 540-477-9762, fax 540-477-3359. All rights reserved. Information contained herein is based on data obtained from recognized services, issuer reports or communications, or other sources believed to be reliable. However, such information has not been verified by us, and we do not make any representations as to its accuracy or completeness, and we are not responsible for typographical errors. Any statements nonfactual in nature constitute only current opinions which are subject to change without notice.