

# Exhibit 14

## THE RATIFICATION OF THE FEDERAL INCOME TAX AMENDMENT

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The ratification of the federal income tax amendment was the product of two contemporaneous and interrelated movements that swept the United States during the first two decades of the twentieth century. The first was what Clifton K. Yearley has styled the "revolution in taxation"—the drive at all levels of government to create a tax system that was more predictable, productive, and equitable than was the existing complex of property levies, excise taxes, and tariffs.<sup>1</sup> The primary goal of this revolution was to reach the wealth engendered by the rapid and large-scale industrialization of the late nineteenth century. It aimed to create a system of taxation based on two guiding principles: (1) "the ability to pay" and (2) "from whatever source derived." The former meant that taxes should fall heaviest on those best able to bear them; the latter, that income from stocks, bonds, and dividends ought to be taxed at least as heavily as that from salaries and wages. Generally this was translated into progressive income and inheritance taxes, which fell almost exclusively upon those in the upper income brackets. There can be little doubt that the task of ratifying the amendment was greatly eased because of the understanding that any tax levied under its authority would fall only upon the wealthiest 3 percent to 5 percent of the population; the claim that "only the rich will pay" was heard in state legislatures across the land.

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<sup>1</sup>Clifton K. Yearley, *The Money Machines* (Albany: State University of New York Press, 1970).

In addition to the disabilities posed by disfranchisement and factionalism, the amendment was also vulnerable to appeals based upon cherished southern beliefs. Most frequently, it faced the objection that an income tax would violate states' rights, by augmenting federal power and by allowing federal tax collectors to ravage the South. An Arkansas senator typically objected to having his business pried into by a "snippy little deputy U.S. marshal." Several southern lawmakers coupled this theme with Hughes's contention concerning state and municipal bonds. The speaker of the Florida house, even though he favored ratification, moved to have the resultant revenues returned to their states of origin. The states' rights argument was raised in almost every southern legislature; it was the most frequently voiced reason for opposing the amendment. Proponents of the measure often charged that such appeals were blinds for special interests, as did the *Birmingham Age-Herald* when it insisted that opponents of ratification, though using the states' rights argument "for all it is worth," were in reality mere "lobbyists." Most, however, acknowledged the sincerity of the concern, seeking to prove that a federal income tax would not seriously impair state sovereignty.<sup>59</sup>

Closely tied to the states' rights issue were appeals to the "Lost Cause." Some legislators were Confederate veterans who objected to the amendment as a plot by the Grand Army of the Republic to gain additional benefits for Union veterans. Most opponents of the amendment, though, simply styled it a northern plot to complete the destruction begun by the Civil War and Reconstruction, linking it with the infamous Thirteenth, Fourteenth, and Fifteenth Amendments. The classic statement was made by Richard Byrd in the Virginia House of Delegates:

A hand from Washington will be stretched out and placed upon every man's business; the eye of the federal inspector will be in every man's counting house. – The law will of necessity have inquisitorial features, it will provide penalties, it will create complicated machinery. Under it men will be hailed into courts distant from their homes. Heavy fines imposed by distant and unfamiliar tribunals will constantly menace the taxpayer. An army of federal inspectors, spies and detectives will descend upon the state. – Who of us who have had knowledge of the doing of the federal officials in the Internal Revenue Service can be blind to what will

<sup>59</sup>*Birmingham Age-Herald*, August 8, 1909; *Arkansas Gazette*, March 8, April 6, 12, 23, 1911; *Louisiana, Senate Journal*, 1910, pp. 167–69; *Jackson Daily News*, January 27, February 8, 1910; *Atlanta Constitution*, July 7, 8, 11, 12, 13, 24, 1910; *Florida, House Journal*, 1911, pp. 15–16.