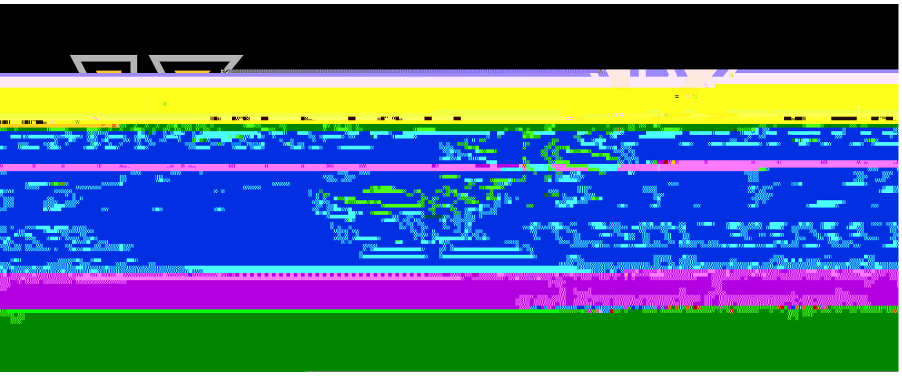

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Title:

"Three Big Myths about the Inco
Tax"

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would buy cheaper American clothing and avoid the tax. That, as Hamilton concluded, was "a complete barrier against any material oppression" and a "natural limitation" on government. Consumption taxes, then, were a paradox. You could do two seemingly contradictory things: Raise revenue and protect liberty as well.

Under the current income tax system, liberty is always precarious. We do not choose what taxes we pay by what we consume; politicians choose what taxes we pay depending on political conditions at the moment.

Third, the rich ought to pay proportionately much more income tax than everyone else.

Wrong again. The top 10 percent of income earners currently pay more than two-thirds of all federal income taxes collected. The progressive income tax already may be stifling American entrepreneurship and innovation. Furthermore, when taxes on income are excessive, rich people stop inventing and start looking for tax shelters, loopholes, foreign investments, and other ways to protect their wealth from confiscation. When they succeed, the whole economy suffers. The 14th amendment promises equal protection of the laws to all citizens, and if we discriminate against the rich, the door is open to pass laws discriminating against blacks, women, and old people.

The top rate of the original 1913 income tax was 7 percent; most people were exempt from paying any income tax. In the 1930s, however, during the Great Depression, President Franklin Roosevelt began taxing the rich at rates of 80, 90, and 94 percent on all income over $200,000. Not surprisingly, entrepreneurship slowed down and the Great Depression persisted. World War II reshaped the problem by enlarging the national debt to pay for military services needed to win the war. When the dust settled, rich people were using tax shelters to avoid the high taxes, and middle-class and poor Americans found themselves shouldering the bulk of income tax payments for the first time in US history. Cutting the 94 percent income tax rate on the rich after World War II opened up the country again for investment, and the US again began leading the world in innovations from fast food to Holiday Inns to Xerox copiers and into the computer age.

If the three myths described in this article can be widely recognized, America can use the liberty and the increased capital (from a smaller income tax) to maintain its leadership in worldwide economic development.