

Behind the News

# 'Need' for Income Tax Reflected in U.S. History

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The federal personal income tax, as we know it today, had its beginnings in the early years of the War Between the States. Prior to that time the federal government relied upon the tariff as the chief means of financing the services it provided.

The War of 1812, with its incessant demands for money, did cause many in high places to advocate the use of such a tax. However, budgetary pressures abated relative to other considerations to such an extent that continued advocacy was not maintained.

The War Between the States, on the other hand, exerted such strong and continued budgetary pressures that in 1861 Congress passed a bill calling for the taxation of income. The constitutionality of the act was open to question. The Constitution requires that a direct tax be levied in such a way that the proportion of total revenue to be collected from the tax be apportioned among the states in accordance with each state's proportion of the total population.

### Direct or Indirect Tax?

Was the income tax a direct or an indirect tax? At the time, those in high places thought it was an indirect tax and thus not subject to the apportionment constraint. In 1880, eight years after the demise of the tax, the Supreme Court concurred in this opinion.

In its early years, the personal income tax was a progressive one. Progressivity reached its height in 1864 when the following rates were imposed:

| INCOME         | TAX RATE |
|----------------|----------|
| \$600-5,000    | 5%       |
| \$5,000-10,000 | 7.5%     |
| Above \$10,000 | 10%      |

At war's end, progression was abandoned and the tax became a proportional one — 5 per cent on income over \$1,000. In 1872 Congress failed to renew the tax.

During its lifetime, the tax was moderately successful as a source of revenue. The maximum yearly amount collected was \$73 million in 1866; over its lifetime it accounted for about \$376 million.

### 'Need' Seen for Equal Income

In 1894 a new attempt was made to impose income taxation. Motivation this time was not based so much upon the need for additional revenues as it was upon the "need" to equalize the distribution of income. To be sure, both "needs" were present, but the latter received the greatest weight in the minds of those who supported the measure.

The Wilson Tariff Bill, carrying the income tax as a rider, passed Congress with relative ease but was soon subjected to a test of constitutionality. After a very confusing session, the Supreme Court ruled 5-4 that the entire act was unconstitutional. The tax upon corporate income which was levied in 1909 was found to be an indirect tax and thus constitutional without apportionment in the test case of 1911.

It was also in 1909 that Congress passed the proposal for the 16th amendment to the Constitution. On Feb. 25, 1913, the 16th amendment officially became part of the law of the land and on Oct. 11, 1913, the Simmons Tariff Bill, carrying an income tax rider, became part of that same law.

Originally conceived as a means of redistributing income, the income tax has become the most important source of tax revenue. In fiscal year 1940-41, it accounted for 20 per cent of all tax revenues. This percentage has increased steadily over time so that by 1956-57 it accounted for 51 per cent of all tax revenues and in 1961-62 about 47 per cent of all tax revenues.

This tax, as we know it today, is a progressive one. That is, the higher one's income, the higher is the percentage of one's income devoted to the payment of taxes. The primary arguments used to defend this scheme are two in number: (1) the principle of ability to pay and (2) the belief that income ought to be distributed more equally than would be the case without progression.

It is interesting to note that progression is not justified in terms of other goals our society seems to value highly such as (1) the full utilization of resources, (2) an efficient allocation of resources, (3) a high rate of growth and (4) a relatively stable price level. In fact, people have argued that progressivity or a "high" degree of progressivity is inconsistent with at least one of the four goals just listed — the full utilization of resources.

### Disadvantages of Progressivity

A progressive tax or a "highly progressive tax," it is argued, adversely influences the incentive to work. That is, the after-tax increases in income expected from extra work are not sufficient to offset the loss of leisure.

Some studies have been made with respect to the incentive argument. The results have not been consistent. The incentive argument has been used by President Kennedy as a justification for the proposed reduction in the marginal tax rates applicable to the upper income brackets. These proposals, if carried out, would reduce the progressive nature of the tax. Such a reduction, however, is inconsistent with the desire to bring about a more equal distribution of income.

The main hope of President Kennedy and his advisers is not to bring about the full utilization of resources and a higher rate of growth through a reduction in the progressivity of the tax but rather through a reduction in the rates applicable to all income brackets.

### More Spending Encouraged

The consequent increase in disposable income, it is hoped, will encourage an increase in expenditures for consumer goods and an expansion of output in the consumer goods industries to be accomplished by an increase in the employment of labor services. It is further hoped that the initial reduction in tax revenues attributable to the decrease in all tax rates will, eventually, be offset by an increase in the number of people filing returns.

# Swedish Resolution Proposes South Africa End Apartheid

By MEL AXILBUND

Delegates to the Model United Nations Assembly have been asked to urge the Union of South Africa to abandon its "apartheid" policy.

The request is contained in a draft resolution prepared by the Swedish delegation for consideration by the model assembly's trusteeship committee. The committee will meet at 10 tonight in 302 Engineering A to begin consideration of the issue.

Apartheid is the practice of strict segregation and discrimination against the native Negroes and other colored peoples as practiced by the government of the Union of South Africa.

THE SWEDISH resolution also recommends that a plan for the development and eventual self-rule of South West Africa be adopted by the U.N.

On the agenda of the Special Political Committee on the question of Cuba, Mexico and the United Arab Republic which will meet at 10 tonight in the Hetzel Union Assembly hall, in separate resolutions each call for the Soviet Union to dismantle its offensive missile bases in that Caribbean hot spot.

The UAR resolution calls also on the United States to remove its "offensive bases" in Turkey and asks both eastern and western nuclear powers to remove the threat of holocaust by speedily resolving the crisis.

In the Mexican resolution, the U.S. is urged to cooperate in resolving the crisis "by ensuring that its resources will not be used

to promote civil war and/or invasion of Cuba."

In the final resolution released by the Secretariat, India and Poland recommend enactment of a United Nations Capital Development Fund "to extend financial aid to emergent nations."

The two states also suggest that U.N. member nations devote their foreign aid monies to the proposed fund.

The resolution grew out of a report released Sept. 27, 1961, which noted that less developed nations will continue to have a balance of trade deficit unless they can increase their earning capacity by manufacturing additional export goods.

Contributions to the proposed fund would be in the form of

four year pledges, unless the constitution of a nation required a shorter period.

Loans from the fund, which would be for a term of 50 years, could be repayed either in local or hard currency.

OTHER BUSINESS to be transacted this weekend includes selection of next year's Model U.N. officers.

At tonight's full session, a president, vice president and treasurer of the General Assembly will be nominated. Election is scheduled for Sunday.

The executive committee of the Model U.N. tonight will announce the names of the secretary-general and assistant secretary-general for next year.

## International Program Planned

World-wide songs and dances by natives of several countries will be demonstrated at a program sponsored by the Undergraduate Student Government's Committee for International Student Affairs at 8 p.m. tomorrow in the Hetzel Union ballroom.

The program is "molded into the scope of the Model United Nations" which will be held on campus this weekend. James Fetter, vice-president of the Cosmopolitan Club, said yesterday.

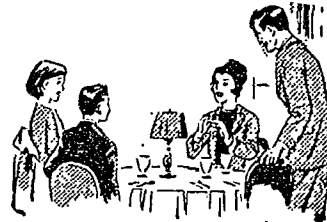
Korea, the Philippines, Latin America and England will share the spotlight for the international show. In addition, the Slavic Chorus will sing selections from

the several slavic countries in Europe.

The folk dancers from Interlandia, Schulplattlers and Hillel Israeli groups will each give a short exhibition of their dances.

The dancing groups will lead any interested members of the audience in an informal dancing session following the program.

## THE NITTANY LION INN



### Sunday Buffet Dinner

12:30-2:30 P.M. 6 P.M.-8 P.M.

featuring

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Every Sunday from Feb. 3 thru March 31

\$2.50 per person

Children under 12 yrs. \$1.00

## AWS Applications for Elected Executive Offices

are available at the HUB Desk

Executive Officers are:

- President, 1st Vice President
- 2nd Vice President
- Secretary and Treasurer

2.5 Average necessary Previous Senate experience is required of President and 1st Vice President aspirants

Deadline: Noon, Saturday, February 9

If there are any questions, please call UN 5-4459

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