

## The sales tax: history of a dumb idea

Mason Gaffney, for Groundswell, March-April 2005

Commercial-capitalist civilization has progressed in step with people's success in fending off sales taxes in their various guises. We might begin with The Enlightenment, late 18<sup>th</sup> Century, with its epicenter in Versailles. At the core were the *philosophes*; at their core were *les économistes*, or Physiocrats; and at their core was the physician from whom they took their name, François Quesnay. One of their main causes was to rid France of its internal sales taxes and replace them with heavier taxes on property, especially land values.

Louis XVI named Quesnay's ally Turgot as his Finance Minister; Turgot energetically set about implementing Physiocratic reforms, which they called *laissez-faire*. The major landowners of France, the tax-exempt nobles and clergy, led in resisting. When Turgot issued an edict abolishing the *corvée* (forced labor), and substituting a land tax, The *Parlement de Paris*, representing these landowners, issued a "*Rémonstrance*" against the Edict. It urged the King to maintain the rights of property, and also to preserve "rights attached to the person and those which derive from the prerogatives of birth and Estate." The *Rémonstrance* warns against "mixing all the orders of the state together by subjecting them to the uniform yoke of a land tax." This would cause "disorder and confusion." "It is necessary that some command and others obey." That was the mindset of sales tax champions then, plainly spoken; today they speak riddles in soothing tones, but to the same end.

The weak-willed Louis caved in and dumped Turgot in 1776, opening a chain of fiscal disasters that led to revolution in 1789, regicide, Red Terror, White Terror, and a bourgeois reaction. When the dust settled, nobles' lands were taxed, church lands were sold off, internal sales taxes disappeared, and France's economy boomed along Quesnay's lines. I will not defend Napoleon's imperialism, but France's new economy was the base that made it possible. It spread the new ideas all over Europe. After the Bourbon Restoration, France never returned to her old fiscal ways.

Quesnay might have learned by looking back on England's Stuart line of monarchs. Charles I lost his head in 1642 after pushing sales taxes on his subjects; James II later lost the throne for good while taking his fiscal advice from Thomas Hobbes (Leviathan) who favored more sales taxes. The Glorious Revolutionists of 1688 instead read John Locke, of whom Americans know. But then after a bit came George II and Robert Walpole ("Every man has his price"), 1721-40. Walpole survived until he tried to tax salt, which brought him down at last. Quesnay might also have looked across the Channel of his own time at George III, who lost the American colonies after imposing taxes on their sugar and tea, along with a battery of other imposts ("The Intolerable Acts" of Lord Grenville).

How easily some people forget history. Recently, a Massachusetts group invoked the Boston Tea Party to support their campaign against property taxes, which they would replace with more sales taxation. They were full of the spirit of Sam Adams Beer, perhaps, but not of the man who rebelled against British sales taxes.

Quesnay might also have looked southwest to Spain. Adam Smith asked why Spain, jump-started with gold pilfered from the New World, lagged in economic progress. He laid it on the Spanish *alcabala* and *cientos*. These were heavy sales taxes, often in cascade, that spared the grandees from taxes on their lands while stifling Spanish commerce and industry. Under Philip II with his sales taxes, Spain declared national bankruptcy three times.

In the new U.S.A. the Federalists under Hamilton took charge and began levying excise taxes. Things came to a boil in 1794 when farmers of western Pennsylvania rebelled against a tax on their corn, which they concentrated in whiskey to cut down on transportation costs. Hamilton, who had Napoleonic ambitions, led Federal troops to put down this “whisky rebellion” against his revenuers. The voters thought him either ridiculous or dangerous, and when they found him dominating the subsequent cabinet of John Adams, of which he was not even a member, and leading the country into the depression of 1798, they retired his party and installed Jefferson, whose Virginia dynasty shaped the nation for the next 36 years. (President J.Q. Adams, 1825-29, had left the Federalists in 1807, supported Madison for President, and been Monroe's Sec. of State. Andrew Jackson, 1829-37, had allied with French Jean Lafitte to fight the redcoats at New Orleans, and led Jefferson's old Party against the Whigs.)

These Virginians were heavily imbued with Physiocracy. Jefferson, Madison and Monroe had all represented the colonies or the U.S.A. in Paris, as had their friend Franklin, where they hobnobbed with philosophers and picked up their ideas. They were pro-French, even as France shifted from monarchy to Directory to Napoleon. It was Monroe who had led the fight for the Commerce Clause, freeing internal trade from excise taxes; Jefferson who wrote the Northwest Ordinance and bought Louisiana, and brought the Physiocrats Gallatin and DuPont into his circle, and welcomed Tom Paine back from France, and extended easy credit to small buyers of western lands; and it was Madison, with all his faults, who masterminded the Constitution, and then, in the War of 1812, used the Federal power to tax property, a power he had so carefully circumscribed. They got the new nation off to a flying start.

Jefferson Davis had to finance secession with excise taxes. The Confederate states, even though fighting to survive, stood on their states' rights, and bucked an attempted C.S.A. property tax. So Davis put a 10% tax on all farm production, paid in kind - a crushing burden on marginal farmers. Winn Parish, LA, for example, home of Huey Long, in 1863 petitioned General Grant to save them from this "oppression." The C.S.A. repudiated its bonds and currency, and lost the war catastrophically.

In Cuba, Spain imposed high excise taxes on farming and mining, and tariffs favoring Spain. Spain incurred debts on the security of these revenues from Cuba. Exiled rebel José Martí was in New York when Henry George ran for Mayor, and we may assume absorbed some of the spirit. He went home to lead a revolt, which he lost in 1895, but which led to Spain's disastrous war with the U.S. and the loss of Cuba, Puerto Rico, and The Philippines. In the peace treaty, the U.S. repudiated these unjust debts - a precedent to remember now that we are the world's leading collection agency.

In Russia, Czar Nicholas II lost a war he could not finance from excise taxes. In 1919 he was shot, with his entire family, and his Romanov dynasty terminated.

Back in Indiana, long-time Senator Albert J. Beveridge, Progressive Republican, was presidential timber. He pressed for a national sales tax, suffered his first loss in 1922, and retired to meditate on his error while writing a biography of Lincoln.

About the same time, President Warren Harding was calling for a national sales tax (originally, to fund a Vet's Bonus). Harding's huge majority from 1920 evaporated. Republicans considered dumping him for a 2nd term, but he died in office. His guru Andrew Mellon remained, however, urging taxing consumption. Mellon was Treasury Secretary under (or was it over?) three presidents, 1921-31.

In 1932, Herbert Hoover proposed a national sales tax. By now his Treasury Secretary was Ogden Mills, friend and ally of Professor Richard T. Ely, another sales-taxer and professional anti-Georgist. Mellon, Mills and Ely helped make Herbert Hoover the most beatable president in U.S. history. Democrats ran against his memory for several terms after that, and generally won on a pro-consumption platform.

Anyone the Democrats nominated would have won in 1932. The fallback nominee, Newton D. Baker, had a strong single tax background as the protégé and successor of Tom L. Johnson in Cleveland. Wm. Randolph Hearst, of all people, swung the 1932 convention to FDR, whom he disliked intensely, just to block Baker. We came that close to the top, and haven't even known it! It may be relevant that Hearst, like Mills, was a major California landowner. Hearst's garish castle at San Simeon still sits amid 82,000 unused acres, including many miles of prime coastline.

Hoover's ally in 1932 was Senator Joseph Robinson of Arkansas, leader of the Senate Democrats. Huey Long of Louisiana soon invaded Robinson's home state to humiliate him by winning a Senate seat for unknown Hattie Carraway, breaking Robinson's power and making Long a national power.

In 1930 Gandhi led his march to the sea in India, protesting a British salt tax. In 1947 the Brits finally pulled out. They had beaten Germany, Italy and Japan, but lost to unarmed Indians, led by a half-naked pacifist and Luddite protesting a sales tax on salt.

In 1948, Chiang Kai-shek and his Kuomintang were driven from China by Communists under Mao Tse-tung. Chiang had tried to finance his government with excise taxes and inflation. Once settled in Taiwan, back to the wall, Chiang finally turned to land reform and land taxation as taught by his early mentor, the sainted Sun Yat-sen. These policies quickly turned Taiwan from a 3<sup>rd</sup>-World backwater into a sparkling economic success story.

From 1960-65, the Government of South Viet Nam doubled its sales tax from 10% to 20%, under prodding from U.S. "experts." Thus they ruined their nation's commerce, while big landowners were untaxed. The V.C. lined up against them and won peasant support. The rest is history.

Back in the U.S.A., in 1980 Oregon Congressman Al Ullman, head of U.S. House Committee on Ways and Means, started pressing for a VAT from his national eminence. Voters of his district around Bend, in Harney County, promptly retired him, sacrificing all the local pork that comes from having a powerful Congressman. Ullman changed his position at the 11th hour but Republican Denny Smith hung the sales tax albatross on Ullman, and won.

The catchword of 1988 was "austerity," meaning we should tax consumption, to aid capital formation. Economist Larry Summers, advising Dukakis, took this line. I doubt if his famous uncles, Paul Samuelson and Kenneth Arrow, agreed, but all they have is Nobel Laureates. Dukakis lost and disappeared, but Harvard's Overseers picked Summers for President of their University, the richest in the world. George Bush, contesting Dukakis, promised "no new taxes," which to some might mean no sales tax. Soon, VAT advocates rose to high positions under Bush, so voters might have turned to Clinton in 1992 to keep people of that mindset out of power. That was, at any rate, the outcome, good for two terms.

In 1989 the Japanese made Sosuke Uno Prime Minister. He introduced the first Japanese sales tax. He also flaunted his mistress. The housewives of Japan turned him out for both reasons, probably in the order given. He lasted only 69 days, a record for brevity. Now, visiting Japanese economists affect never to have heard of him.

In 1993 Canada, PM Brian Mulroney punched through a national sales tax. Mulroney had held power for nine years, but in May, 1993, polls showed him to be the most unpopular Prime Minister in Canadian history. He resigned and gave the hot seat to young Kim Campbell of Vancouver. Later in 1993 Ms. Campbell and her "Progressive Conservative" Party lost so thoroughly that they went from the governing party to a minority too small to be official any more.

Chrétien won by vowing to get rid of GST. However, he hasn't actually done so. Once this camel's nose gets under the tent, it's hard to eject it.

In Feb 1994 Japanese PM Morihiro Hosokawa announced an income tax cut, to be replaced by raising the sales tax, which he called the "people's welfare tax," from 3% to 7%, three years in the future. He and U.S. Treasury Sec'y Lloyd Bentsen touted this as a tax cut. In a stunning reversal, Hosokawa backed down in just a few days, to keep the Socialists on board. They say he had been drunk with his high approval ratings, and sneaky in his euphemisms. Any resemblance between this episode and current events in the U.S.A. is purely coincidental.

In Venezuela, 1989-1993, Carlos Andres Perez pushed privatization, IMF, and VAT, a package known as "Latin neo-liberalism." He also ran a deficit. The inflation rate was 45%. In 1994 Venezuela elected Rafael Caldera, who campaigned against all that. Caldera called for revoking a national sales tax, but won with only a plurality and not enough strength to

accomplish much. The sales tax was "seen by many (IMF) economists as essential to recovery." So now we have Hugo Chavez, and thank you, IMF.

In 2000 U.S. Rep. Tom Campbell (R-Cal) ran for the U.S. Senate. Campbell has a doctorate in economics from Chicago, and is also a law professor at Stanford. He proposed a flat 20% sales tax, to end the income tax. Bill Archer (R-Tx), Chair of Ways and Means, had a similar proposal; but Campbell would exempt food, medicine, and "the cost of housing up to an average in a given area." Fresh-faced Campbell lost badly to Diane Feinstein, but soon entered the Valhalla of failed candidates: he is now California State Director of Finance, under Gov. Schwarzenegger. Who knows what new surprises they are cooking up.

In 2002 voters in and around Modesto retired Cong. Gary Condit. Condit had lined up with Dick Armey, Bill Archer, Sen. Richard Lugar, and other sales-taxers to push for a national sales tax. Condit was accused in a sex scandal, which may have helped beat him. However, many other politicians, like Cong. Kenneth Calvert and Henry Hyde, Presidents Warren Harding, Franklin Roosevelt, Dwight Eisenhower, John F. Kennedy, Bill Clinton, and others have survived sex scandals, while Rudy Giuliani, who moved his mistress right into Gracie Mansion, is even considered prime presidential timber.

In March, 2000, Richard Riordan, candidate for Governor of California, lost the Republican primary to Bill Simon, a weak candidate who then lost to Gray Davis. Riordan, the early favorite, made many mistakes, but one of them was retaining Michael Boskin as his economic advisor, helping alienate whatever liberal Republican support he might have garnered. Boskin of the Hoover Institution is a sales-taxer of the Bill Archer-Steve Forbes genre.

The upshot seems to be that sales taxes have been instruments of tyranny, voters do not like them, they stifle commerce and industry and their own base, and they lead to national bankruptcy. We will point up many more faults, in the next issue. Champions keep entering the field because those with an overplus of taxable property keep financing them. For most of us, though, the sales tax is a dumb idea.