WHY SALES TAXES?

By Dr. Mason Gaffney, Riverside, CA

Here in August, 2011, email bookseller Amazon is squaring off against California in this State's effort to force Amazon – and all other out-of-state mail-order sellers – to collect California State sales taxes and remit them to the State Treasury. Learned academicians, media pundits, and talking heads of all kinds are supporting the State as a matter of simple fair competition among retailers. The conformity is herdlike: Amazon is cast as a crafty tax-dodger slithering through a legalistic loophole. No one, to my knowledge, is asking whether state sales taxes are a good idea to begin with. It is time someone did.

1. Most writers and reporters in this new field accept state and local sales taxes as part of the pre-ordained order, dating as though from Adam and Eve. The predominant attitude is one of how to preserve and raise the state sales tax, by taxing purchases from out-of-state sources, whose exemption the writers regard as a leakage, an unfair special privilege, and a cap on possible state sales tax rates. It is indeed the last of those, but is that bad?

A. Academic sources.

Modern textbooks on public finance do not treat the general retail sales tax as the historical novelty that it is. They no longer mention that no state taxed retail sales until 1929 (GA)* and 1930 (MS), and most not until 1933 (when California joined the movement with a rate of 2%) and the mid-thirties, by which time half the states joined in. Few books give any weight to the fact that 5 states and one province (Alberta) still have no sales tax at all: the states are Alaska, Oregon, NH, Delaware, and Montana. The academics treat these states as eccentrics and laggards, and trivialize them for their small populations, but the states in question, which have 10 U.S. Senators among them, do not see themselves that way at all. One of them, Oregon, in 1980 retired the powerful Chairman of the House Committee on Ways and Means, Al Ullman, because he championed a Federal VAT. Another, New Hampshire, plays a key role in screening presidential candidates. Another, Alaska, distributes a generous social dividend among all its resident citizens. It is rather a matter of some local pride, not to mention commercial advantage. (* Technically the GA tax was on gross business income. Most economists see that as functionally a sales tax.)

People speak casually about a uniform Federal standard for all states (and all cities and counties within states, over 7,000 taxing jurisdictions in all). But state taxes are a power reserved to each state; not one they will quietly abandon.

Few academics show much concern about the partiality of the sales tax, and its overall non-uniformity. They enumerate a few exemptions, but then favor it because it allegedly exempts capital formation.

Even some decentralists seem to favor federal action to promote state sales taxes. Here is the attitude of Charles McLure, who wrote, "I believe sales taxes to be the most appropriate form of tax for state and local govts. to use." He adds, " ... the ridiculously unfair and distortionary de facto exemption of interstate sales by mail-order houses" should be banned by federal legislation. (Curiously, the main theme of McLure's article is in favor of intergovernmental tax competition, which would seem to rule out sales taxes. McLure gives no support for his "belief", nor does he try to reconcile his advocacy of Federal force with his generally decentralist positions.) McLure is currently active with The Advisory Commission on Electronic Commerce (ACEC), and, not surprisingly, is advising the states to find ways to tax e-commerce. McLure is at The Hoover Institution. This funding source, as its name signals openly, represents people who favor the policies pushed by its namesake, President during and after the Great Crash of 1929.

B. Even more surprising is the attitude of business sources. You'd think they'd show some delight that a new way has been found to undercut the sales tax. Instead, many of these works might as well be written by tax administrators. Their main concern may be making sure that other firms pay, too.

2. My viewpoint is the reverse. I am here to explore how e-commerce may work as a lever to lower or quash sales taxes, and to show how states may do that without making catastrophic quakes or waves.

3. The Commerce Clause.

The U.S. Constitution bans state taxes on interstate commerce. "The Congress shall have the power ... to regulate Commerce with foreign Nations, and among the several States, and with the Indian tribes; ... " - (Article I, Sect. 8).

"No State shall, without the consent of Congress, lay any Imposts or Duties on Imports or Exports, ... (Article I, Sect. 10). This reinforces the commerce clause of Sect. 8.

The Commerce Clause has preserved interstate tax competition. Without it, it is likely that state sales taxes would rise to 20% or more in short order, as the wholesome fear of interstate competition was stifled. It created and has preserved our domestic market, the greatest free trade zone in the world, an essential ingredient of American productivity and prosperity. It is not something to be thrown away lightly, especially not for the sake of something as baneful as the retail sales tax. (continued on page 7)

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Sections 8 and 10 are there by design. James Monroe was the leading champion (T.J. Norton, p.51), so I shall herein call the Commerce Clause "The Monroe Doctrine" --one that did and does more for the greatness of the U.S.A. than the better-known doctrine of the same name (actually the work of J.Q. Adams, anyway). One could equally well name it the "Turgot Doctrine" after a great French economist and statesman of the 18th Century who devoted his life and career to removing France's interprovincial trade barriers. Turgot never set foot in America, but was one of our true "Founding Fathers" because of his direct influence on several leading Americans who learned from him when they represented the colonies in France. This is a story in itself (Appendix I).

Media and academic pundits slight domestic trade, yet this is the basis of our greatness. They write and speak of "trade" and "commerce" and "specialization" as basic good things, but synonymous with international trade. (Look up "commerce" in The New Palgrave Dictionary of Economics: it says "see International Trade.") States and cities speak of their export industries as their "economic base," yet their internal trade is far more important (Jane Jacobs, among others, has nicely demolished this hoary "economic base" fallacy). Consider the case of The Erie Canal: it thrived and made money for 20 years, 1825-45, based purely on internal trade, inside the State of NY (Carter Goodrich, Philip Cornick).

Neo-con "free traders" push free international trade, while also pushing AGAINST interstate trade. How much sense does that make? Worse, it is not clear that California would or could make e-retailers in foreign NATIONS collect and remit sales taxes on California buyers. There is this delicate question of national sovereignty, as Senator Jesse Helms discovered when Canada defied his "Trading with the Enemy" Act and pointed out that American-owned firms exporting from Canada could sell to Cuba if they darned pleased – which they did. Thus, if California wins against Amazon, but cannot block or tax sales from Mumbai, we will end up with a negative protective tariff. This is either a major unintended consequence, or, with a touch of reasonable paranoia, a silently intended one calculated to benefit giant firms that have outsourced.

4. How Congress might circumvent the Monroe Doctrine - but probably won't.

A. "The consent of Congress."

States may tax imports "with the consent of Congress." McGoldrick v. Berwind White (1940) also established they might apply a sales tax if the seller has a "nexus" (physical presence) in the taxing state. Quill Co. v. N.D. 1992, seems to have established that Congress (not any state) has the power to enact legislation letting states levy sales - and use-tax on remote sales, including mail-order and electronic sales, without the current requirement of physical presence. Congress and the President have the power to require all online vendors (and all mail-order sellers) to collect sales - and use-tax on all sales to all states.

That's interesting, but only speculative and hypothetical to date because Congress doesn't pass laws just because it may. It also has power, for example, to tax capital gains as they accrue, but it never has, and the leading case where the U.S.S.C. ruled that Congress has this power under the 16th Amendment is usually cited, tendentiously and misleadingly, to show the opposite. This is because the Court told the Wilson Administration it needed the consent of Congress (Eisner v. Macomber, 1920); it is Congress that has the power to define taxable income, which the 16th Amendment does not. Congress has never given this consent, but it could, any day of the week.

For another example, the very first power the Constitution enumerates for Congress is the power to levy a national land tax (Art. I, Sect. 2, Para. 3), but it hasn't since 1862.

So Congress could empower states to collect sales taxes from out of state vendors; it simply has not done so. It has not lacked for urging and lobbying by the States. The ACEC includes a large number of state representatives who keep asking for authority to tax remote sales, both electronic and traditional. Congress is simply not inclined to open this Pandora's Box. Here are some of the snakes in it.

B. The Uniformity Requirement

Congress is bound by the constitutional mandate of uniformity. "... all Duties, Imposts and Excises shall be uniform throughout the U.S." (Art. I, Sect. 8). Many states are not so bound. There are over 7,000 sales tax jurisdictions (counting cities and counties), and constant flux in the rules. Then there are business license fees: in Riverside, California, for example, business license fees vary from business to business because the city uses 35 (sic) formulas to calculate the charge. Some fees are based on gross receipts, which would seem to make them city sales taxes, de facto. The chances of achieving uniformity are near zero.

One might object that many Federal taxes appear non-uniform, but "the uniformity of taxation throughout the U.S. is geographic, not intrinsic" (Bromley v. McCaughn, 1929; also the Head Money Cases, 1884). Thus, the U.S. may tax maple syrup and exempt cotton, but it must do so the same in every state.

Then there are the 5 states without any sales taxes at all. Can Congress get into helping enforce a Duty, Impost or Excise in 45 states while exempting five?

C. Zeitgeist

The spirit of the times is for Decentralization and "Devolution" - of power and responsibility from the Feds to the states. (continued on page 8)

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There are large cuts in Federal programs. Some old centralists, like Alice Rivlin, are still proposing a national sales tax or VAT to be divided among the states, but they are swimming against a current. They are also, of course, reversing their lifelong "demand-side" (underconsumptionist, early-Keynesian) preachments.

The EU and the OECD are centralist, but have hit major roadblocks in their drive for tax "harmonization" among all nations. Even in Europe, the "principle of subsidiarity" (Devolution) is written into the original Maastricht Treaty. Oskar Lafontaine is gone. The pro-harmonization Commissioners of the EU were all disgraced and replaced as of 1999.

D. Double taxation

Retail sales taxation has always involved some double taxation, as businesses buy some of their inputs at retail, and then sell their products at retail. With e-products and services this problem grows more severe, because most e-commerce is business to business. Champions of the sales tax represent it as a tax on "consumption", and tout it as therefore encouraging capital formation; but it is more accurate to call it a tax on exchange, trade, or commerce – i.e. on the prime virtue we associate with free markets. It is inconsistent and self-contradictory for self-styled free-market "conservatives" to tout a sales tax in any form (e.g. VAT), just as it is self-contradictory and inconsistent for underconsumptionist "liberals" like Rivlin.

At the same time, it exempts some of the grossest forms of true consumption. Consider, for example, the use of land for housing, parking, and recreation. Extend recreation broadly to include the use of land for all forms of personal pleasure: riding and fox hunting in the hunt country of Virginia and Maryland; shooting quail and pheasants in the great plains, and elk in Wyoming; boating in the lake country, and yachting along the seacoasts; and so ad infinitum – enough material for another article.

5. <u>The alleged novelty of e-commerce</u>

A. Tendency to overstate novelty.

Every generation thinks it invented sex, and rewrites textbooks on physics, math, and English composition, as well as biology, even as the underlying disciplines remain much the same. Much literature on e-commerce overstates its novelty and underestimates the experience, imaginations and precedents of our forebears. Justice Marshall in Gibbons v. Ogden, 1824, clearly stated that "commerce" is a broad concept not limited to trade in tangible commodities, so ferrying passengers across the Hudson River from NJ to NY is interstate commerce, and all navigable interstate waters are Federal. In Pensacola Telegraph v. Western Union, 1878, Justice Waite explained that transmitting intelligence via the new and intangible medium of electricity was commerce, in the Monroe Doctrine meaning, and "must not be encumbered by state legislation." The Radio Act of 1927 subjected all forms of interstate and foreign radio transmission to Federal control; the USSC upheld it in Federal Radio Commission v. Nelson, 1933.

Some novel intangible electronic products may now escape the tax net, it is true; but every retail sales tax is already riddled with exemptions, many of them far grosser than e-products are likely to be for some time to come. Distressing and damning as that is, it has not served to quash retail sales taxation, which legislators love for its revenue capacity; the addition of e-products is not likely to change that.

B. Secrecy, privacy, and evasion.

E-commerce allows greater secrecy in transmitting orders, making payments, and keeping records. To tax sales, a state must know the location of buyer, but this may not be known. Some addresses are merely domain names.

Furthermore, a seller who is found to have nexus in the high-tax state of a buyer may simply change his server location to another state with no sales or use tax.

C. Greater volume

E-commerce may generate a much greater volume of "foreign" purchases than does mail-order at present. It is easy to overanticipate this growth, just as buyers of "dot. com" IPOs were prone to overestimate future profits in 2000, but clearly this is something to watch, even if with a jaundiced and skeptical eye.

D. Problems with business taxes

Many states, like California, apply a "unitary" system to dividing the profits of Multi-National Corporations (MNCs) among jurisdictions. Without it, taxes on business income are a travesty. With e-commerce, however, the old allocation formula is hard to implement. Under the standard allocation formula, the state calculates the world profits of the MNC, and then takes its cut based on its share of three elements: sales, payroll, and property. All that depends on a complex and fragile network of bilateral treaties between states and nations.

Sales: where does the sale occur?

Employees: where do they count, if they live in India and supply a service in California, transmitting the semi-finished product by e-mail. At what stage do you tax it? What if it is re-exported in a final product?

Property: a lot of the assets are intangible. These include parts of the inventory; fixed assets in licenses (which are not legally "property" at all), copyrights, and frequency allocations. A lot of the assets are highly mobile, like satellites. So, to be sure, are ships and (continued on page 9)

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aircraft, but the ships, at least, often escape the tax net. Will there next be flags of convenience for satellites?

Finally, there is encryption. Government security agencies have made great strides in breaking codes and intercepting messages, seeking out keywords, but the code-breakers have a priority in national defense matters, and we may surmise that encryptors are constantly racing to be a step ahead, so this is to be an endless cat and mouse game of growing cost and uncertainty, with substantial loss of revenue.

6. Net result.

We must look forward to a new world in which forms of taxation must change substantially. There must be more emphasis on immobile assets. That is not a bad thing: we've been there and done that, and it was better than today. Professor Wallace Oates, Univ. of MD, writing in the Review of Economic Literature, refers his readers to his study of Pittsburgh, where he and Robert Schwab found that a shift to a more immobile tax base, land, may have caused a rise in building activity. I cite Profs. Oates and Schwab because they approached their subject in the most cautious professorial way, and their conclusions are about as soft-pedaled and timidly pedantic as is humanly possible from the data they present.

7. What would happen in California if we eliminated the sales tax, and replaced it by raising the property tax?

A. No catastrophe

1. Five states and the Province of Alberta already get along nicely with no sales tax, so it must be possible.

2. No state at all had a retail sales tax before 1929 (GA). California opened its gates in 1933 with the Riley-Stuart Act, and so did several other states. It was sold as an "emergency measure," at a rate of 2%. As late as 1977 it was 4.75%. Now it is 7.25% statewide, with many cities, counties and transportation districts adding their tolls to the total, but for most of our state's existence we got along nicely with either no sales tax, or much lower rates than today.

3. The Property Tax rate would rise to a level lower than it was before Prop. 13. California sales tax revenues are currently 1.19% of the Assessed Value (A.V.) of taxable property.** Add that to the current 1%, and get 2.19%, compared to 2.7% before Prop. 13 - except that the 2.7% was applied to actual value, while today's assessed valuations are far below that. (** Data are from 1993-94, a year of depressed land prices. See \mtrls\salestax.-av. Sales tax revenues est. $22b; A.V. was $1.86t.)

The A.V. value of land is probably about 1/3 or so of market value; buildings are closer to market. If California were to assess land values at market value, tripling the land-tax base, the revenue-neutral tax rate would be well under 2%.

B. Greater equity.

The distribution of the tax burden would shift from poor counties to richer ones. Thus, in the poor inland counties of Fresno, Tulare, Imperial, and Stanislaus, sales tax revs are about 1.5% of A.V.s. In rich coastal and suburban counties of Sta. Barbara and Marin, sales tax revenues are about .75% of A.V.s. Thus, the state sales tax takes a lot more money from the poor counties than it would cost them to replace the services from local taxes; the rich counties, with the high property tax bases, are contributing less to the common pool than they are saving in property taxes.

Within counties, by extension and analogy, I am reasonably certain that a careful study will show that the burden would shift from poorer cities and districts to richer ones. Again, among individuals, I believe we would find the same. One of these days, God willing, I will find the time and money to conduct or sponsor such a study.

The relevance here of this equity question is that most states and provinces have complex and expensive systems and formulae for "power equalization," and the like, designed to shift resources from rich counties to poorer ones. One reason such programs are needed is to offset the effects of the very same state sales taxes used to finance them. There are great savings to be realized by quashing this cross-hauling of public funds.

In summary, to bring equity between interstate sellers and local "bricks-and-mortar" sellers, do not tax the former more: tax the latter less, or not at all. Make up the revenue by taxing property more, and especially land, which cannot move across state lines. The net result will be to encourage both intrastate and interstate commerce, and production in all states, which was a major objective of founding the U.S.A. in the first place. An obvious byproduct is to help overcome our current depression, lower our public deficits, and save the dollar.

Appendix I: Turgot's Legacy: our Commerce Clause

This is a story of the ideas of an 18th Century Frenchman, A.R. Jacques Turgot. His bones are buried, like all, yet the ideas were born again, and again. They always will be, because they illumine and solve universal and ongoing economic and human concerns.

Anne-Robert Jacques Turgot was an outstanding public servant, economic philosopher and social reformer in 18th Century France. He first made his mark as Royally-appointed Intendant of The Limousin, encompassing Limoges, 1761-74. An Intendant enjoyed considerable latitude and autonomy, although few chose to use it as aggressively and constructively as Turgot did, for that was hard work and might interfere with traditional graft and sensual amusements. Limousin was a district of poor soils; most tenants were sharecroppers (metayers). Turgot observed the incentive structure closely, and later wrote

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on it concisely anticipating by two centuries some findings of Gale Johnson and Steven Cheung.

Turgot was a friend of Vincent de Gournay, prominent capitalist entrepreneur and sometime Intendant of Commerce for all of France. Thus Turgot learned to appreciate commerce and industry, as well as agriculture. He was friendly with François Quesnay and his group called "Physiocrats", but scouted their cult-like tendencies and their overemphasis on agriculture and other extractive industries. Turgot saw that industry and trade were also productive, and devoted himself to encouraging them.

In Limousin he abolished the mandatory corvée, (roadwork in lieu of taxation). He improved roads by other means like taxing the lands they served. He was offered advancement to jurisdictions more favored by nature, but he conscientiously refused, in order to complete his reforms in Limousin. His Results were impressive. Kaolin was found near Limoges, and its ceramics (Havilland China) grew famous. It is plausible and likely that Turgot's economic reforms fostered the growth of this industry.

In 1774 the new King Louis XVI made Turgot Comptroller-General for all France. Turgot set about removing interprovincial trade barriers, which he perceived as a major barrier to French prosperity. He coined the term Laissez-faire (Laissez faire, laissez passer, le monde va de lui-même). There is a touch of Chinese Taoism in Turgot. He also set about reforming the tax system, subjecting the previously exempt lands of the 1st and 2nd Estates to forms of property taxation. This was in the spirit of the Age, the Age of Enlightenment (Science, Art and Letters, Philosophy), and Benevolent Despotism. It was appropriate for France, the most advanced and sophisticated nation of Europe, to lead the way.

These jolting changes set off alarm bells, however, among the leaders of the First and Second Estates. They epitomized their reaction in their notorious Rémonstrance against the six edicts of Turgot (1776), containing some of the most reactionary postulates imaginable, so as to seem today like a satire that a Swift or Voltaire might have forged to mock them. They enlisted the new Queen, Marie Antoinette, to their cause. King Louis XVI was filled with good intentions, but wilted under this pressure and replaced Turgot, first with Necker and then Calonne. These advanced token reforms but without the needed energy and conviction, for the Geocracy was strong, entrenched and self-righteous. Necker and Calonne thus simply paved the way to July 14, 1789. Turgot, meantime, retired to the country and died peacefully in 1781.

While Intendant of Limoges he published his Reflexions sur la Formation et la Distribution des Richesses (1766). This short, compact work contains much of the essential wisdom that Adam Smith soon was to popularize and expand with The Wealth of Nations (1776). Turgot stressed the important roles of capital, and free markets. He favored letting the market determine interest rates – not from dogma, but from observing the results of John Law's ruination of French banking in 1720. He favored combating poverty by relieving the poor of taxes, while raising revenues instead from taxes on the value of land – including lands traditionally exempt or undertaxed. Smith visited France in 1766 and consulted extensively with Turgot, a man whose practical turn of mind made him a congenial tutor for Smith.

Of course, many of America's "Founding Fathers" visited France around the same time, and learned from Turgot, Quesnay, and the sect that gathered around Dr. Quesnay who had been installed at Versailles as physician to Madame Pompadour, influential mistress to Louis XV. One could even consider this Frenchman to have himself been one of our Founding Fathers. The Commerce Clause of the U.S. Constitution did for the new U.S.A. exactly what Turgot had tried to do for France, it guaranteed free trade among the states. For a long time it also prevented states from using excise taxes to raise revenue, forcing them back on the property tax, just as Turgot recommended for France. Some noted American visitors included Franklin, Jefferson, Paine, Madison, Monroe, Adams, and others. Growing American hostility to England meant growing friendship with France, and the American Revolution plus the ascendancy of Jefferson sealed a long Franco-American friendship and alliance.

It was also, of course, the Age of Reason, and the flowering of Enlightenment and Science. Turgot, like Quesnay, admired the work of William Harvey on the circulation of blood. Where Quesnay drew up his complex Tableau Economique (aka "Les Zig-zags" by ladies of The Court) Turgot simply wrote that investing is "the beneficial and fruitful circulation that animates all the work of society, …" – thus capturing the basic idea of modern macroeconomics, in much simpler language than usually imposed on readers.

Smith's *Wealth of Nations*, a relaxing chatty read full of history and examples, eclipsed the skeletal language of Turgot; Turgot's Reflexions sank into relative obscurity. Smith, meantime, was forced to make Turgot's points in much less direct language, dependent as he was on his patron, the Duke of Bucchleuch, one of the biggest, if not THE biggest, landowner in Great Britain. Smith also depended on the friendship of "Champagne Charlie" Townshend, author of the "Intolerable Acts" and other excises that Britain sought to impose on the American colonies. By the time of our Revolution Turgot was dead and largely forgotten. Other Frenchmen like P.S. DuPont, Quesnay's disciple, and LaFayette, a non-intellectual romantic, Albert Gallatin, a transportation planner, Audubon, an ornithologist, and even Jean LaFitte, a pirate, gained more renown in America. Alexis de Toqueville, a patronizing French aristocrat whose writings flattered Americans' image of themselves, was very popular.

However the spirit of Turgot rose from the grave – call it Tod und Verklarung (Death and Transfiguration) - during the Progressive Era, in the work of Henry George, the American land reformer. Like Turgot, George favored raising revenues by taxing the vast lands of (continued on page 11)

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"The Robber Barons" in order to relieve workers and merchants from taxation. George even dedicated one of his books, Protection or Free Trade? (1886), to Turgot, and founded a movement that helped lower American tariffs and raise American property taxes and put more stress on the land portion of real estate tax valuations.

1917, however, was the high point of Turgot's revival. The Great Red Scare succeeded in ending the Progressive Era in America. Since then property taxes have steadily fallen, step by step. Excise taxes, that Turgot hated so, have returned as state sales taxes, unknown before about 1931 (Gaffney, 2000-a; Mikesell, 2000; Gaffney, 2000-b). A highly regressive payroll tax, equivalent to the old corvée, has become our largest Federal revenue source, swamping out the corporate income tax, the estate tax, and now even edging out the personal income tax, which is still at least slightly graduated nominally (but not really, if you allow for the 15% cap on capital gains and dividends, the total exemption of imputed property income, and the effective exclusion of most income from renting out real estate). America has become a Geocracy again, as much as France was under its Ancien Régime. That that may surprise many readers is a measure of how thoroughly property interests have captured and dominate modern media and higher education, too. If Turgot is to rise again, it will have to be the work of our generation and the next. Let us teach and work for a peaceful transition, as in The Progressive Era, unlike the French, Russian, Chinese, and other Revolutions when "ignorant armies clashed by night".

Appendix II: Adam Smith on the value of domestic free trade in England

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 (Smith, p.850-51; Groves, p.307, n.14; Ustaritz; Rocker). These were heavy sales taxes, often in cascade, that spared the grandees from taxes on their lands while stifling Spanish commerce and industry (Klein). Under Philip II with his sales taxes, Spain declared national bankruptcy three times.

People associate Adam Smith with international free trade, but Smith actually contains many passages favoring domestic free trade even more than international trade. Here is one from WoN, (PP. 851-52), wherein he contrasts Great Britain with Spain and France, noting that the interior commerce of G. B. is relatively tax free.

"This freedom of interior commerce ... is perhaps one of the principle causes of the prosperity of G.B.; every country being necessarily the best and most extensive mkt. for the greater part of the productions of its own industry."

The new U.S. Constitution did not automatically enforce itself. In the 1790's the Federalists under Hamilton took control, and began levying excise taxes. Things came to a boil in 1794 when farmers of western Pennsylvania rebelled against a tax on their corn (maize, that is), 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 (Bigelow IV:195; Sparks X:300, 345; Van Doren, p.372; Philip Foner pp.15, 24-39). They were pro-French, even as France shifted from monarchy to Directory to Empire. It was Monroe who had led the fight for the Commerce Clause, freeing internal trade from excise taxes (Norton, p. 51); 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 (Medina). They got the new nation off to a flying start.

Appendix III: Excise taxes in the C.S.A. and Cuba

Jefferson Davis had to finance secession with excise taxes. The Confederate states, even though fighting to survive, stood on their states' rights against their own C.S.A. government, and bucked an attempted C.S.A. property tax (Eric Foner, p. 15). 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" (Brinkley, p.11; Williams, p. xii). 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 "odious" debts - a precedent to remember now that we are at once the world's leading collection agency (Nevins and Commager, pp.362, 366) and its leading debtor (a curious conflict of interest lying in wait to trap us ere long). As the U.S.A. credit rating slips, and our tax systems come to resemble more and more those of France under its Ancien Regime, (continued on page 16)

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and Spain under Philip II it is time to ask, "Are we next?". Past success is no guarantee against future disaster, with learned fools preaching false doctrines to credulous fools at the helm.

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