

Why an Income Tax is Not Necessary to Fund the U.S. Government

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Can this statement possibly be true? In order to answer this question, Americans must first understand what is the source of the money that funds the government and where it goes. Contrary to the sound bites issued by the two mainstream political parties, the reality of how the system actually works will not only open your eyes, but hopefully stimulate the American people to demand that the thievery underway come to an end.

Understanding the income tax hoax.

This informational tool is not for the purpose of educating Americans on the voluntary federal "income" tax. We encourage each and every individual to investigate this insidious Second Plank of the Communist Manifesto so that they might understand the grievous wrong done by Congress to The People over the past 88 years. For further study, please go to: www.givemeliberty.org

Where do your "income" tax dollars go?

The best place to look for an answer to this question would be a government report, so let's take just one at random:

President's Private Sector Survey On Cost Control A Report to The President (Reagan)

January 15, 1984. Available from the Congressional Research Service.
The excerpt below can be found on page 12.

- "Importantly, any meaningful increases in taxes from personal income would have to come from lower and middle income families, as 90% of all personal taxable income is generated below the taxable income level of \$35,000.
- Further, there isn't much more that can be extracted from high income brackets. If the Government took 100% of all taxable income beyond the \$75,000 tax bracket not already taxed, it would get only \$17 billion, and this confiscation, which would destroy productive enterprise, would only be sufficient to run the Government for several days.
- Resistance to additional income taxes would be even more widespread if people were aware that:
- With two-thirds of everyone's personal income taxes wasted or not collected, 100% of what is collected is absorbed solely by interest on the Federal Government contributions to transfer payments.
- In other words, all individual income tax revenues are gone before one nickel is spent on the services which taxnavers expect from their

government."

How can that be? In order to answer this question, an individual must learn how the privately owned "Federal" Reserve (central bank) actually works. In a nutshell, this is how the scam works:

This excerpt from ***Debt Virus*** by Dr. Jacques Jaikraan, page 216 is very revealing. The "Federal" Reserve Act of 1913, requires the central bank to return a small portion of its unconstitutional gains to the U.S. Treasury. Here is an example of the numbers:

"In 1988 the Federal Reserve has an income of 19.5 billion, and it turned back \$17.36 billion to the U.S. Treasury as provided under its charter.

The Federal Reserve Act of 1913 provided that a substantial portion of the Feds annual profits be turned over to the National Treasury. Does this fact dilute the argument that there are vast profits built into the commercial banking system? No. Consider for a moment that the total debt (public debt plus private debt) at the end of 1988 was in excess of \$11 trillion. [Editorial note: Today it is in excess of \$23 trillion.] Then, the discount rate, the rate at which banks can borrow from the Federal Reserve, was about 9.4%. Assuming the debt carried the same rate as the discount rate, there was an annual interest charge of almost \$1 trillion on the total debt owed to the banking system.

While all of this interest payment does not go to commercial banks, an overwhelmingly large part of it does. The \$17.36 billion turned over to the U.S. Treasury is thus much less than 2% of the total carrying charge on the total debt....which they created out of thin air. Now can you appreciate what is happening?" End of excerpt.

Our Founding Fathers, the ones our elected public servants are always chirping they respect, warned the American people about usury and unscrupulous bankers:

"If the American people ever allow the banks to control the issuance of their currency, first by inflation, and then by deflation, the banks and orporations that will grow up around them will deprive the people of all property, until their children wake up homeless on the continent their fathers conquered. The issuing power of money should be taken from banks and restored to Congress and the people to whom it belongs. I sincerely believe the banking institutions having the issuing power of money, are more dangerous to liberty than standing armies."
~ Thomas Jefferson

So what we have is a central bank issuing worthless paper "money" that controls our economy, our lives and our future. This private banking cartel was unconstitutionally granted this power by a devious, scheming group of senators back in 1913. In essence what they did was place the American people into indentured servitude by forcing The People to pay usury on worthless fiat currency (paper money created out of nothing), not to fund the government, but to enrich the bankers and fund wars in which America should never be involved. This svstem exists not to fund the aovernment. but to allow

the U.S. Congress carte blanche power to continue funding unconstitutional agencies and programs by providing them with a bottomless source of worthless ink.

The National Debt and the Deficit

These two little bookkeeping items are not the same thing. Few Americans actually know the difference, but the difference is quite important. We continually hear members of Congress, president after president, and political pundits call for "reduction in the debt." But what does that really mean? Here's how it works in the most simplified way to fit into this document:

Let's say that for 2002, Congress and the President decide they want \$1.7 trillion dollars to fund this bloated pig called our government. We know that 100% of all personal "income" taxes extorted by the IRS goes to the "Federal" Reserve Banking System and does not fund a single function of the government. So, let's take the people's blood and sweat off the table.

What other revenues does the government collect? Corporate taxes, social security taxes, constitutional revenues such as excise taxes on cigarettes, alcohol, tobacco, firearms, tires, etc., tariffs on trade, military hardware sales, and some minor categories. Let's say that those revenues will total \$900 billion dollars. The politicians want \$1.7 trillion to spend on their favorite welfare programs, wars and foreign welfare, but have a short fall of \$800 billion dollars. This is called the deficit and the deficit, created by the spending of Congress, creates the "national debt."

How? Because the politicians are \$800 billion dollars short, they simply call up Al Greenspan and borrow your children's and grand babies' futures. The "Federal" Reserve Banks don't loan anything of value to Congress. They aren't banks; they're really an overpaid, powerful, private accounting service. When that \$800 billion dollars worth of ink is transferred to the Treasury, it gets piled on top of the existing "national debt."

This is how the magical money machine works. Congress overspends. It borrows from this accounting firm called the "Fed" and then turns around and tells you to pay for these crimes against the people. In other words, Congress basically pays the bills with social security and borrowed ink from the "Fed." Pretty slick scam, wouldn't you say?

The people of America are also responsible to a large degree for this out-of-control spending. Americans have been bred to a welfare dependant mentality. Special interest groups who have no interest in the U.S. Constitution, demand that billions of dollars be spent on their pet interests. Billions upon billions of dollars have been unconstitutionally thrown to foreign governments, some days our friend, a week later our enemies. They are only our friend as long as the U.S. throws money at their corrupt governments.

Billions of dollars have unconstitutionally been spent on grants to colleges and universities, which in turn sell their research to the highest bidder, paid for by the sweat off the back of the little guy out in America. No, they don't return any back to the little guy who funded these studies and research programs. As long as the American people themselves condone continued unconstitutional spending by Congress, the longer they will violate their oath of

office, and continue to fund unconstitutional expenditures, placing your children and grand babies in a state of unpayable, massive debt.

Unless The People demand an end to this insanity, our economy eventually will collapse under the weight of this massive, unpayable debt, no matter how much ink the "Fed" transfers into the coffers of the U.S. Treasury. The pain of withdrawal from unlawful government hand-outs will be far less now than it will be down the road.

America became the greatest, debt free nation on earth by a resourceful, independent, self-reliant people. Sadly, today we have a large percentage of our population who can't get through the day without a government memo telling them how, step-by-step, with a redistribution of average, ordinary Americans assets into the hands of the unproductive. A very sad commentary to what made our nation great and prosperous.

But I heard the debt is being paid down?

What you heard and reality are two separate issues altogether. The politicians must continue to fool the American people lest they catch on to this chicanery. Let's have a look at the numbers so you can see that any utterance that the national debt has been paid down X billions of dollars, is nothing more than bombastic gas, passed from one administration to the next and the latest recycled Congress.

In the chart below, an R next to the amount indicates a Republican President; a D is for a Democrat in the Oval Office. The Democrats had control of Congress from 1954, until the illusion billed as the "Republican Revolution" in 1994. Both houses of Congress were Republican controlled until after the 2000 "election", but this ended when in May 2001 James Jeffords 'fessed up to his real political agenda.

Current Congressionally created debt:

08/08/2001 \$5,720,324,946,092.23 (R)
04/30/2001 \$5,661,347,798,002.65 (R)
02/28/2001 \$5,735,859,380,573.98 (R)
01/31/2001 \$5,716,070,587,057.36 (R)
12/29/2000 \$5,662,216,013,697.37 (D)
09/30/1998 \$5,526,193,008,897.62 (D)
09/30/1996 \$5,224,810,939,135.73 (D)
09/30/1994 \$4,692,749,910,013.32 (D)
09/30/1992 \$4,064,620,655,521.66 (R)
09/28/1990 \$3,233,313,451,777.25 (R)
09/30/1988 \$2,602,337,712,041.16 (R)
09/30/1987 \$2,350,276,890,953.00 (R)

Updated 7.9.03

09/28/1990 \$3,233,313,451,777.25 (R)
09/30/1993 \$4,411,488,883,139.38 (D)
09/30/1996 \$5,224,810,939,135.73 (D)
09/30/1999 \$5,656,270,901,615.43 (D)
09/28/2001 \$5,807,463,412,200.06 (R)
09/30/2002 \$6,228,235,965,597.16 (R)
06/30/2003 \$6,670,121,155,027.26 (R)

The statistics above were obtained from the Bureau of The Public Debt's web site:

<http://www.publicdebt.treas.gov/opd/opdpenny.htm>

As you can see, it doesn't matter which party is in office, there is no surplus and the debt cannot be paid down, it can only grow exponentially as long as Congress and the President have the central bank at their fingertips.

A "balanced budget" is nothing more than good political rhetoric, but in reality, it's a pipe dream strictly for public consumption. How can you balance your budget if you have no money to spend and are trillions of dollars in the hole? You can't. It's just another well crafted illusion to keep the masses pacified. You can fool some of the people some of the time, but the American people have awakened to this monumental theft and are demanding the only real solution that can be implemented: Abolishing the central bank, and a return to a constitutional monetary system with no income tax.

No "Fed," no need for a direct tax

Without the central bank siphoning off the wealth of our nation, there would be no need for a personal income tax. Don't be fooled by this chant around the country for a flat tax, a consumption tax, sales tax or any other kind of personal income tax. There is absolutely no authority in the U.S. Constitution to implement any of these forms of taxation without apportionment. It is for this reason and this reason alone, that when it became apparent that the 16th Amendment was not going to be ratified by the states, fraud was committed and it was simply "proclaimed" ratified by then Secretary of State Philander Knox.

We don't need any direct taxation and these popular mantras are just new lies to replace old lies. Any one of these forms of taxation will still feed the cancer: the central bank. Any one of these forms of taxation is just another way to fleece the American people to enrich the pockets of the international banking cartel. Please consider the words of Congressman Ron Paul:

"Strictly speaking, it probably is not necessary for the federal government to tax anyone directly; it could simply print the money it needs. However, that would be too bold a stroke, for it would then be obvious to all what kind of counterfeiting operation the government is running. The present system combining taxation and inflation is akin to watering the milk: too much water and the people catch on."

What we need to do is take away the magical money machine called the "Fed," which will force Congress to live within its means and fund only those activities specifically enumerated by the supreme law of the land in Art. 1, § 8 of the U.S. Constitution:

Lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States, but all Duties, Imposts and Excises shall be uniform throughout the United States, borrow Money on the credit of the United States, regulate commerce (trade), naturalization, bankruptcy laws, coin money, regulate the value thereof, and of foreign Coin, fix the Standard of Weights and Measures, punishment regarding counterfeiting the Securities and current Coin of the United States. establish

Post Offices and post Roads, Promote [Editorial note: "promote" does not mean fund] the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries, constitute Tribunals inferior to the supreme Court, define and punish Piracies and Felonies committed on the high Seas, and Offences against the Law of Nations;

declare War, grant Letters of Marque and Reprisal, and make Rules concerning Captures on Land and Water, Raise and support Armies, but no Appropriation of Money to that Use shall be for a longer Term than two Years, provide and maintain a Navy, make Rules for the Government and Regulation of the land and naval Forces; provide for calling forth the Militia to execute the Laws of the Union, suppress Insurrections and repel Invasions, provide for organizing, arming, and disciplining, the Militia, and for governing such Part of them as may be employed in the Service of the United States, reserving to the States respectively, the Appointment of the Officers, and the Authority of training the Militia according to the discipline prescribed by Congress, Exercise exclusive Legislation in all Cases whatsoever, over such District (not exceeding ten miles square) as may, by Cession of particular States, and the Acceptance of Congress, become the Seat of the Government of the United States, and to exercise like Authority over all Places purchased by the Consent of the Legislature of the State in which the Same shall be, for the Erection of Forts, Magazines, Arsenals, dock-Yards, and other needful Buildings, make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers, and all other Powers vested by this Constitution in the Government of the United States, or in any Department or Officer thereof. **

There is absolutely no authority for the federal government to legislate in areas of the environment, education, the NEA, the FDA and many others. It may surprise you to find out that agencies such as FDA, DEA and the EPA all derive their jurisdiction from international treaties. When the powers that be wish to circumvent the U.S. Constitution, they do it either through an executive order or international treaties. We strongly encourage you to investigate this issue thoroughly.

Prior to the Federal Department of Education, America had the finest schools in the world. Since this disastrous and unconstitutional grab for power, we can all see that a quadrillion dollars a year will not fix our schools, and they continue to decline faster than the feds or states can shovel money into them. Even if a direct tax were necessary, only by keeping it at its lowest possible percentage would it ever benefit this nation:

"The point now emphasized is that the evil effects of high surtaxes fall not upon the individual whose income is seized and taken, but ultimately almost entirely upon the mass of the people who are thereby deprived of the benefits which would result from the free flow of commercial transactions and the use of the additional capital which would be available for productive enterprise. "Freedom of business transactions essential.

"The revenues to be obtained by the Government from this class of taxes depends upon transactions in trade and commerce which bring about income available for payment of taxes. It is highly desirable, in the interest of the production of revenue, that the volume of business transactions giving rise to gain shall be as great as possible. and to this end it is essential that the

natural laws of trade and commerce and the free flow of business shall not be interfered with or prevented.

The excerpt below is from pgs 19-20, *Annual Report of the Secretary of the Treasury on the State of Finances* for 1921:

"But the direct effect of these very high taxes is to hinder and prevent business transactions which would otherwise take place. A man may have property which he has held for years and which has greatly increased in value, and he would like to sell it, but if he does a large part of the gain would have to be paid out in taxes. He would rather keep the property than sell it, pay the tax, and invest what is left in something else. At the same time the party desiring to buy this property, if he obtained it, would improve it with buildings.

What is the result? The transaction does not take place, and the community loses the advantage which would come in the stimulation that would arise from the transactions resulting from the buyer's improvement of the property, and it also loses the advantage of the seller's putting his money into some other form of investment, which in turn would give rise to business transactions. The same thing on a much greater scale is true in manufacturing and mercantile lines. Men have built up enterprises to the point where they are highly successful. They would like to take their profit and turn the business over to younger men to carry on.

These transactions are highly desirable not only for the parties but for the community, yet they are absolutely stopped, because if made the seller would have to pay in one year a tax on a gain which has been the result of perhaps the better part of a lifetime of effort. And in all such cases the Government gets no tax, whereas if the rates were reasonable the transactions would take place and the Government's revenues would benefit accordingly.

The free interchange of property in business transactions is essential to the normal prosperity of the country, and each such transaction has a direct tendency to bring about others of like character with the result of increasing the amount of gain or income available for taxation; but when the tax is so high as to act as a deterrent against usual and desirable business transactions, and the volume of such transactions is thereby lessened, the inevitable result is for the tax to become less and less productive.

It is for these reasons that, particularly in the higher brackets, a lower tax rate will produce more revenue in the long run than excessive rates. So long as the high rate stands in the way of accomplishing bargains and sales, the Government receives no tax; but at a lower rate the transactions proceed and the Government shares in the profits." (End of excerpt.)

Today Americans are being fleeced to the tune of approximately 52% of every dollar going for local, state and federal taxes. The day is rapidly approaching when making even \$1,000 per hour will not be enough to survive. How much longer are the people of this nation going to put up with this state of affairs? We say enough is enough!

A Pioneer on the withholding issue

Vivien Kellems was a woman before her time who knew the grand theft taking place against the working man's paycheck. [For more information on Ms. Kellems, see: www.vivienkellems.com]. The following excerpt from pages 41-46 of her book, *Toil, Taxes and Trouble*, published in 1952 is legally right on point:

"Since a capitation means a tax of the same amount for every person, this provision makes doubly sure that all federal taxes must be at the same uniform rate for everybody. This limitation that direct taxes be levied by the Federal Government must be in proportion to a census and apportioned among the States in accordance with numbers, is the only provision in the Constitution that is stated twice.

"The only reason that our Constitution required a census to be taken every ten years was to count the people to determine how many Representatives should go to Congress, and how direct taxes should be levied. I wonder how many Americans thought of this in 1950 when those little busybodies came knocking on their doors, asking ten thousand impudent, silly questions which were none of their, or Washington's, business.

"There is absolutely no power granted in the Constitution which enables a top-heavy bureaucracy of empty-headed simpletons, and worse, to invade the privacy of the American people in such a monstrous manner. This census is just a preview of what is really in store for us if they actually take over, which they most certainly will do unless we uproot and vote them out.

"The census was to count the people - that was all. The number of people determined the number of Representatives in Congress and the apportionment of direct taxes among the states.

"For a long time I asked myself, 'Why were Representatives and direct taxes linked together and apportioned among the States in accordance with population?' It was understandable that Representatives should be chosen in accordance with numbers but why should taxes be apportioned the same way? And then one day, out of the blue, it came to me crystal clear. All at once I understood the plan to safeguard the future freedom of the nation, conceived and executed by those scholarly men.

"I read again: 'Representatives and direct taxes shall be included within this Union, according to their respective numbers...' 'No capitation, or other direct tax shall be laid, unless in proportion to the Census of Enumeration hereinbefore directed to be taken.' And in those two sentences our forefathers bound fast the hands of Congress and secured the liberty and freedom of the American people. How? By making it utterly impossible to levy an income tax.

"An income tax is certainly a direct tax, probably the most direct tax of all since it cannot be shifted but must be paid by the person receiving the income. By specifying that direct taxes must be levied in accordance with the number of people, not upon what they produced, as in the days of ancient Egypt, an income tax was simply out of the question. It cannot be levied upon a man but must be levied upon what he receives.

"Our forefathers designed and incorporated in the Constitution a new system of government. It was built upon a revolutionary idea; the conviction that the government belonged to the people and existed only by their consent. Its genius lay in the careful system of checks and balances among the three departments, the Legislative, the Executive, and the Judicial. And it went further and maintained a balance between the powers of the individual States and the Federal Government. In addition it carefully reserved to the States and to the people all rights and powers not specifically delegated, or prohibited to the Federal Government and further stated that because certain rights were enumerated in the Constitution it did not mean that others not mentioned were still not the property of the people.

"However everything in the Constitution was arrived at by compromise. The interests and concerns of the thirteen states varied widely and each delegate was sent to Philadelphia to protect the commerce, industry and agriculture of his particular state. It required months of patient discussion, argument and forbearance to finally produce the finished document, which when completed, comprised a system of government to protect the people in the rights and liberties set down in flaming words in the Declaration of Independence. It is a wonderful document, the best system of government ever devised for human beings, but it could have varied in some respects and still have worked satisfactorily.....

"The supreme achievement of the combined brains of all those men were written into those two sentences and the freedom and liberty of the American people were secured in them. For in those two sentences the right of the free man to own something was made inviolate. This was his distinguishing mark, the only criterion of freedom in all the world, the right of the common man to retain for himself the fruit of his labor. Now this is how it worked. Every man was given a vote with which he could vote for his Representative. Originally only Representatives were elected, Senators were appointed by the State Legislatures and it's too bad we changed that provision."

(Editorial Note: We didn't. Like the 16th Amendment, the 17th Amendment is a fraud--it was never ratified by the states. Therefore, we have not had a lawfully seated senate since 1913.)

"That Representative having to stand for election every two years was close to the people and responsive to their wishes. That is why he was given the power to tax; all bills of revenue arise in the House. And that is why he must come home every two years and give an accounting to the people.

"But his power to levy direct taxes was limited by an ironbound restriction: that tax must be apportioned among the States in accordance with the population. Since all taxes were to be at a uniform rate, Congress simply could not penalize one section of the country, or one group of citizens for the unfair advantage of another.

"When Congress levied a tax, everybody had to pay and at the same rate. The amount would vary with the wealth of an area, as it does today with the different values of real estate, but the rate was the same for all and the tax was distributed among the States according to population.

"The men who wrote our Constitution did not found a democracy. They feared the so-called 'Democrats' of their day as much as we fear the

Communists today. They did not believe in mob rule, or government by the unintelligent, irresponsible mass. They founded a republic and they made certain that the right to vote should be curbed and controlled by the necessity of paying taxes. Scheming politicians could not take taxes from a helpless minority and buy themselves back into office with the votes of the tax exempt majority. When a Representative voted a tax, he voted to tax everybody because the tax was based upon numbers, not upon dollars.

"This was the most brilliant plan ever conceived for guaranteeing the freedom of a nation. It protected every person in his right to private property, rich and poor alike, and under this protection we built the richest, most powerful nation on earth. We achieved and maintained for the majority of our people a standard of living undreamed of before, the hope and the envy of the whole world.

"And we accomplished something even more important: we developed a vigorous, self-reliant, self-respecting race of people. An American citizen would have been ashamed to ask for a handout from his Government. The Government belonged to him, he did not belong to the government.

"And then what happened? We chucked our carefully safeguarded right to own something out the window, and we passed the income tax amendment. Gone was our apportionment among the States in accordance with population, and also gone was our principle of uniformity. Income 'from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration' could be taxed and without limit. And when we passed this income tax amendment the slow, distilled poison of tax slavery dripped into our veins. We sowed the seeds of our national decay which is rapidly coming to maturity before our eyes today. The heritage of freedom so carefully insured for us by our forefathers is gone; it has been taxed away."
(End of excerpt.)

The "General Welfare" Clause of the Constitution

The majority of unconstitutional spending is justified by the "general welfare" clause of the constitution. Shawn O'Connor of the Free Enterprise Society summed up this misconception in one of his speeches, paraphrased below:

"Discussion of the general welfare clause of the Constitution by the courts relies upon the Federalist Papers. This term simply means: Taxation was to protect the individuals' life, liberty and ownership of private property. One can go to Art. 1, Sec. 8, Clause 1 of the constitution and read the general welfare clause. Then one can do some history research and see what the Anti-Federalists had to say about this clause:

"That this clause conveys absolute power to the central government. Patrick Henry was very vocal in his opposition to putting this kind of language into the constitution. Madison, however, assured Henry and others that all the general welfare clause represented was a preliminary introduction prior to the enumerating the specific powers the delegates were about to grant to this new federal government and that the general welfare clause granted no new power to the government whatsoever. It was simply an introductory statement.

The Anti-Federalists still weren't satisfied. Hamilton and Madison came back to re-state that if the general welfare clause conveyed absolute power to the

government, why would they go on to list the specific powers they were going to grant the government? That wouldn't make any sense at all if they were going to give absolute power to this government. It was finally conceded by all at the convention that the general welfare clause conveyed absolutely no power to the government." [End of comment.]

The general welfare clause of the constitution has been misused for personal gain by special interest groups to enrich the pockets of the banking cartel, by politicians hoping to "get that vote," and an all out push to turn America into a socialist country, beginning with the "New Deal" implemented by FDR and supported by a weak Congress. Lyndon Johnson took the quest to turn America into a socialist nation to new and grotesque heights.

How would you fund the government without any direct taxation?

The powers that be know it's just a matter of time before the truth reaches enough Americans about the voluntary income tax system. Already trial balloons are being floated to once again fool the people into some form of alternative tax in order to feed the central bank.

America functioned very well without an income tax throughout the history of this Republic. The answer to the question of funding without a direct tax is found in Article 1, Section 9 of the Constitution since 1787. It provides for Congress to pass a legislative bill for tax money to be paid by each state in proportion to its population.

Proper, constitutional funding will allow large amounts of money to fund a limited form of Republican government. To continue on the path of this massive and unconstitutional spending will bring a final and total collapse of the economy. Make no mistake about it.

Has your government been truthful?

Do you know why the "withholding tax" system was put into place? Let me provide you with just one shocking example of how things work behind the scenes:

Declassified (Confidential Committee Print)

Withholding Tax

Hearing Before A Subcommittee of The Committee on Finance, United States Senate, 77th Congress, Second Session on:

Data Relative to Withholding Provisions of the 1942 Revenue Act, August 21 and 22, 1942 (Printed for the use of the Committee on Finance)

United States Government Printing Office, Washington 1942

SUMMARY/Contents

Statement of:

Friedman, Milton, Division of Tax Research, Treasury Department

Hardy, Charles O., of Brookings Institution

Jacobstein, Meyer, of Brookings Institution

Paul, Randolph E., Treasury Department

Overview

Because the war effort resulted in increased production and employment, which caused a sudden large influx of money into circulation, the Federal

Government and Federal Reserve System had to find a method of "mopping up excess purchasing power" thereby control inflation and obtain immediate funds for the Treasury. Several plans were put forth before the House, Ways & Means Committee and the Senate Committee on Finance to accomplish this purpose.

The following points were made by the Senators and those testifying before the committee:

1. The overall purpose was to obtain immediate money for the war effort, to control inflation and to get the income tax on a current basis instead of being one year behind.
2. To accomplish this goal, it was recognized that a scheme was needed to reach the largest number of people.
3. That the scheme, regardless of whether it was a "coupon," "stamp" or "withholding of income tax at source," would constitute a "forced loan" to the Federal Government and it would apply to taxpayers and nontaxpayers alike, with exceptions.
4. Where an individual had money withheld and ultimately no tax liability, the individual would file an income tax return and that income tax return would constitute an automatic claim for refund.
5. The proposed plan was an emergency war time measure.

Hearing Experts, Beginning Page 99

Statement of Meyer Jacobstein of Brookings Institution

"It is obvious that it is necessary to mop up the excess purchasing power of the community, not only because of it's effect on the price situation but because the Treasury needs the money and needs it quickly. *

Obviously the Treasury can collect from the consumers as the purchases are made and the Treasury has the use of those funds long before it would obtain them by the income-tax method.

Now, there are many ways, of course, of mopping up this surplus purchasing power...Now, there is the withholding tax at the source based on payrolls."

Senator Clark: "Doctor, what this plan is, it is essentially a compulsory savings plan based on sales tax methods, is it not?"

Mr. Jacobstein: "I should say that is a fair description of it, yes. It is the use of a sales tax method without being a tax."

Senator Clark: "So far as the impact on the public is concerned, it is precisely the same as a sales tax, except you give the money back sometimes."

Mr. Jacobstein: "That is right. That is a very fair statement, I think. Senator Danaher used the word "self-assessment." If I buy a dollar necktie I pay \$1.10 under his plan. A withholding tax is usually withheld at the source. Here you

withhold it not at the manufacturer's end but at the retailer's end. You are using the retailer instead of the manufacturer to siphon off several billion dollars, depending on the rate of the assessment of a tax.

It may be that several systems can be used. Any one of them might be very useful to the Treasury in accomplishing this purpose. But...for siphoning off purchasing power into the Treasury from day to day, or week to week, or month to month; and it has that advantage.

Now, there is an aspect to this question which was not brought out in the original memorandum which would make the scheme perhaps a little more palatable if certain deductions were made by any method, either by the withholding tax method or direct sales tax method or by Senator Danaher's proposal...."

Statement of Charles O. Hardy of the Brookings Institution

Mr. Hardy: "First...mainly for the purpose of providing an exemption from the tax or forced loan, either one. Now, as has been stated a moment ago, this is a forced loan. It should be pointed out, I think, that you can do the same thing with the mechanics of any other tax, that is, under the income tax you can give out bonds or coupons redeemable in bonds instead of giving receipts for the income tax. You can do that, as far as I can see, with any tax, for the whole schedule of taxes.

I would like to say...that we have to bring about a readjustment of consumption in the country to the amount of consumers goods and services that we can spare the resources to produce under war conditions. First, we have got to devote our productive energies to the war.

Or, you can use the mechanism of the sales tax, as far as I can see, by mopping up the increased purchasing power that is created by the rising amount they receive in their paychecks. On the other hand, if the money is stored up, whether it is in the form of these stamps or in the form where people haven't spent it because they have had no way to spend it, in either case if it is too large a proportion you are going to have the problem, whenever you do turn it loose, that you have now in the other case, namely of having a lot more purchasing power than you have goods and services to make it good with.

That is the answer, I think, to the question that might be raised as to why not carry this principle through and apply it to income tax, corporation tax, and everything else. Obviously, this has the advantage that this definitely sews up the purchasing power in such a way that it cannot be released until we discover the proper way to release it.

I think it has a great advantage over the deficient spending program. This program just postpones the problem of administration, in deciding how much purchasing power is available to release and to what extent it will create the old wartime inflation over again."

Senator Danaher: "Let me ask you this question: Considering the withholding tax, simply the treasury withholds it currently and applies the proceeds against the tax due in a given year..."

Mr. Hardy: "The deduction from salaries and interest, and so on, at the source?"

Senator Danaher: "Yes."

Mr. Hardy: "Yes."

Senator Danaher: "That is a currently applied method of withholding so much of the consumer purchasing power as is represented by the tax collected or withheld."

Mr. Hardy: "That is right."

Senator Danaher: "And the applied as against the tax due."

Mr. Hardy: "Yes. The withholding tax provision has the effect of withholding purchasing power at the time the income is realized rather than a year hence through the income tax structure."

Senator Danaher: "And if it were in effect for 1 year it would apply only 1 year?"

Mr. Hardy: "I assume so."

Senator Danaher: "Yes. Whereas this proposal is a continuing thing."

Mr. Hardy: "It seems to me the essential difference is that the withholding tax plan applies at the point of receipt of income, and this applies at the point of expenditure of income."

Senator Danaher: "Of course, you withhold not only from taxpayers but nontaxpayers."

Mr. Hardy: "Yes. Some people that I talked to about this plan, Federal Reserve people, have been rather favorable to the idea."

Mr. Jacobstein: "Don't you want to add that Mr. Selko pointed out that such difficulties as are encountered in the States are, partially at least, overcome when you have a uniform Federal tax? Where you have a uniform tax all over the country by one administration, the Federal Government, it is easier to administer than a sum total of 48 states. Now that was Mr. Selko's conclusion."

**Statement of Milton Friedman, Division of Tax Research, Treasury
Department**

Senator Danaher: "I have only one other thought on that point. In the event of withholding from the owner of stock and no taxes due ultimately, where does he get his refund?"

Mr. Friedman: "You thinking of a corporation or an individual?"

Senator Danaher: "I am talking about an individual."

Mr. Friedman: "An individual will file an income tax return, and that income tax

return will constitute an automatic claim for refund." End of document excerpts.

What bald faced lies. "Mop up purchasing power"? Fleecing Americans dry is a more accurate way to describe this terrible injustice against US. How about letting Americans decide to save the fruits of their labor? No, the government wants it all.

*** Art. 1, Sec. 8 of the U.S. Constitution gives Congress the power to issue money, not the private fed: "To coin money, regulate the value thereof," Cut out the middle man ("Fed") and the Treasury wouldn't "need the money." What a con game.**

T. Coleman Andrews. Mr. Andrews (a Democrat) was Commissioner for the first 33 months of the Eisenhower Administration, stated the following in an article for U.S. News & Report, May 25, 1956:

"...We're confiscating property now....That's socialism. It's written into the Communist Manifesto. Maybe we ought to see that every person who gets a tax return receives a copy of the Communist Manifesto with it so he can see what's happening to him."

Beardsley Ruml, Chairman of the Federal Reserve Bank of New York stated in one of his speeches in 1946:

"The second principal purpose of federal taxes is to attain more equality of wealth and of income than would result from economic forces working alone. The taxes which are effective for this purpose are the progressive individual income tax, the progressive estate tax, and the gift tax. What these taxes should be depends on public policy with respect to the distribution of wealth and of income.

It is important, here, to note that the estate and gift taxes have little or no significance, as tax measures, for stabilizing the value of the dollar. Their purpose is the social purpose of preventing what otherwise would be high concentration of wealth and income at a few points, as a result of investment and reinvestment of income not expended in meeting day-to-day consumption requirements. These taxes should be defended and attacked in terms of their effects on the character of American life, not as revenue measures. Taxes on corporation profits have three principal consequences --- all of them bad."

Does the average man or woman in America know this?

What do we mean when we say that the IRS is not a government agency?
Read this quote
from an U.S. attorney submitted in court documents in a tax case up in Idaho:

Betty Richardson, United States Attorney, Box 32, Boise, Idaho 83707. Civil No. 93-405-E-EJL, United States' Answer and Claim re: Diversified Metal Products, Inc., Plaintiff v. T-Bow Company Trust, Internal Revenue Service and Steve Morgan, Defendants, page 4, paragraph #4:
"Denies (the U.S. government) that the Internal Revenue Service is an agency of the United States government ..."

If the IRS is not an agency of the federal government, just what is it?

In a nutshell, the income tax is international in scope and not incumbent upon domestic Americans. That is a provable fact. The IRS for more than 80 years has been misapplying the IRCCode against unsuspecting Americans and back up their unlawful activities with brute force. This must stop.

What can you do?

The federal government must generate revenues to operate what our Founding Fathers created: A limited form of Republican government. State constitutions are all guaranteed a limited form of Republican government. America is not a democracy. We believe America is a nation of laws, not lies. We can't have it both ways for political expediency or to please any and every special interest group that bribes politicians at all levels with the politically correct "PAC money."

Sometimes it's difficult to be the messenger of news that people would rather not hear.

However, Americans can no longer remain in their comfort zones because the message isn't what they want to hear. If your house is on fire, you don't sit and continue to watch the television set, you call the fire department. America: Our house is on fire and it is the obligation of every American to safeguard the liberties and freedoms given to us by those who paid the ultimate price. Please join the growing numbers of millions who are ready to take back our country and stop the assault on our rights.

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