

Woodrow Wilson, Congress, and the Income Tax
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At almost every session Congress has made some effort, more or less determined, towards changing the revenue system in some essential portion; and that system has never escaped radical alteration for ten years together. Had revenue been graduated by the comparatively steady standard of the expenditures, it must have been kept stable and calculable; but depending as it has done on a much debated and constantly fluctuating industrial policy, it has been regulated in accordance with a scheme which has passed through as many phases as there have been vicissitudes and vagaries in the fortunes of commerce and the tactics of parties.

– Woodrow Wilson
Congressional Government (1885)

Introduction

The modern American tax system was conceived during the presidency of Woodrow Wilson (1913-1921). The Sixteenth Amendment to the Constitution, empowering Congress “to lay and collect taxes on incomes, from whatever source derived....” was ratified on February 23, 1913, just nine days prior to Wilson’s inauguration as president. One of Wilson’s first acts as president was to call Congress into special session on April 7 for the purpose of legislating lower tariffs and thereby fulfilling one of the campaign pledges of the Democratic Party platform and of Wilson the candidate. The next day, April 8, Wilson traveled to Capitol Hill to deliver his tariff message in person before a joint session of Congress—the first president to do so since John Adams.¹ Part of Wilson’s “New Freedom” platform was to dismantle monopolies, and one of the ways of doing so was to take away high protective tariffs which he saw as one of the economic foundations of monopolies.

While Wilson did not specifically mention in his address to Congress that a new income tax would have to be instituted to make up for revenues lost from lowering tariffs (nor is it even clear he knew such a revenue plug was needed), he did vaguely allude to the need for some fiscal alterations: “We must make changes in our fiscal laws, in our fiscal system, whose object is development, a more free and wholesome development, not revolution or upset or confusion.”² And, indeed, the first modern income tax was not revolutionary, covering as it did only wealthier individuals at relatively modest, progressive rates.

But that was to change over time as the new source of government income was first expanded to cover emergency needs—the preparation for war and then war-- and was then seen as a way to

finance a more progressive view of the federal government's domestic responsibilities. In all this, Wilson had a willing and cooperative Democratic Congress to work with—a realization of his long held dream dating back to his days as a young political scientist, of responsible, party government.

This essay will take a closer look at Wilson the scholar and Wilson the president and his views on Congress over time, with particular emphasis on the interactions of the president and Congress over setting national revenue policies. It is the thesis of this essay that Wilson as president witnessed the reverse process he had observed as scholar in the swing from committee government to party government in Congress. By the end of his presidency, the pendulum had already swung back towards greater committee autonomy from party control. Moreover, it is the thesis of this essay that this alternation of power and policymaking control in Congress between party leaders and committees is a pattern that has repeated itself over time and continues to manifest itself in legislative behavior today.

Wilson the Scholar

When Woodrow Wilson wrote *Congressional Government* as his doctoral thesis at Johns Hopkins University in Baltimore in 1883-84, the Federal Government still depended primarily on tariffs on imports and excise taxes on luxury goods for its revenues. Nevertheless, patterns were developing within the institution of Congress which can still be seen today. One of those is Congress's penchant for constantly tinkering with the revenue system more for political/commercial reasons than for economic or budgetary purposes, as the epigraph to this essay attests.

Indeed, as Wilson observes, there is often little relationship between revenue policies and expenditure needs.

The object of our financial policy, however, has not been to equalize receipts and expenditures but to foster the industries of the country. The Committee on Ways and Means, therefore, do not concern themselves directly with regulating the income of the government—they know that that, in every probable event, will be more than sufficient—but with protecting the interests of the manufacturers as affected by the regulation of the tariff. The resources of the government are made incidental to the industrial investments of private citizens.³

The disjunction between the revenue and spending sides of Congress was nevertheless troubling to Wilson and goes to his larger complaint in *Congressional Government* which was that the committee system was terribly fragmented, with no overall institutional leadership to provide a coordinating mechanism to ensure policy coherence, and no controlling party programs to ensure accountability to the voters at election time. As Wilson described the system in the late 1800s, "I know not how better to describe our form of government in a single phrase than by calling it a government by the chairmen of the Standing Committees of Congress. Wilson went on to call the

system “a disintegrate ministry” which “is constituted of selfish and warring elements; for chairman fights against chairman for use of the time of the assembly, though the most part of them are inferior to the chairman of Ways and Means, and all are subordinate to the chairman of the Committee on Appropriations.”⁴

The alternative to committee government, as Wilson saw it, was responsible party government through the caucus: “The caucus is meant as an antidote to the committees,” he wrote. “It is designed to supply the cohesive principle which the multiplicity and mutual independence of the Committees so powerfully tend to destroy.” The caucus was the ideal place to thrash out policy differences within the party and thereby “remove disrupting debate from the floor of Congress.” Behind the closed doors of the caucus, “frightened scruples may be reassured and every disagreement healed with a salve of compromise or subdued with the whip of political expediency.” The caucus was the drilling ground for the party “where its discipline is renewed and strengthened” its uniformity of step and gesture regained.” It would be difficult for the party “to keep its head amidst the confused cross-movements of committees” without being to pull together in caucus, get a sense of the party’s mind, and then “pledge itself anew to eternal agreement.”⁵

Party government, as opposed to committee government, was the ideal Wilson aspired to, yet something that had largely fallen into disuse since the first half of the nineteenth century, except for organizational purposes at the beginning of each Congress. “Our parties marshal their adherents with the strictest possible discipline for carrying elections,” he wrote, “but their discipline is very slack and indefinite when dealing with legislation. At least there is within Congress no *visible*, and therefore no *controllable* party organization.” Only occasionally, he went on does the caucus act as a “bond of cohesion” to whip the party together for some critical question.”⁶

Wilson’s *Congressional Government* was written just five years before the resurgence of party government in Congress through strong party leaders ascending to the throne of what would be called by its detractors, “Czar Speaker,” with the election of Thomas Brackett Reed (R-Maine) in 1889, and running through the speakership of Joseph Gurney Cannon (R-Ill.), from 1903 to 1910. In those days the Speakers chaired the House Rules Committee which had assumed the new role of scheduling legislation for floor consideration under special rules that determined the amount of debate time and the amendment process.

But the 1910 revolt of insurgent Republicans and Democrats against Speaker Cannon, which removed the Speaker from the chairmanship and membership on the Rulers Committee, was not the end of party government in Congress. Running in part against “Cannonism,” Democrats captured control of the House in the 1910 elections, moving from a 192-219 member minority status to a 228-

161 majority margin. The end of “Czar Speaker,” however, was not the end of party government. It simply took on the new form of “King Caucus,” as its detractors would call it, in which party policies and legislation were hammered out in the Democratic majority party caucus and then rammed through committee and onto the floor under the ironclad discipline of binding caucus instructions. The system lasted for roughly four years (1911-1914) before the House settled back into a form of committee government. Woodrow Wilson inherited his ideal of party caucus governance in Congress when he became president in 1913 and used it to enact his campaign promises into law. However, as he would eventually learn, Congress is not a parliament and the president is not the prime minister. Each has their separate roles to play under our Constitution.

Wilson as President

As noted in the introduction to this essay, one of Wilson’s first tests as president was to fulfill his party’s promise in the 1912 election campaign to lower tariffs. Because the speakership, as the controlling office, had fallen into disrepute with the rise and fall of Speaker Cannon, Democrats turned to their floor majority leader, Oscar Underwood (D-Ala.) rather than to Speaker Champ Clark (D-Mo.), to lead the party in caucus and on the floor. Underwood was also chairman of the House Ways and Means Committee and thus in the best position to assist the president with the party’s number one legislative priority.

Moreover, since the Speaker no longer made committee appointments. Democrats changed House Rules in 1911 to provide for the election by the House of all committees, upon the nomination of the party caucuses. In the Democratic Caucus, the responsibility from making nominations to the full caucus fell to the majority members of the Ways and Means Committee. So Underwood, in effect, held three important party positions in the post-Cannon era as majority floor leader, Ways and Means chairman, and chairman of the Committee on Committees--arguably just as powerful (if not more so) than the speakership under Cannon had been.

Since Democrats had retaken control of the House in the 1910 elections, they had two years to perfect their new party machinery in the final two years of Republican President William Howard Taft’s first term before that machinery could be put to the full test under a Democratic president. Underwood had no intention, though, of waiting for a Democratic president before taking his new caucus machine for a test run. Underwood was first elected to the House in 1894 on a platform of “tariff for revenue only,” and free silver, appealing to populists and Democrats alike. When he became Ways and Means Committee chairman in 1911 he had a chance to put his tariff beliefs into practice if not law. He put through a series of tariff reduction bills, schedule by schedule, much to the embarrassment of President Taft who had promised tariff reductions in his 1908 campaign for

the presidency. Taft was forced to veto the tariff reduction bills engineered by Underwood that cleared Congress.

Perhaps more importantly, Underwood's legislative leadership in the House over tariffs helped to forge the Democrats into an effective organization and helped lay the ground work for the Democrats' takeover of the White House and Congress in the 1912 elections. Underwood, as it turned out, was also instrumental in Woodrow Wilson winning the presidential nomination on the 46th ballot in a multi-candidate contest when Underwood threw his own supporters behind Wilson rather than his House leadership superior, Champ Clark.

By the time Wilson entered the White House, Underwood had already laid the groundwork for his priority push on tariff reduction legislation. The chairman had already conducted hearings in December and January on the tariff situation, and then had delegated the drafting of a bill to 17 subcommittees made-up of majority Democrats only. Wilson reportedly consulted frequently with Underwood while the bill was being developed. He summoned Underwood to the White House on one occasion and to urge him to eliminate a 15 percent duty on wool that the committee had decided to impose, and to lower the rate on sugar. The chairman and committee complied with the president's request.⁷

Underwood had assigned Representative Cordell Hull (D-Tenn) to chair the subcommittee on income tax. Hull, a 42-year old former state judge, was first elected to the House in 1908. As a freshman member, Hull thought the time was right to pass a graduated income tax. Even though the Supreme Court had ruled in 1895 that an income tax enacted in 1894 was unconstitutional, Hull felt the Supreme Court had changed enough in the interim that it would no longer shelter the wealth of the country from the only effective means of tapping it for a fair share of revenues. Hull worked with a group of bipartisan members, progressive Republicans and Democrats, to hammer out a proposal that was not too progressive so that it would not scare off potential supporters.

To blunt this move towards income taxation in 1909, Senate Finance Committee Chairman Nelson Aldrich (R-R.I.) worked with President Taft to preserve Republican unity by convincing his colleagues to accept a modest increase in the corporate income tax (described as "a special excise tax"), as well as to work for a constitutional amendment that would legalize a federal income tax. Aldrich realized there was growing support in the country for such an amendment, though he hoped it would fail.⁸ Much to his surprise, and that of others, the move for a constitutional income tax amendment caught on, and the amendment was ratified in 1913.

Hull wanted to make sure the government had access to the income tax in wartime and could

also use it as an emergency measure. “But to Hull,” writes historian Elliott Brownlee, “as well as for other income-tax enthusiasts, the revenue goals of the tax were far less important than the desire to use the tax to advance economic justice.”⁹ However, another account indicates that Hull “wanted a flat rate income tax” in 1913, but he yielded to the arguments of Representative John Nance Garner (D-Tex.) for graduated rates.”¹⁰

The product of the subcommittees (essentially based on the series of tariff reduction bills vetoed by Taft in the previous Congress) was then considered and approved by the 14 members of the majority. The income tax component from Hull’s subcommittee, comprising just 8 pages the 814 page bill, called for an exemption of \$4,000, with a basic rate of one percent for incomes up to \$20,000; an additional one-percent surtax for income between \$20,000 and \$50,000; two-percent on income between \$50,000 and \$100,000; and three-percent on income over \$100,000. The bill was introduced on April 12, 1913, just four days after Wilson delivered his tariff message to a joint session. It was reported from committee just 10 days later, and brought to the House floor in early May. While Hull delivered a sweeping defense of the income tax during House debate on the bill, and although some newspaper, like the *New York Sun* criticized the income tax as “taxation of the few for the benefit of the many,” there was little debate on the House floor about the income tax or the principle of progressive tax rates. Instead, what little attention was paid to that portion of the bill was in the form of amendments to increase to graduated rates to as high as 69 percent—though all such efforts were rejected. The debate lasted just two days, perhaps because most members considered the matter settled with the ratification of the 16th amendment.¹¹

The tariff/income tax bill passed the House on May 8, 1913, just two months after Wilson had taken office, by the substantial vote of 281 to 139. It was the target of an army of lobbyists on Capitol Hill for such varied interests as sugar, wool, cotton, paper, fruit, and more. As Wilson observed, “a brick couldn’t be thrown without hitting one of them.”

The key to Underwood’s success in the House was the use of his party’s binding caucus rule, adopted in 1909, under which a two-thirds vote in caucus bound party members to support the party’s position on the floor unless they deemed the measure unconstitutional or had made a contrary pledge to their constituents in the previous election. James S. Fleming describes the Underwood modus operandi as follows:

After a bill had been drafted by the Democratic members of a standing committee (often meeting with Underwood and sometimes President Wilson), it was typically submitted to a closed meeting of the House Democratic caucus...for an internal party debate and ultimately a vote binding all House Democrats to support the caucus decision on the floor of the House.¹²

For instance, on April 11, 1911, the following resolution was offered by Majority Leader Underwood in the Democratic Caucus, and adopted (and no doubt was used two years later to cover Wilson's tariff bill and other important "New Freedom" legislation):

Be it resolved, by the Democratic caucus that we endorse the bill presented by the ways and means committee...and pledge ourselves to support said bills in the house with our votes, and to vote against all amendments, except formal committee amendments, to said bills and motions to recommit changing their text from the language agreed upon in this caucus.¹³

This process obviously left the minority quite isolated and frustrated. One Republican member of the Ways and Means Committee, Representative Sydney Anderson (R-Minn.) resigned his seat on the committee in 1913 to protest how the caucus system had deprived him of his ability to fulfill his role as a public servant. As he explained it on the House floor, he had taken no part in drafting the Underwood tariff bill reported by the committee. Instead, it was first drafted by the Ways and Means caucus of Democrats, and then taken to the full Democratic Caucus where it was first amended. When it was finally brought back to the Ways and Means Committee it was reported out in 30 minutes with no opportunity for discussion. And, when it came to the House floor, it was debated for 15 hours, but any amendments offered were rejected on party-line votes because Democrats had been bound to oppose all but committee amendments.

Anderson charged in his floor speech that the caucus not only destroys the representation of the minority, but of a minority of the majority who are bound by the caucus as a unit. Moreover, the caucus system destroys the essential element of good legislation, "that the acts of Representatives should be always open to the scrutiny of the public." Anderson went on, "The caucus is the real legislative body and its proceedings are essentially secret."¹⁴

On September 24, 1913, House Republican Leader Sereno E. Payne (R-N.Y.), reflecting on the process by which the tariff bill had been considered, said, "You used to hear a good deal in the old days about 'Cannonism' and 'czarism' in this House, but we never have run up against any czar like the czar of the Democratic Caucus." Speaker Champ Clark stepped down from the Speaker's rostrum and responded from the well of the House:

Let us take next this continual howl about legislation by caucus. It is the most idiotic that has ever ascended to heaven within a generation....We must have organization in order to enact the will of the people into law, and we have got it, and we have had it for the last three years....Why did you not get your amendments adopted on our tariff bill? Because you did not have votes enough. All this talk of secrecy is of no avail....The people of the United States want to know what the Congress does. They are much more interested in results than in the method by which those results are worked out."¹⁵

The only indication of Wilson's direct involvement in negotiations over the income tax portion of the bill is an exchange of correspondence on September 4, 1913, with Senate Finance Chairman Furnifold M. Simmons (D-N.C.), in which the chairman asked for the president's comments on two alternative tax tables to be taken up by the caucus the following day: the committee proposal with a maximum surtax rate of 6 percent for income over one-million dollars; and a substitute by Senator James A. Reed (D-Mo.) with maximum rate of 8 percent for income over \$100,000. Wilson wrote back that it is not surprising that there are wide differences of opinion over what is a fair burden of taxation on incomes "which rise above the usual levels," but that, "my own opinion in the matter is that it is much safer to begin upon somewhat moderate lines, and I think that the proposals of the committee are reasonable and well considered.... [and] would commend themselves to the caucus."¹⁶

At the Democratic Caucus the next day it was agreed to apply the top, 6 percent surcharge to incomes over \$500,000 (instead of the original committee threshold of \$1 million), and the caucus action won Wilson's approval. Two days later, on September 7, the Senate passed the Underwood-Simmons Tariff Act with the income tax appended to it. The House subsequently adopted the Senate version with the higher income tax rates, and Wilson signed the measure into law on October 3. The final version established a one percent tax rate on individual and corporate income, but exempted single taxpayers earning under \$3,000 (plus an additional \$1,000 exemption for married taxpayers, and up to \$500 for each dependent child). It then established a graduated surtax of one percent on incomes of \$20,000-50,000, and so on, to a top rate of 6 percent for incomes of \$500,000 or more (thus making the highest rate seven percent). During the firsts several years of the new income tax, only about two percent of American households paid taxes; the tariff and taxation of tobacco and alcohol remained the most productive sources of revenue.¹⁷

In late 1914, Wilson summoned the chairmen of the Ways and Means and Finance committees, Underwood and Simmons, to discuss a pending deficit of \$100 million. His Treasury Secretary McAdoo had urged him to adopt "some form of well distributed internal revenue taxation" to address the deficit situation. Wilson told the two committee chairmen that, "Conditions have arisen which no man foresaw. They affect the whole world of commerce and economic production; and they must be faced and dealt with."¹⁸

The two chairmen set to work and were originally inclined to raise the income tax to provide one-third of the \$100 million needed to bring the budget back into balance. Wilson feared the income tax would not raise the money he needed fast enough and he summoned the chairmen back to the White House to urge they strike the income tax increase from the bill. "We will have to start

all over again,” Underwood told reporters as he left the White House. Consequently, the final bill that emerged from Congress in late 1914 was a mix of taxes on beer, wine, tobacco, gasoline, bankers and brokers, and a stamp on bonds, mortgages and various types of documents. The president signed the bill into law on October 22, 1914.

World War I had broken out the previous month, and Wilson did all he could to keep the U.S. out of it. But, given the loss of U.S. ships and lives on the high seas, by late 1915, Wilson saw the need for preparing for war, should the eventuality arise. He recommended to Congress a five-year naval build-up that would cost \$100 million a year, plus a similar program to purchase or build merchant ships. The question then arose as to how to pay for this naval build-up. Wilson turned to McAdoo to help put together a revenue package. In December 1915, Wilson sent the tax package to Congress, calling for a broad array of tax increases. These included lowering the levels of income exempt from taxation (thus expanding the tax base), renewing the tariff on sugar, and imposing a host of new excise taxes on gasoline, automobiles, bank checks, and on iron and steel. The package landed with a dull thud on Congress’s doorstep—“dead on arrival,” as the saying now goes.

The biggest uproar came from those now demanding as an alternative to a higher income tax an inheritance tax and taxes on the arms industries making huge profits selling goods sold to combatants in the war. If Wilson wanted to prepare for war, then he had better be prepared to finance it in a progressive manner. Elliott Brownlee calls this trade-off, “the single most important financial decision of the war,” and further writes that Secretary William McAdoo decided “to cooperate” with the group of insurgent Democrats in arranging wartime financing based on a highly progressive form of taxation. “Redistributional taxation,” writes Brownlee, “then became a major element of the Wilson administration’s program for steering between socialism and unmediated capitalism.”¹⁹

Other observers, however, argue that Wilson had little choice but to go along with the scheme since he no longer had the well-oiled, party legislative machinery he had enjoyed under former Ways and Means Chairman Oscar Underwood. Underwood had run for a Senate seat from Alabama in the 1914 elections and had won. Representative Claude Kitchin (D-N.C.) had moved up to the committee chairmanship. Although Kitchin had campaigned for Wilson in 1912, he was now a leading opponent of U.S. involvement in the war, and therefore was not particularly supportive of Wilson’s war preparedness plans. Nevertheless, he saw Wilson’s request as a way to leverage his own ideas for attacking wealth, special privilege, and corruption. According to Brownlee, the Democratic insurgents, led by Kitchin, “embraced taxation as an important means to achieve social justice according to the humanistic ideals of the early republic.” Consequently, “redistributional

taxation became a major element of the Wilson administration's program for steering between socialism and unmediated capitalism."²⁰

John Witte, on the other hand, is not so quick to wrap Wilson in this cloak of progressive taxation for social justice." He argues instead that it was the "dictates of war" that moved the administration in this direction, and that "there is little evidence of an independent interest in redistributing income through the tax system."²¹ The World War that broke out in September 1914, but which the U.S. did not enter until 1917, would eventually cost the U.S. \$50 billion, and federal spending from 1916 to 1918 would rise from \$742 million to \$14 billion. The war would bring the income tax into central play for the first time.

In any event, it is not clear from these varying accounts that Wilson cared so much as to how the revenues were raised as he was that the war preparedness plans move forward as rapidly as possible. Kitchin and his band of reformers, populists and progressives, on the other hand, saw the preparedness drive as "a rich man's scare." "If the people really knew the facts" about the spending increases in the offing," said Kitchin, "and the danger to our country and its institutions," not one in a hundred would favor it.

By January 23, 1916, Secretary McAdoo had agreed to drop some of the special taxes Wilson had proposed and instead increase the income surtax, lower exemptions and retain sugar duties. The next day, the Supreme Court upheld the 1913 income tax law, further propelling the Democrats in their efforts to raise the tax as a solution to the spending problem. Consequently, the Ways and Means Committee under Kitchin wrote a substantially more liberal tax program than the one favored by McAdoo. When the bill got to the House floor in July, Kitchin spoke for three hours, extolling the legislation as "nonpartisan" and "the best labor and best thought and judgment of the Committee." The income tax portion alone was designed to raise \$100 million by increasing the normal rate from 1 to 2 percent, and to increase the surtax for incomes greater than \$500,000 from 7 percent to 10 percent. It also reinstated the estate, taxed war munitions, and adjusted taxes on beer, wine, tobacco and other things. While some opposition was raised from Republican ranks, the bill passed on July 10 by a vote of 238 to 42, with many Republicans in support. The Senate made the bill even more radical, raising the income surtax rate to 13 percent (meaning a top rate of now 15 percent). The Senate easily passed the bill, 42-16 on September 6, with five dissident Republicans in two. Moreover, the Senate prevailed on most of its provisions in conference, including the 13 percent surtax on incomes over \$1 million (with the top rate thus at 15 percent). Personal exemptions remained at \$3,000 for single persons and \$4,000 for married couples. As Steven Weisman describes it, in what amounted to "another clear triumph of the progressive and

agrarian Democrats over the misgivings of Wilson and McAdoo, the President signed the bill into law on September 8.”²²

The 1916 revenue act marked the first time an income tax had been raised substantially for a specific purpose, war, with the intention of producing large sums of revenue. As Cordell Hull, the father of the modern income tax would later write, “The principle of income tax was now permanently established, and that the bill had “laid the cornerstone for the structure of government financing the first World War, the peace period following, and the Second World War.”²³

While the income tax would stand as one of the most significant accomplishments of Wilson, and a truly last legacy, he was, as speculated above, mostly removed from the haggling over details of the tax, consumed instead by preparations for war. In early 1917, Wilson sent another revenue measure to Congress, calling for yet another increase in the income tax. Chairman Kitchin at Ways and Means had another idea and that was to impose an 8 percent tax on corporate income after an exemption of \$5,000, and a separate 8 percent tax on a company’s invested capital. The House passed the bill on February 1, sending it to the Senate just as German subs sank two American ships. The Senate passed the bill shortly thereafter, sending it on to the president for his signature of March 3. By April 2, 1917, Wilson was standing before a joint session of Congress, requesting a declaration of war. This led to an even greater need for additional revenue. The debate over taxing versus borrowing to finance the war raged over several months across the country. In the end, McAdoo set a loan-to-tax goal of 3 to 1. But what taxes should be imposed, and by how much? Once again the question was raised as to whether to broaden the tax base or raise the rates on the wealthiest. Kitchin tried to strike a balance in Ways and Means by raising \$1.8 billion in taxes, partly by reducing the exemption, and partly by raising the rates on high end corporate and individual incomes, and finally, to increase a range of excise taxes and duties. When the bill reached the floor, one member of Ways and Means, Joseph W. Fordney (R-Mich.), complained about the tax on automobile sales, saying he had fought it in committee, “I am black and blue from head to my heels by the punishment the Committee has inflicted on me.” But, at the end of the day, he voted for the bill anyway as an act of patriotism. “We need the money,” he said.²⁴

Before the bill had even fully made its way through the Congress, McAdoo came back at Congress asking for \$2.245 billion given the mounting costs of the war. A debate ensued as to whether to just tax war profits or all excess profits. Kitchin favored the latter, but Wilson and McAdoo thought this was contrary to the tenets of capitalism. Instead, it was decided to tax war profits— that is, the windfalls earned by businesses since the advent of the war. In the end, a compromise between the House and Senate was worked out that combined forms of a war profits

with an excess profits tax that was estimated to raise \$2.5 billion. The measure also included new levels of “normal” taxes and “emergency” surtaxes, lowering the single exemption to \$1,000 and the married exemption to \$2,000—adding some 5 million more Americans to the tax rolls. The top rate was raised from 13 percent to 63 percent on incomes of over \$1 million, and to 67 percent on incomes over \$2 million.²⁵

No sooner was the 1917 tax package signed into law than new demands built-up from the war, meaning even more revenues would be needed. McAdoo thought another round of taxes on war profits would be necessary, but Wilson was clearly torn and suggested final action on the bill be deferred until the following February, after the mid-term elections. Republicans rejected this, forcing the president to press with an immediate request.

In his famous “politics is adjourned” address to a joint session of Congress on May 27, 1918, the president, made a strong pitch for more revenues. “Our financial program must sustain it to the utmost. Our financial program must no more be left in doubt or suffered to lag more than our ordnance program or our ship program, or our munitions program or our program for making millions of men ready.” In defense of the new taxes requested on war profits, he said the American people were not just willing to send their men to possible death overseas, but “to bear any burden or undergo any sacrifice” to win the war including taxes. “We need not be afraid to tax them, if we lay taxes justly.” If the American people know that the burden is being distributed equally, he went on, “they will carry it cheerfully and with a sort of solemn pride.” As Weisman wryly notes, “Wilson made it sound almost as if Americans were actually seeking a tax increase in order to feel the joy of sacrificing their hard earned money for a righteous cause.”²⁶

However, Congress was exceedingly weary, and Kitchin was “unhappy, disgruntled, querulous,” according to the *New York Times*. McAdoo urged Wilson to prod Kitchin into cooperating with the administration by embracing a tax on war profits in lieu of the steep excess profits tax Kitchin favored. Eventually an \$8.2 billion tax bill was reported from Ways and Means. It increased the income tax to 6 percent on incomes below \$4,000, and 12 percent on incomes over \$4,000, with a maximum surtax rate of 65 percent. As an alternative to the excess profits tax, an 80 percent tax on war profits was imposed. The starting rate on excess profits tax was set at 35 percent—higher than McAdoo wanted but less than Kitchen desired. The bill passed the House in September, but the Senate adjourned in November for the elections without completing action.

Meantime, Wilson took his case to the country in the fall mid-term election campaigns, declaring at one point that the Allies would see a Republican victory as “a repudiation of my leadership,” thereby turning the election into a referendum on his leadership. The ploy backfired

as the electorate renounced the divided Democrats at the polls and turned both houses of Congress over to Republicans control. A few days later, on November 11, an armistice in the war was declared.²⁷

The tax bill finally cleared both houses in February 1919, while the Democrats were still in a majority. The War Revenue Act of 1918 would raise \$6 billion, four-fifths of which would come from income taxes, war profits and excess profits and estates. The act increased the income tax on lower incomes by imposing a 12 percent normal tax in 1918 (and 8 percent thereafter) on incomes over \$1,000 for single taxpayers (\$2,000 for married couples), with surtax rates for the income tax going up to 77 percent.²⁸

Wilson's ideal of party government, with the president calling the shots, had been sharply halted with the changeover from Underwood to Kitchin as majority leader and Ways and Means Committee chairman. At a August 1918 cabinet meeting, Wilson referred to Kitchin as "that distinguished stubborn North Carolinian who when he made up his mind would never open it." Kitchin had particularly upset Wilson by extending the income tax to the salaries of state officials, federal judges, and the president of the United States. Wilson considered vetoing the measure as unconstitutional but his top aide, Colonel House, persuaded him against it on grounds that it would seem hypocritical and selfish.²⁹ The era of party government had faded; committee government was on the rise.

Epilogue and Conclusion

The Republican controlled Congress that took over in March 1919 began dismantling the governmental and tax structures that Wilson had erected to carry out the war. Between 1921 and 1929, Congress enacted five separate tax cuts, despite the need for revenue to retire the war debt. The war profits tax was abolished and the excess profits tax and the tax rates on personal and corporate income were sharply reduced.

Beginning in 1921, with Republican President Warren Harding in the White House, the Republicans in Congress began to install a wide range of special tax exemptions and deductions and preferential treatment of capital gains and a variety of deductions favoring particular industries such as the oil and gas depletion allowances. Brownlee notes that this new tax structure brought with it "enhanced power for the tax writing committees of Congress" as legislators on the committees learned just how much influence they could wield "through the incremental, relatively invisible consideration of valuable loopholes." In turn, writes Brownlee, they were able to promote what amounted to new expenditure programs by creating pockets of privilege with the tax code, thereby

winning or maintaining the support of powerful groups and individual while avoiding the political costs associated with raising taxes.³⁰

Finally, Weisman notes that, “Whereas in 1912 the nation had turned drastically to the left, perhaps without realizing it, eight years later it turned drastically to the right.” Wilson’s New Freedom legislation was all but forgotten as was progressives’ unfinished agenda . Nevertheless, Wilson’s initiatives had pointed the way for future efforts to finance the modern welfare state as enacted through the New Deal and preserved for the rest of the century.³¹

Certainly the history of our country is marked by these swings between a more active and a less active government, with all the requisite adjustments in financing to accommodate these shifts. However, it is difficult to imagine in the Twenty-first Century how Congress would ever begin to cut back on all the established programs that have come to be accepted by both parties to win favor with various constituencies. And therein lies the conundrum for the tax writing committees who must continue to finance the modern welfare state while also accommodating the demands of those wishing to pay less in particular taxes.

The relationships between the president and Congress over tax matters has varied over time depending on the parties controlling the two branches and the nature of the tax change being contemplated. Congress has certainly found it easier to accommodate a president who wants to cut taxes than one who wants to raise them. When presidents have found it necessary to come to Congress to raise revenue for emergency needs, Congress has generally been responsive, though always insistent on leaving its own mark on any revenue measure.

In an era of returning deficits, after a brief interval of deceptive surpluses, Congress is again confronting the age-old problem that has plagued so many of its predecessors, and that is how to find the ways and means to keep expenditures and revenues in relative balance (or at least in a credible and manageable, stimulative imbalance). Because the tax code has grown so complex once again with all manner of special tax provisions, these become just as contested as do spending and entitlement programs, both when it comes to making political points with valued constituencies (especially in an election year), and when it comes to finding ways to reduce deficits. As former Senate Finance Committee Chairman Russell Long (D-La.) was fond of reminding his colleagues during the era of budgetary constraints in the 1980s, the common refrain when it was time to cut the deficit was, “Don’t cut you and don’t cut me; cut that fellow behind the tree.” And, when a budget crunch coincides with an election year, the woods begin to look mighty sparse.

Endnotes

1. Wilson, a great admirer of the British parliamentary system and a believer in the persuasive powers of oratory, still holds the record for the most appearances before joint sessions of Congress—24 in eight years (not counting inaugurals)—with Franklin Roosevelt placing a weak second with 17 appearances before joint sessions in 13 years, and Truman third with 15 appearances in 8 years.
2. *The Papers of Woodrow Wilson*, volume 27, 1913, Arthur S. Link, editor, (Princeton: Princeton University Press, 1978), 271.
3. Woodrow Wilson, *Congressional Government: A Study in American Politics* (Baltimore: Johns Hopkins University Press, 1956 paperback edition; originally published in 1885), 123.
4. *Ibid*, 82-83.
5. *Ibid*, 212.
6. *Ibid*, 80.
7. Donald R. Kennon and Rebecca M. Rogers, *The Committee on Ways and Means: A Bicentennial History, 1789-1989* (Washington: Government Printing Office, 1989), 240-250.
8. W. Elliott Brownlee, *Federal Taxation in America: A Short History* (Washington: Woodrow Wilson Center Press; Cambridge [England]; New York: Cambridge University Press, 1996), 43.
9. *Ibid*, 44.
10. Kennon and Rogers, 251.
11. Steven R. Weisman, *The Great Tax Wars: Lincoln to Wilson* (New York: Simon & Schuster, 2002), 276-78.
12. James S. Fleming, “Oscar W. Underwood: The First Modern House Leader,” in *Masters of the House: Congressional Leadership Over Two Centuries*, Roger H. Davidson, Susan Webb Hammond, and Raymond W. Smock, editors (Boulder: Westview Press, 1998), 104.
13. George B. Galloway, *History of the United States House of Representatives* (Washington: Government Printing Office, 1965), 125-26.
14. Cited in a special order speech by Representative John B. Anderson (R-Ill.), on “King Caucus,” 120 *Congressional Record*, 19,854 (1974).
15. *Congressional Record*, September 24, 1913, 5157.
16. Woodrow Wilson to Furnifold M. Simmons, September 4, 1913, in *The Papers of Woodrow Wilson*, volume 28, Arthur S. Link, ed. (Princeton: Princeton University Press, 1978), 254.
17. Weisman, 279-81.
18. *Ibid*, 292-94.

19. Brownlee, 49.
20. Ibid, 149.
21. Ibid, 50, footnote 3, cites John Witte, *The Politics and Development of the Federal Income Tax* (Madison: University of Wisconsin Press, 1985), 81-82.
22. Weisman, 302-307.
23. Ibid, 308.
24. Ibid. 325.
25. Ibid, 326-29.
26. Ibid, 332.
27. Ibid, 335.
28. Kennon and Rogers, 256-58.
29. Ibid, 259.
30. Brownlee, 60.
31. Weisman, 344.