

From  
**Cracking the Code**  
**The Fascinating Truth About Taxation In America**  
© 2003, 2007 by Peter E. Hendrickson  
All Rights Reserved

**Why It Matters**



There is not and never has been a federal tax on private receipts (or the activities that produce them), and in fact, as recently as the early 1940's, no truly serious attempt to pretend that such a tax existed had ever been made. Nonetheless, such a tax seems to be an integral part of our lives now-- indeed, so ubiquitous as to seem a part of the natural order. This is not because it is or has become legal, inevitable or fit. It is merely because the interest served by the pretense is rapacious and amoral, its beneficiary-- and therefore defensive-- cadre is large and well-positioned, and its victims are immersed in disinformation.

In fact, the "tax's" ubiquity is carefully generated and maintained, for, being illegal and a fraud, its success relies upon a thicket of lies so necessarily comprehensive as to have become background noise in most people's lives. It has been famously observed that a tangled weave is needed to implement a deceit. A racket by which 250 million people are conned every day for nearly the whole of their lives out of an enormous portion of their wealth production requires and inspires a web of such magnitude and pervasiveness as to strongly endanger, if not choke off completely, the very objective cognition needed to perceive its existence.

Indeed, this scheme has ensconced itself so thoroughly in the world-view of many people that they themselves contribute to its density. Partaking of the character of all big, institutionally promoted lies, the private-receipts tax scheme induces in many of its victims a "Stockholm Syndrome" in which those unable to escape an assailant come to terms with their plight through a delusional sublimation of their own interests to those of their victimizer. Such victims construct "facts" as needed to suit the requirements of the delusion, and abandon contrary knowledge. These "facts" add to the numbing and confusing din to which every other target of the scheme is subjected, and promote a lemming-like embrace of what seems to be the general understanding of the truth, or at least the wisest path to follow. This might be described as the practice of irrational ignorance.

As the ranks of such capitulating victims grow, the delusion generates a defensive political energy favoring its object which is broader and more subtle than the simple self-interest of its beneficiaries: The delusion becomes the "common knowledge"-- a part of the worldview of its victims. Any assault on the underlying issue is necessarily burdened by an "everything you know is wrong" character which will be resisted instinctively even by those against whose interests it works.

Accordingly, the scheme-- cloaked thoroughly and subversively in a mantle of fear, confusion and legal chicanery-- is now, at best, a Procrustean fiction in obeisance to which all contradictory truths must be distorted. The harm it does is fundamental and growing, and as long as it is allowed to continue no other matter of public policy merits consideration. That last is, of course, an extreme statement, and one which might be made by anyone regarding the particular subject of their focus, but consider the following:

- The implementation and defense of this scheme has required and involved the corrosion of the rule of law in general, and of

the integrity of our individual rights and the related Constitutional limits on government power in particular. In service to this voracious monster, the courts, all the way up to the Supreme Court, have let stand uncorrected (and occasionally participated in) corrupt administrations of 'law' effectively gutting the Fourth Amendment protection against general warrants; the Fifth Amendment protections against being forced to provide evidence against oneself and of due process before a loss of property; and the Seventh Amendment guarantee of a jury trial in civil cases. Not the least of this class of offense has been the institutional characterization of punishments of ruinous proportion, in response to alleged "crimes of omission" in which the government claims to be the aggrieved party, as "civil" penalties-- in order that Sixth Amendment protections of a trial by jury for the accused can be circumvented.

The scheme has subverted the guarantee of an independent judiciary by tricking or hounding private citizens into "administrative courts" and has fostered the corrupt practice of congressional delegation of legislative authority to executive branch bureaucrats. All of this and more to defend a scheme so ungainly in its attempt to be what it is not as to cost 65 cents in compliance and collection expenses for every dollar collected (see 'Unhappy Returns', James Payne, Lytton Research & Analysis, 1992).

The beneficiaries of the scheme, in order to defend the extension of the "income" tax from what is lawful to what is lusted after, have been a vigorous force behind recasting the Constitution as a 'living document' (which is to say a malleable tool of demagoguery and craft) susceptible to perversion in all its parts. Once the manipulation or redefinition of any Constitutional language is allowed to stand, all the law becomes what the re-definers say it is, and anything goes. Among the ill effects of this process is the raising of generations of cynical and nihilistic citizens, taught in childhood of our great founding

principles but growing up in a through-the-looking-glass reality which puts the lie to them all.

- The tax, as fraudulently administered and defended, is a defiance of federalism and a subversion of sovereignty. The original Articles of Confederation provided no power of taxation to the federal government, because such a power was perceived as dangerous to liberty, in part under the principle that the more distant the taxing power from the citizen, the less responsive it would be to his oversight and discipline. In reluctantly granting a taxing power in the reformed Constitution, specific limitations were placed upon the two forms permitted in order to ensure that the people would retain the ability to restrain a spendthrift congress and exercise their ultimate sovereignty. Specific limitations were also placed upon the objects for which taxes could be sought. As Supreme Court Justice Joseph Story observes in his 1833 Commentaries on the Constitution:

*§ 904. Before proceeding to consider the nature and extent of the power conferred by this clause, and the reasons, on which it is founded, it seems necessary to settle the grammatical construction of the clause, and to ascertain its true reading. Do the words, "to lay and collect taxes, duties, imposts, and excises," constitute a distinct, substantial power; and the words, "to pay debts and provide for the common defence, and general welfare of the United States," constitute another distinct and substantial power? Or are the latter words connected with the former, so as to constitute a qualification upon them? This has been a topic of political controversy; and has furnished abundant materials for popular declamation and alarm. If the former be the true interpretation, then it is obvious, that under colour of the generality of the words to "provide for the common defence and general welfare," the*

*government of the United States is, in reality, a government of general and unlimited powers, notwithstanding the subsequent enumeration of specific powers; if the latter be the true construction, then the power of taxation only is given by the clause, and it is limited to objects of a national character, "for the common defence and the general welfare."*

*§ 905. The former opinion has been maintained by some minds of great ingenuity, and liberality of views. The latter has been the generally received sense of the nation, and seems supported by reasoning at once solid and impregnable. The reading, therefore, which will be maintained in these commentaries, is that, which makes the latter words a qualification of the former; and this will be best illustrated by supplying the words, which are necessarily to be understood in this interpretation. They will then stand thus: "The congress shall have power to lay and collect taxes, duties, imposts, and excises, in order to pay the debts, and to provide for the common defence and general welfare of the United States;" that is, for the purpose of paying the public debts, and providing for the common defence and general welfare of the United States. In this sense, congress has not an unlimited power of taxation; but it is limited to specific objects,--the payment of the public debts, and providing for the common defence and general welfare. A tax, therefore, laid by congress for neither of these objects, would be unconstitutional, as an excess of its legislative authority. In what manner this is to be ascertained, or decided, will be considered hereafter. At present, the interpretation of the words only is before us; and the reasoning, by which that already suggested has been vindicated, will now be reviewed.*

Justice Story proceeds to a simple, straightforward and impeccably logical argument establishing the accuracy of his analysis (which can be found online at [http://www.constitution.org/js/js\\_314.htm](http://www.constitution.org/js/js_314.htm)).

These elements work together, politically and practically, to discipline the state. The mechanism of Constitutional direct taxation requires-- in the form of an individual, positive act of Congress and the executive-- an identification of the subject of the tax, the purpose of the expenditure, and the specific amount proposed to be collected; while indirect taxes are for the most part avoidable at the will of the citizenry. From the birth of the nation until 1943 this disciplined system proved itself the goose that lays the golden eggs by nurturing the laissez-faire economy that not only stood on its own merits as the only truly moral system, but grew to become one of the greatest benefactors of humanity known to history. American freedom, unburdened as it was by an interfering and confiscatory government, unleashed a productive and innovative genius that uplifted the world. Since then, the antithesis of discipline has taken control.

In effectively imposing, through corrupt and fraudulent administration, an unlimited, unapportioned direct tax on property, the "income" tax scheme has opened a spigot of money into the federal treasury, for no specific purposes, in no specific amount, and by a process all but unavoidable by the "tax" payer. The intended restraint is nullified, and the individual authority of any single citizen is drowned in an ocean of the commons, left with only the thin reed of one vote among 200 million with which to try to turn out the spendthrifts.

Consequently,

- The fraudulent "income" tax scheme is the mother of the activist state. While many programs partake of, and contribute to, the legal and philosophical corruption mentioned earlier, it is the easy money provided by the "income" tax scheme that feeds

them all. Government in the United States spent more money (in inflation adjusted dollars) in 2001 alone than it did in the 114 years from 1787 to 1900 *combined* (Stephen Moore, Institute for Policy Innovation report #161, 2002). Not only was this money spent indiscriminately and with abandon, but most of the spending was actively harmful to the interests of those from whom it was taken. Without undertaking to assess particular programs, I will declare it axiomatic that as the amount of money available for government redistribution rises so too does the political servicing of special, narrow interests in defiance of, and therefore to the detriment of, the general market forces upon which we all rely for accurate, reliable information and a level playing field on which to compete. With government at all levels controlling about 50% of the American GDP through taxation (roughly 60% of which proportion is taken through the "income" tax scheme), such occasions are myriad.

This is real "supply-side" economics. An incoming supply of money-- with which constituents can be bribed, patronage financed, and power-bases expanded-- creates a demand for programs by which it can be justified (and every "program" once established becomes a supply of justification, beneficiary constituents, and campaign cash).

At one time, particularly during the first century of the nation's existence when Constitutional direct tax submissions addressed most federal revenue needs other than the extremely insignificant routine operational budget (financed mostly through tariffs), a special expenditure requirement led to the (usually temporary) establishment of a particular revenue stream. Since the successful implementation of the current withholding scheme during the emotional and distracted years of the second world war, the process has been reversed, with the existence of the revenue stream leading to the adoption of special expenditures and the maintenance of old ones whose *raison d'être* has long passed. The federal revenue process has thus gone from being a budget to being a sort of a defined-

benefit plan, with benefit growth more-or-less matching the steady growth of the revenue stream.

And it *is* steady, and inevitably so; the nature of the scheme ensures this. In times of economic contraction, the federal "income" tax revenue is protected by "bracket creep". This is the pushing of a given amount of wealth-production, such as a worker's annual output, into a higher "tax" bracket (seizure of a larger percentage of the wealth) as the number of dollars needed to represent (and compensate for) that output increases due to the inflation. The activating inflation (expansion of the money supply in excess of the rate of economic expansion) is an inevitable characteristic of contraction-- and is itself a guarantor of the continuity of the federal revenue. Inflation, after all, is nothing more than the injection into the money supply of unaccounted for-- in other words, free-- currency by way of government spending. As such, it represents an economic gain to the government exactly proportional to the devaluation of the public supply of currency. (It may, by the way, be more accurate to say that recession is an inevitable characteristic of inflation, rather than the other way around, but that is a subject for another book).

During economic expansion, the scheme provides for a similar and even more aggressive growth phenomenon in the federal revenue process-- because the revenue arising from a general tax on all economic activity (to which the scheme, in practice, amounts) automatically increases with growth in the economy. Every new business, every new worker, every new market and every productivity boost represents an increase in the scheme's "tax base". This is why the federal budget has held basically steady as a percentage of the economy since the dedicated implementation of the "income" tax scheme in the mid 1940's despite the relative explosion of personal wealth and general productivity improvements during the same period, both of which should have diminished the government share of the economy.



In the real world, of course, the kid who cuts your grass doesn't get an automatic and proportional increase in his price per acre as your wealth increases; rather his price, in real dollars, stays about the same-- and diminishes as a percentage of your increasing wealth. A legitimate, need-based (demand-driven) federal budget is subject to the same simple economic principles. Only in the looking-glass world of the "income" tax scheme can the federal revenue have become a cancerous organic component of the general economy, sharing the larger organism's growth rate in good times and exceeding it in bad.

In the end, the only aspect of the current federal revenue process still reminiscent of budgeting is the occasional tax-rate (or object) fine-tuning which is undertaken to shift attention away from some particular boondoggle that has errantly caught the public eye. This is not actual budgeting, of course, it's just smoke-and-mirror politicking. Overall, the level of spending just continues to go nowhere but up, year after year.

- The scheme, as fraudulently administered and defended, is inherently divisive. When control of 50% of the nation's wealth production is in play, the individual interests of everyone are also at stake; therefore, influencing that control becomes the natural imperative of all citizens with the requisite capacity of either wealth or numbers-- and the shameful victimization of all those without.

Thus, in asserting broad and inescapable claims, the "income" tax scheme induces in the community the arbitrary, degenerate and brutal *"war of all against all"* that darkened Thomas Hobbes's narrow, but celebrated, vision of human relations-- and against which the Founders provided, through careful and deliberate limitations on the powers and purposes of their creations. Hobbes, perceiving that a power vacuum results in anarchy and chaos, but not fully understanding the dynamics of individual self-interest, and not guided by respect

for individual rights, saw no alternative but a centralization of power-- a view embraced and promoted then and now by anyone who wishes to exercise power over others.

It was the Founders' superior understanding that any centralization of significant power simply institutionalizes and makes constant the abuse of some by others, producing steady-state oppression punctuated by periodic struggles for supremacy in the all-or-nothing relationship. They also recognized that this was true not only of an autocracy or oligarchy but also of the alternative of an unrestricted democracy, which inevitably devolves into a self-eviscerating despotism as a majority learns that it can command power to its benefit at the inescapable expense of a victimized minority. As James Madison observed, *"Democracies have been found incompatible with personal security or the rights of property; and in general been as short in their lives as they have been violent in their death."*

Their deep comprehension of, and reverence for, the principles of sovereignty and natural law led these brilliant men unerringly to the true solution: The institutional acknowledgement that power originates in each individual citizen. This diffuse power-- accompanied by a fluid civil mechanism with which it can be coordinated at need, but dependent on the voluntary, self-interested cooperation of its disparate elements-- uniquely minimizes the incentive for ruinous and bitter struggles for its control, provides sufficient security for participants, and ensures that abuse and oppression at its hands would be only isolated, occasional and brief. (Though it may offend the socialist sensibility, no small part of the benefits of this solution are in its providing the best assurances that the wise and prudent might avoid, or at least survive, the ill effects of the infatuations and mis-directions of the foolish, however common foolishness might become).

Today, the centralization of control over half the productivity of the nation through the "income" tax scheme

undoes all these benefits of the Founder's genius. Commanding the labor of the population by seizure of its fungible fruits, the state thereby exercises more dominion over Americans than was suffered by medieval serfs at the hands of their feudal lords; and the micromanagement of their lives financed by (and, incredibly, used as a justification for) much of that pelf has no parallel outside of the most despotic of totalitarian experiments. The struggle to control this enormous power-- against which no one is secure and which is inherently abusive and oppressive-- has become the national pastime, incidentally corrupting even the simplest and most fundamental elements of the political process. Political philosopher P.J. O'Rourke has concisely summarized the general character of this effect in observing,

*"When buying and selling are controlled by Washington, the first things to be bought and sold are politicians".*

- The nature of the fraudulent tax scheme impels its beneficiaries to encourage (and, insofar as it is within their power, to produce) an ignorant population. A great historical ignorance is necessary to permit the embrace, for example, of the government-promoted myth that in 1913 (when the 16th Amendment was passed) the ascendant and muscular populist movement fastened upon the country a tax reaching all economic transactions-- including the recompense from long hours of labor received by the common workers of which it was predominantly composed. That such a thing would be proposed by any political majority is unlikely at best; that it should have been done by this particularly class-conscious movement, nurtured as it was by a conviction that fat-cat robber-barons controlled the federal government-- including the application of its taxing powers-- is absurd.

Comparably ludicrous is the attendant implication that the drafters of such a self-inflicted wound must simply have failed to recognize the need to repeal (or at least modify) Article 1, Section 9, despite their amendment's being a response to a

73-page Supreme Court opinion which dwelt often and at length on just that portion of the Constitution. The truth, of course, is that the drafters did not recognize such a need because there was no need. The 16th Amendment had no purpose beyond establishing that the robber-baron contingent of government contract-holders, lease-holders, license-holders and bond-holders-- otherwise subject to the existing indirect excise on the "gains, profits and income" resulting from the exercise of such government privileges-- could not shield its federally connected activities from the tax by asserting their association with personal property.

That these myths, and others of the same ilk, are even in circulation, considering the clear words of the Constitution (not to mention the Supreme Court's frequently repeated declarations that, "*The provisions of the Sixteenth Amendment conferred no new power of taxation...*") is a testament to the abject failure, at the very least, of the government education industry for which we pay so much-- if not its calculated subordination to the interests of the scheme's beneficiaries. All of the corruptions of law, morals, prudence and understanding essential to the "income" tax scheme can only hold sway over a population generally weak in both knowledge and wisdom. It is, therefore, in perfect harmony with the scheme that governments at all levels have complacently or complicitly allowed the public education industry to steadily devolve from its original mission of preparing sovereign citizens for the responsibilities of adulthood into a combination of day-care, vocational training, and laboratory for unproven 'educational' fads.

A recent report on the state of civics education in America today by the National Center for Policy Analysis reflects this degeneration:

*"According to a survey of top seniors at 55 colleges and universities by the Roper organization:*

- *While nearly 100 percent could identify cartoon characters Beavis and Butthead and rapper Snoop Doggy Dogg, only 34 percent knew George Washington was the American general at the battle of Yorktown.*
- *Only a third were able to identify the Constitution as establishing the division of powers in the U.S. government.*
- *Eighty-one percent of those top students earned a D or F in response to basic historical questions.*

*Only 25 states now require any civics education in public schools at all, and U.S. adults finished last in a nine-nation survey asking respondents to identify regions and countries on an unmarked map of the world. Fourteen percent couldn't even find the United States."*

Analyzing the 1998 National Assessment of Educational Proficiency, [wakingbear.com](http://wakingbear.com) observes that,

*"The NAEP test showed that 35% of America's high school seniors didn't even have an understanding of civics that experts consider "basic." Another 39% only scored at the basic level. Just 22% of seniors had a "proficient" understanding of how the American government works. And one in 25 scored at the "advanced" level.*

*Results for the other grades tested - 4th and 8th - mirrored those of the high-school seniors, with less than one in four students scoring at or above the level deemed "proficient." And a closer look at high-school seniors' responses to individual questions often suggests they do not know why American government is set up the way it is. For example, just one in four seniors could come up with two ways the U.S. system of government prevents the exercise of "absolute arbitrary*

*power" on the part of the government. Among the 14 possible answers were such basics as the Bill of Rights, an independent judiciary, civilian control of the military - and the right to vote.*

*On a multiple-choice question asking the purpose of the Bill of Rights, one-third of high school seniors did not know that it was written to limit the power of the federal government. Not one in 10 seniors could identify two ways that a democracy benefits from the active participation of its citizens. Just over a third knew that the Supreme Court pointed to the Constitution's 14th Amendment when it began to overturn segregation laws.*

*That shouldn't come as much of a surprise. Other surveys, both formal and informal, suggest that America's future voters and jurors simply do not know much about the country's founding.*

*In a 1998 poll conducted by the National Constitution Center, not one in 50 American teenagers could identify James Madison as the father of the U.S. Constitution. Not even half could name the three branches of the federal government. And not one in ten could name the landmark Supreme Court case (*Brown vs. Board of Education*) that ended segregation in the public schools. And in an informal survey of Bay area teenagers, *San Francisco Examiner* reporter Emily Gurnon found that less than half of the 4 dozen teens she quizzed could name the country from which the U.S. won its independence.*

*Gurnon asked what July 4th celebrated. One high-school graduate told her, "It's like the freedom. Some war was fought and we won, so we got our freedom." From which country? That graduate didn't know.*

*Another high school graduate also knew that July 4th celebrated America's independence. From which country? "I want to say Korea," he told Gurnon. How long ago did it take place? "Like 50 years," he guessed."*

The rapid spread of government schooling during the 20<sup>th</sup> century was, undoubtedly, innocently coincidental with the concurrent implementation of the "income" tax scheme. Similarly, the de-emphasis of history, logic, and meaningful "civics" in those schools over the last forty years probably serves, and is primarily responsive to, other interests. Although it would be too much to blame the uninterrupted decline of quality in public schools and their curricula on the scheme, still, that decline has unquestionably contributed to its success. Applying the principle of 'cui bono', it is reasonable to conclude that the governments which control the public schools have been operating under a powerful incentive to simply let them continue to fail. Thus, this pernicious fraud manages not only to darken our own minds and lives, but to blight those of our children as well.

- Effectively presented as an involuntary requirement, the scheme corrupts our fundamental principle of equal treatment under the law with a progressive structure under which some citizens are able to force a benefit for themselves out of the pockets of their neighbors. This callous design, intended to maximize the protective political support for the scheme by invoking Shaw's principle that, *"A government which robs Peter to pay Paul can always depend on the support of Paul"*, engenders institutional endorsement of the proposition that a form of slavery is a fundamental element of social justice. (Where the tax lawfully applies, of course-- as an expected cost of voluntarily enjoying the benefit of federal privilege-- unequal

treatment is no more unfair than is having to pay more for good seats at the show).

This is a particularly noxious perversion, in that under this "justice" a heavier burden is extracted from some Americans precisely because they have *already* made a greater contribution to the common weal than others. After all, one earns one's *unprivileged* receipts solely by serving the interests of one's neighbors.

Furthermore, contrary to the many false intellections marshaled to support this aspect of the scheme, the more such receipts that one's good service brings in, the *less* demand one places on, and the *less* benefit one has from the community resources-- making the progressive structure of the tax even more obscene. The reality is that a successful wealth-producer has typically been more adamant and persistent than others in *defying* and surmounting the public infrastructure and its typically sclerotic defense of the status quo. (The exception is those who have used government to their advantage; their gains, of course, *are* the lawful objects of the "income" tax as properly applied).

As to public services, the well-to-do place far less demand on such expenses than others-- they draw no public welfare, they are privately insured, they live where the local services are equitably paid for out of (typically) high local tax rates. In other words, they pay their own way. The vigorous efforts of many in positions of authority and respect to seduce Americans into accepting the standing of these truths on their heads, in order to ensure that the gravy-train of professional fees, bureaucratic power, and re-election will continue, is a national scandal. That these efforts have largely been successful is a national shame.