

THE GREAT DEPRESSION TAX REVOLTS REVISITED

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And the taxpayer, not content with thus ruining political science, added insult to injury by damning all its chief ornaments as thieves, and by swearing that he would never let them rook him again. His bellow was now for the most rigid economy, and he swore that he would have it if the heavens fell. There was no holding him while the fit was on him. In many American cities, public expenditures were actually reduced.

H.L. Mencken¹

David Beito did a great service for the scholarship of liberty and American history with his rediscovery of the Great Depression-era tax resistance movement.² He uncovered evidence of widespread opposition to property taxes across America. However, the anti-tax

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¹H.L. Mencken, "What is Going on in the World," *American Mercury* 30, no. 119 (November 1933), pp. 259–60.

²David T. Beito, *Taxpayers in Revolt: Tax Resistance During the Great Depression* (Chapel Hill: University of North Carolina Press, 1989). While it would be logical to assume that, during the depression, people simply could not pay their taxes, Beito provides evidence that the vast majority of tax resisters could have paid their taxes but refused to do so. Further, his evidence on the occupations of the members of tax resistance organizations makes clear that this movement was not just made up of wealthy opportunists refusing to pay taxes.

rebellion declined as quickly as it started, a demise that he attributes to a lack of a “focused ideological program” that could capture the popular anti-tax sentiment of the time.³ Thus, Beito concludes, this tax resistance movement was a failure.⁴ While his contribution has been praised, questions have been raised concerning Beito’s explanation for the demise of the tax revolt.⁵

In this paper, we argue that the anti-tax movement was a genuine success, and that this success is the reason the revolt ended.⁶ This success took two major forms. The first and most obvious was the tax limitation movement, which provided the political pressure to cut taxes and establish limitations on property tax rates. The second, which was both more important and far less obvious, was the passage of the Twenty-first Amendment, which repealed alcohol prohibition (hereafter, Repeal). Under intense political pressure from the tax revolt, politicians supported Repeal in order to provide federal, state, and local government with increased revenues to offset cuts in property taxes while simultaneously providing a drastic decrease in the price of alcohol, and, in effect, granting the American public a gigantic tax cut.⁷

These policy victories mark the end of the revolt because the primary goals of the movement had been achieved. How else would one explain the rather sudden demise of a movement that consisted

³Beito, *Taxpayers in Revolt*, p. 164.

⁴Beito, *Taxpayers in Revolt*, pp. 160–64. On the dust jacket, the publisher notes that the tax resisters “failed . . . to offer clear and persuasive proposals outlining specific services that could be reduced or eliminated. Their lack of a genuine political program, Beito argues, led to the downfall of a surprisingly potent and popular rebellion.”

⁵For example, Mark Leff, in his review of Beito’s book, argued that Beito’s “evidence comes up short” when he tries to explain the precipitous decline in tax resistance after 1933 on a lack of a systematic ideological program. See Mark Leff, *American Historical Review* 95, no. 5 (December 1990), pp. 1648–49.

⁶This tax revolt was non-violent, unlike previous tax revolts including the American Revolution, the Whiskey Rebellion, and the Civil War. Also, it was far less spectacular than other events of the time, such as the stock market crash, Prohibition, and Roosevelt’s New Deal.

⁷The following analysis is based on the initial findings in Chetley Dale Weise, “The Political Economy of Prohibition and Repeal: Ideology, Political Self-Interest, and Information Control” (master’s thesis, Auburn University, 1998).

of local organizations that were not connected by a national network? The timing of these events supports our hypothesis that the revolt was a success, and that Repeal, which affected the entire nation, was a pivotal event for the tax resistance movement.

THE RISE AND FALL OF TAX RESISTANCE

The obvious reason for the rise of tax resistance was that the burden of taxation increased greatly with the onset of the Great Depression. Most Americans had experienced the effects of a relatively good tax policy during the 1920s, with federal income tax rates cut by more than half for all income brackets. The economy expanded during the “roaring ’20s” in response to these tax cuts.⁸ The Great Depression brought an end to this growth, and replaced it with record levels of unemployment, mammoth losses of wealth, and a slew of government policies designed to reduce production and sustain high prices.⁹

The most burdensome tax for most Americans was the property tax. Property taxes required taxpayers to make an explicit payment of a significant amount, a payment the taxpayer could not evade without losing what was often his most significant piece of wealth and property.

Property taxes had increased significantly in the decade prior to the Great Depression. City government had grown enormously in size, scope, and debt during the 1920s, and revenues for city governments had become more dependent on property taxes. According to Beito, “throughout the 1920s, the general property tax accounted for over 90 percent of taxes levied by all cities over 30,000 in population.”¹⁰ The primary reason for this dependence was that alcohol revenue from sales taxes and licenses had “dried up” due to prohibition.

Higher property taxes and a narrower tax base were largely tolerated during the 1920s because economic growth meant that property tax revenue could be increased via higher property values and

⁸Robert B. Ekelund, Jr. and Mark Thornton, “Schumpeterian Analysis, Supply-Side Economics, and Macroeconomic Policy in the 1920s,” *Review of Social Economy* 44, no. 3 (December 1986), pp. 221–37.

⁹Murray N. Rothbard, *America’s Great Depression*, 3rd ed. (Kansas City: Sheed and Ward, 1975).

¹⁰Beito, *Taxpayers in Revolt*, p. 1.

assessments rather than higher tax rates. Taxpayers were more willing and able to pay rising property tax bills during the 1920s because wages, incomes, and the stock market were rising along with the value of homes and businesses.

The stock market crash and the Great Depression changed everything. The real burden of taxes on the American people increased significantly. Even if tax rates remained the same, tax burdens increased because the market value of property fell relative to assessed values. The real burden also increased because personal income was falling relative to property tax bills. Finally, the real burden of property taxes rose because price deflation increased the purchasing power of the dollar.

Beito described this crushing burden by comparing total tax payments as a percentage of income:

As a percentage of the national income, perhaps the most pertinent measure of the burden's impact, taxes nearly doubled from 11.6 percent in 1929 to 21.1 in 1932. In just three years, the tax load on the American people increased more than it had in the 1920s. Not even during World War I had taxes ever taken such a large percentage of the national income. Taxes at the local level more than doubled, rising from 5.4 percent of the national income in 1929 to an unheard of 11.7 percent in 1932. Surging even faster, state taxes went from 1.9 percent in 1929 to 4.6 in 1932. At the same time, federal tax collections stayed relatively constant, inching up from 4.2 percent in 1929 to 4.7 in 1932.¹¹

Clearly, the tax burden rose substantially, and most of the increase occurred at the state and local level. As the main weapon in the government's arsenal, the property tax naturally became the focal point of the tax resistance movement.

With the tax burden, tax delinquency, and bankruptcy rising, the country became increasingly ripe for a tax revolt. Tax delinquency increased from its normal rate of 10 percent to more than 30 percent,¹² and tax protest organizations formed spontaneously in rural

¹¹Beito, *Taxpayers in Revolt*, p. 6.

¹²Fred Rogers Fairchild, "The Problem of Tax Delinquency," *American Economic Review* (March 1934), pp. 140–50. According to Fairchild, "that tax delinquency has at present reached the proportions of a major problem in the finances of many cities, counties, and towns is realized in a general

regions, in response to attempts to sell the property of farmers to meet their tax obligations. Likewise, taxpayer leagues formed in urban areas to protest high taxes and property foreclosures. Estimates placed the number of such organizations at between 3,000 and 4,000 nationwide.¹³

Beito attributes the failure of tax resistance to two problems: lack of a well-developed ideological platform, and the lack of a professional organization. Indeed, the lack of an effective national organization that might control and manage tax resistance led local groups to organize along different lines, develop different strategies, and employ different tactics. However, despite these differences, thousands of local tax resistance groups disbanded at the same time as Repeal and the passage of numerous tax limitation statutes. The timing of these events clearly supports our conclusion that the movement was, indeed, a success.

PROHIBITION AND PUBLIC FINANCE

The Repeal of Prohibition provided several significant victories to the tax resistance movement. Repeal caused the price of alcohol to plummet and allowed local, state, and federal governments to reinstate alcohol taxes and increase government revenues. State and local governments also gained additional revenue via licensing fees and other alcohol-related charges, and federal alcohol taxes freed up additional money that could be provided to state and city governments through grants, public works, and other assistance. This revenue helped offset revenue lost from property tax cuts and tax limitation statutes. Additionally, Repeal also reduced spending on the enforcement of prohibition, reduced political corruption, and greatly alleviated the aggregate burden of crime.¹⁴

Prior to the income tax, tariffs and alcohol taxes provided the bulk of federal government revenues. From 1870 to 1920, customs

way by all well-informed persons” (p. 140). Fairchild goes on to describe statistically the giant increases in the burden of government by noting that the “total of all taxes in the United States absorbed 7.2 per cent of the total income of the people in 1890; in 1930 it took 14.4 per cent, exactly twice as large a share of national income” (p. 147).

¹³Weise, “The Political Economy of Prohibition and Repeal,” p. 62.

¹⁴Mark Thornton, “Alcohol Prohibition was a Failure,” *Policy Analysis* no. 157 (Washington, D.C.: Cato Institute, 1991).

and liquor taxes provided nearly 80 percent of all federal revenue. When the income tax amendment was passed in 1913, its revenue-raising ability was quickly realized. Revenues in 1917 were nearly three times those of 1916. Congress amended the tax in October of 1917, and revenues increased enormously in 1918, just as they had estimated. The income tax therefore provided a revenue substitute that permitted passage of the Eighteenth Amendment and the loss of alcohol tax revenues.¹⁵

However, the Great Depression placed a severe financial constraint on Congress by reducing income tax revenue by 60 percent between 1930 and 1933. The search for alternative revenue led to Franklin Roosevelt's conversion from a "dry" to a "wet," and led to the Democratic Party's endorsement of Repeal in their 1932 platform to provide "a proper and needed revenue."¹⁶

Prohibition also wiped out alcohol sales tax and licensing revenues going to city, county, and state governments. Repeal re-established these revenues, permitting property taxes to be reduced. Repeal, therefore, brought victory to the tax resistance movement, whose primary aim was to reduce the burden of the property tax. Evidence from four major cities demonstrates that property taxes declined in overall importance after 1933. Property taxes decreased as a percentage of the overall city revenue from 67 percent during 1930–1932 to only 61 percent during 1933–1940—a shift in the structure of local government revenue and a victory for the tax resistance movement.

The most direct channel for increased revenues for local governments was the sales and excise taxes on alcohol and license fees from alcohol vendors. While most non-property income sources were stagnant throughout the Great Depression, business taxes were an important exception, growing an average 900 percent in five large cities between 1933 and 1940. This category is where most of the alcohol tax and license fee revenues accrued.¹⁷ The

¹⁵ Donald Boudreaux and A.C. Pritchard, "The Price of Prohibition," *Arizona Law Review* 36 (Spring 1994), p. 3.

¹⁶ Boudreaux and Pritchard, "The Price of Prohibition," pp. 6–7.

¹⁷ Bruce Allen Hardy, "American Privatism and the Urban Fiscal Crisis of the Interwar Years: A Financial Study of the Cities of New York, Chicago, Philadelphia, Detroit, and Boston, 1915–1945" (Ph.D. diss., Wayne State University, 1977), p. 407.

Bureau of the Census noted that cities were “experimenting” with licensing to raise revenue, and that liquor licensing was the main target for enhanced revenues, increasing from zero in 1932 to more than \$40 million in 1936, to \$70 million by the end of the decade.¹⁸

The second channel by which alcohol revenues displaced property taxes was state government. By 1938, state governments received more than \$250 million in alcohol tax revenue, and more than \$60 million from state liquor monopolies.¹⁹ Increased state revenues via alcohol sales tax collections permitted state governments to return money to city governments in the form of aid and grants. For example, alcohol tax revenue in Illinois was more than \$4 million in the first full year after Repeal, and climbed to \$12 million by the end of the decade. Between 1934 and 1938, Chicago received a 700% increase in state aid.²⁰

The third channel for alcohol-related tax revenue was the federal government. According to Hardy, there was recognition that “city governments could not carry the entire burden of unemployment when it was a national problem. Financial assistance would have to come from Washington.”²¹ Federal alcohol tax revenue went from zero before Repeal to \$259 million in 1934, to \$624 million by the end of the decade.²² This increased revenue allowed the federal government to play a greatly enhanced role in local public finance.

Normally, tax redistribution would not be considered a tax reform victory, but, in this case, Repeal produced a clear defeat for taxes and government authority. Property taxes were cut *and* alcohol consumers received what amounted to a substantial tax cut equal to more than 2.5 percent of Gross Domestic Product.²³

¹⁸United States Bureau of the Census, *Financial Statistics of Cities over 100,000 Population: 1937* (Washington, D.C.: U.S. Government Printing Office, 1940), p. 21. See also Weise, “The Political Economy of Prohibition and Repeal,” p. 87.

¹⁹United States Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970, Part 2* (Washington, D.C.: U.S. Government Printing Office, 1975), p. 1130.

²⁰Hardy, “American Privatism,” p. 407.

²¹Hardy, “American Privatism,” p. 360.

²²Tax Institute, *Tax Yields: 1940* (Philadelphia: College Offset Press, 1941), p. 36.

²³Normally, falling prices would not be considered a tax cut. However, because the fall in price from black-market levels to “sin tax” levels was

The total price or cost of alcohol during Prohibition was higher than legal alcohol in three respects. First, the basic monetary price was as much as 500 percent higher than either before or after Prohibition.²⁴ Alcohol products were also more costly because of the decrease in quality of products produced and sold in black markets as compared to those in free markets.²⁵ Finally, illegal alcohol products were more costly because of the reduced information and increased transaction costs typically associated with black markets.²⁶

Even if we ignore quality, information, and transactions costs, the Repeal of Prohibition, along with a 100 percent tax on alcohol products, would still leave the American alcohol consumer better off. In an economy of approximately \$100 billion and an alcohol products industry of approximately \$5 billion, a reduction in prices in excess of 50 percent amounts to a substantial tax cut for the country in general, and for alcohol-consuming households in particular. Surely, this must have been one of the main reasons for Franklin Roosevelt's popularity.²⁷

TAX LIMITATION: THE LEGACY OF RESISTANCE

The success of efforts to establish property tax limitation policies was another important victory for the tax revolt that had a lasting impact. Arthur O'Sullivan, Terri Sexton, and Steven Sheffrin speak highly of "organized tax-resistance movements throughout the country" during the Great Depression, noting that

The tax revolts of recent years pale in comparison to the activities that took place during the Great Depression.

entirely the result of a change in government policy, it can be viewed as a type of tax cut.

²⁴Mark Thornton, *The Economics of Prohibition* (Salt Lake City: University of Utah Press, 1991), p. 102.

²⁵Mark Thornton, "The Potency of Illegal Drugs," *Journal of Drug Issues* 28, no. 3 (Summer 1998), pp. 725–40.

²⁶Mark Thornton, "Perfect Drug Legalization," in *How to Legalize Drugs: Public Health, Social Science, and Civil Liberties Perspectives*, ed. Jefferson Fish (Northvale, N.J.: Jason Aronson, 1998), pp. 638–60.

²⁷Tax resistance groups were naturally reluctant to take an official position on alcohol policy for fear of dividing their membership and reducing their effectiveness.

Thornton & Weise – The Great Depression Tax Revolts Revisited

In 1932 and 1933 alone, 16 states and numerous localities enacted property tax limitations.²⁸

For these experts on tax revolts, tax limitations were the successful outcome of the tax resistance movement during the Great Depression. The timing of these successes helps explain why the movement ended.

Experts at the time also recognized the connection between the property tax revolt and tax limitations as “common knowledge.” Economist and public finance expert Paul Wueller put it succinctly:

Complaints regarding the “burden” of the realty tax have multiplied manifold. Legislators from coast to coast responded to delinquencies and clamor by providing for over-all realty tax limits.²⁹

Property taxes were further reduced by the adoption of homestead exemptions and reductions in property assessments such that overall local real estate taxes declined from \$4,337 million in 1929 to \$3,744 million in 1934, and that state realty taxes declined from 27 percent of total revenue in 1929, to 19 percent in 1932, to only 7 percent in 1937.³⁰ Tax limitations were clearly a success for the tax resistance movement. They greatly reduced property taxes, gave greater security of property rights to homeowners, and reduced overall revenues to state and local governments.

However, these victories were not without their drawbacks, as local governments began to develop new sources of revenue such as the sales tax. Another major drawback of tax limitation was that local governments became more dependent on the state and federal government. Donovan F. Emch, a Great Depression-era expert on local public finance, described these local governments as “but humble mendicants daily seeking succor at the hands of the state.”³¹

²⁸Arthur O’Sullivan, Terri A. Sexton, and Steven M. Sheffrin, *Property Taxes and Tax Revolts: The Legacy of Proposition 13* (Cambridge: Cambridge University Press, 1995), p. 1.

²⁹Paul H. Wueller, “Real Property as a Tax and Reimbursement Base during the Depression,” in *Property Taxes* (New York: Tax Policy League, 1940), p. 21.

³⁰Wueller, “Real Property as a Tax and Reimbursement Base during the Depression,” pp. 21–40.

³¹Donovan F. Emch, “The Effects of Tax Limitation in Ohio,” in *Property Taxes* (New York: Tax Policy League, 1940), p. 69.

One modern-day expert examines the negative implications of tax limitation at greater length. Glenn Fisher cautions that constraining local government but leaving state and federal government unconstrained only encourages local governments to become more dependent on state and federal governments for resources. As a result, overall government in America has become more centralized and powerful.³²

Therefore, while successful in its narrow mission to reduce and control property taxes, the tax revolt movement did fall short of reducing and controlling taxation in the long run. Here, Beito's complaint about the lack of a "focused ideological program" rings true. Such a program would have made tax protestors resistant to compromise, steeled them against new taxes, and compelled them to form national organizations capable of more formidably challenging government's power to tax.

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