

The Success of the Great Depression Tax Revolts

Mark Thornton and Chetley Weise*

Contact author:
Mark Thornton
Ludwig von Mises Institute
518 West Magnolia Avenue
Auburn University, AL 36849
334-844-2591, fax = 844-2583
mthornton@prodigy.net

* Mark Thornton is the O.P. Alford III Resident Scholar at the Ludwig von Mises Institute. Chetley Weise received his Masters in economics degree from Auburn University and is lead guitar player for the Quadrajets.

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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.¹

The existence of tax revolts throughout America during the Great Depression is news to most people. Even trained historians are surprised to learn the about the existence of such tax revolts. American history textbooks and vehicles of popular culture such as motion pictures and novels are devoid of any information about such tax revolts. The Great Depression is generally thought of as a period of personal sacrifice, patriotism and comradely, not tax revolts.

Historians tend to downplay the role of tax revolts in history² and even Charles Adams, the great historian of tax revolts, overlooks the tax resistance movement of the Great Depression. In his view, opposition to taxes declined during the Progressive era when Americans adopted the

¹ H. L. Mencken, "What is Going on in the World," *American Mercury*, Vol. 30, No. 119 (November 1933) pp. 259-260.

attitude that taxes were necessary to obtain the benefits of government.³ We agree that the character of tax resistance has changed in the 20th century; it is both weaker and non-violent, but it is not dead.⁴

David Beito did a great service to the scholarship of American history with his rediscovery of the Great Depression tax resistance movement. He uncovered evidence of widespread opposition to real estate taxes in cities across America and that Americans were in fact not paying their taxes in a surprising potent and popular rebellion.⁵ Alas, the anti-tax rebellion declined as quickly as it started and Beito attributes its demise to a lack of a "focused ideological program" that could capture the popular sentiment of the time and create a tangible political program and legacy.⁶ His conclusion was that the

² For example the American Revolution is now viewed as a movement to establish democracy, the Civil War was fought over slavery, and the Whiskey Rebellion has slipped down the Orwellian memory hole.

³ Charles Adams, *Those Dirty Rotten Taxes: The Tax Revolts that Built America* (New York: The Free Press, 1998).

⁴ Arthur O'Sullivan, Terri A. Sexton, and Steven M. Sheffrin, *Property Taxes & Tax Revolts: The Legacy of Proposition 13*, (Cambridge, England: Cambridge University Press, 1995), for example, look at modern property tax opposition movements in the United States.

⁵ While it would be logical to assume that people simply could not pay their taxes, Beito provides evidence that the vast majority of tax resisters could pay their taxes but refused to do so. His evidence on the occupations of the members of tax resistance organizations makes clear that this moment was not just wealthy opportunists refusing to pay their taxes.

⁶ David T. Beito, *Taxpayers in Revolt: Tax Resistance during the Great Depression* (Chapel Hill: University of North Carolina Press, 1989) p. 164.

tax resistance movement of the Great Depression was a failure.⁷

Beito's contribution has been praised, but questions have been raised concerning his explanation for the ending of tax revolt.⁸ We believe that the anti-tax movement was a genuine success and that this success is the reason the revolt ended.⁹ The success of the tax revolt took two major forms. The first and most obvious was the tax limitation movement which was effective in several states in establishing cuts and limitations on property tax rates. The second success, which was both more important and far less obvious, was the passage of the 21st Amendment that repealed alcohol prohibition (hereafter, Repeal). The legalization of alcohol sales in most states provided federal, state, and local government with increased tax revenues to offset cuts in property taxes while simultaneously providing a drastic decrease in the price of

⁷ Beito, *Taxpayers in Revolt*, pp. 160-164. 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."

⁸ For example, Mark Leff in his review of Beito book found that his "evidence comes up short" when he tries to explain the precipitous decline in tax resistance after 1933 by a lack of a systematic ideological program (*American Historical Review*, vol. 95, no. 5 (December 1990) pp. 1648-1649).

⁹ We believe that there are good for the demise of this tax revolt from historical memory such as the fact that it was non-violent compared to 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.

alcohol and in effect granting the American public a type of tax cut.¹⁰

We begin with an explanation for tax revolts of the Great Depression. Beito's explanation for the demise of the tax revolt is then contrasted with our view that the revolt was a success. Evidence is presented that clearly demonstrates that the movement was a success in terms of moving the burden of taxes off of property, reducing the overall tax burden, and protecting taxpayers from future increased taxes. In addition, the enactment of tax limitation statutes and the Repeal of Prohibition are shown to be tangible evidence of the movement's success. 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 of local organizations unconnected by a national network? In our view the timing of these events support our hypothesis that the revolt was a success and that Repeal, which affected the entire nation, was indeed a pivotal event for the tax resistance movement. We conclude

¹⁰ The 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," (Auburn University, AL: Master Thesis, 1998).

with observations on the value of tax resistance and its proper place in American history.

THE RISE AND FALL OF TAX RESISTENCE

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 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.¹¹ The Great Depression brought an end to economic growth and replaced it with record levels of unemployment, mammoth loses of wealth, and a slew of government policies to reduce production and keep prices high.¹²

The most notable tax increase came from the federal government. President Herbert Hoover and Secretary of the Treasury Andrew Mellon prepared a massive tax increase bill that Congress passed into law as the Revenue Act of 1932.

¹¹ Robert 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): 221-237.

¹² Murray N. Rothbard, *America's Great Depression*, 3rd edition (Kansas City: Sheed and Ward, Inc. 1975).

Murray Rothbard described the enormous range of taxes as follows:

Many wartime excise taxes were revived, sales taxes were imposed on gasoline, tires, autos, electric energy, malt, toiletries, furs, jewelry, and other articles; admission and stock transfer taxes were increased; new taxes were levied on bank checks, bond transfers, telephone, telegraph, and radio messages; and the personal income tax was raised drastically as follows: the normal rate was increased from a range of 1 1/2 per cent -- 5 per cent, to 4 per cent -- 8 per cent; personal exemptions were sharply reduced, and an earned credit of 25 per cent eliminated; and surtaxes were raised enormously, from a maximum of 25 per cent to 63 per cent on the highest incomes. Furthermore, the corporate income tax was increased from 12 per cent to 13 3/4 per cent, and an exemption for small corporations eliminated; the estate tax was doubled, and the exemption floor halved; and the gift tax, which had been eliminated, was restored, and graduated up to 33 1/3 per cent.

He labeled this Revenue Act one of the greatest peacetime tax increases in United States history.¹³

The most burdensome taxes for many Americans, however, was the property tax. Most Americans were not purchasing furs and automobiles during the Great Depression and many others were falling into lower income tax brackets because of falling income. Many of the other federal taxes, such as taxes on electrical energy and telephone calls were for small nominal amounts and often unknown to customers.

¹³ Rothbard, p. 253-254.

Property taxes, on the other hand, required taxpayers to make an explicit tax payment of significant size from which the taxpayer could not evade without losing what was often their most significant piece of property and wealth.

Property taxes had increased significantly in the decade prior to the Great Depression. City government in particular had grown enormously in both size and scope during the 1920s. City government also increased its debt levels during the decade in order to finance construction and public works projects.

Revenues for city government became more dependent on property taxes during this period. 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."¹⁴ One reason for this dependence was that alcohol revenue from sales taxes and licenses had "dried up" due to prohibition.

Higher property tax revenues and a narrower tax base were largely tolerated during the 1920s. Economic growth meant that increased property tax revenues could be achieved mostly via higher property assessments rather than higher tax rates. This meant that the market value of property was rising along with personal income and

therefore people were better able to pay the higher tax bills.

The booming stock market of the 1920s also made people feel wealthier and more concerned with future wealth rather than property taxes. Irving Fisher, the most prominent American economist of the time, openly promoted the idea that prohibition was responsible for prosperity and that America would now enjoy a "perpetual prosperity." Higher property taxes were thus the price to pay for prosperity.

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 was falling relative to assessed values. The real burden also rose because personal income was falling relative to property tax bills and the real size of the property tax bill was rising because price deflation was making dollars more valuable in terms of purchasing power. Another source of taxpayer ire was that the real wages of public employees rose nearly 12% between 1929 and 1933.

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

¹⁴ Beito, *Taxpayers in Revolt*, p. 1.

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 1932.¹⁵

Clearly the tax burden was rising substantially and most of the increase was occurring 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 anti-tax resistance movement.

With 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% to more than 30%.¹⁶ Tax protest organization formed quickly and spontaneously in rural regions in response to tax authorities selling the land of farmers. Likewise,

¹⁵ Beito, *Taxpayers in Revolt*, p. 6.

¹⁶ Fred Rogers Fairchild, "The Problem of Tax Delinquency," *American Economic Review*, (March 1934) pp. 140-150 notes 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 way by all well-informed persons (p. 140)." He goes on to statistically describe 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,

taxpayer leagues formed in urban areas in protest of high taxes and property foreclosures. Estimates placed the number of taxpayer organizations at between 3,000 and 4,000 organizations nationwide.¹⁷

Beito documented the tax protest and tax resistance movements in Milwaukee, Detroit, and New York City. Here like in many cities across the country, tax protestors became key players in local politics across the country. Most of his book details the tax protest and tax strike in the most important tax resistance city, Chicago.¹⁸ Because there was no effective national organization to control and manage tax resistance, local groups were organized along different lines, developed different strategies, and employed different tactics. Similarly, politicians employed different tactics and strategies and helped organize various pro-government coalitions to protect their tax base. Interestingly, despite all these differences, Beito finds a large number of similarities between the tax resistance movements in various cities across the countries and their results.¹⁹ These similarities and coincidences

exactly twice as large a share of national income. Today of course this ratio is much higher perhaps as much as 25 or 30 per cent (p. 147).

¹⁷ Weise, "The Political Economy of Prohibition and Repeal, p. 62.

¹⁸ Beito shows that Chicago was in part an exception because of corrupt practices in property tax assessments that were discovered prior to the onset of the Great Depression.

¹⁹ Beito, *Taxpayers in Revolt*, p. 32.

support our contention that the tax revolts were indeed successful and were abandoned because of Repeal.

Ultimately, Beito concludes that the tax resistance movement during the Great Depression failed on two accounts. First, although often threatened, tax strikes, citizens refused to pay their taxes, rarely materialized. Even in Chicago where a tax strike took place, total tax load for the citizens of Chicago increased more in the aftermath of the strike than in other large cities.²⁰ Second, tax resistance failed to reduce taxes. In reviewing national statistics on tax burden, Beito concluded, "tax resisters completely failed to achieve their objectives. At best, they held off even greater tax increases."²¹ In fact, the movement died an early death compared to the length of the Great Depression.

Certainly good-government reformers and other critics of the tax revolt exuded renewed confidence in the later months of 1933 and thereafter. They expressed nearly universal agreement that aggressive tax-reduction and anti-big-government convictions had begun to ebb-- although by no means disappear. After 1933, tax limitations fared poorly and tax strikes even more so.²²

Several reasons explain the failure of the tax revolt in Beito's account. The most important reason was a

²⁰ Beito, *Taxpayers in Revolt*, p. 96.

²¹ Beito, *Taxpayers in Revolt*, p. 146.

²² Beito, *Taxpayers in Revolt*, p. 162.

failure of ideology. The lack of a focused ideological program and a set of agreed on policy recommendations prevented local groups from organizing regionally and nationally and allowed opposition forces to employ divide-and-conquer strategies that undermined the unity of tax resistance groups and coalitions. In contrast, politicians who faced these tax resistance groups had more focus, ideological and otherwise.

A second factor in the demise and ineffectiveness of tax resistance was a lack of professionalism. Local groups typically lacked the organizational skills necessary to form and maintain the necessary apparatus to make tax resistance groups effective. In fact, pressure groups were a relatively new phenomenon in American politics and there were no anti-government pressure groups up to that point in time. In contrast, politicians had well-developed organizing skills and the support of such groups as public employees and schoolteachers who opposed tax limitations and spending cuts. Public choice theory would seem to support Beito's conclusion because government had a well-defined interest in continuing the concentrated benefits provided by the flow of tax revenues into their pockets while taxpayers faced large costs relative to the marginal and dispersed gains they might make in terms of reduced

taxes. Taxpayers faced the free-rider problem because those who did not participate in the resistance movement would also the receive benefits of lower taxes.

PROHIBITION AND PUBLIC FINANCE

In contrast to Beito's findings, we believe that the tax resistance movement was successful and that politicians made significant concessions in order to end the tax revolt and prevent its spread. One important factor that Beito did not consider was the prohibition of alcohol and the coincidence of its Repeal with the demise of the tax resistance movement. Although the two events were not directly connected, we argue that the repeal of Prohibition provided the tax resistance movement with a set of significant victories. Repeal allowed local, state and federal government to reinstate alcohol taxes and increase government revenues while greatly reducing alcohol prices. 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 in the form of grants, public works, and other assistance. These revenue flows permitted property tax cuts and tax limitation

statues. Additionally, Repeal also reduced spending on the enforcement of prohibition, reduced political corruption, and greatly alleviated the aggregate burden of crime.²³ We show that the demise of the tax resistance movement was a death by victory because it achieved all of the major goals of the movement.

The income tax is also crucial for understanding the victory of the tax revolt. Prior to the income tax, tariffs and alcohol taxes provided the bulk of federal government revenues. Between 1870 and 1920 customs and liquor taxes provided nearly 80% of all federal revenue.²⁴ The income tax amendment was passed in 1913 and its revenue raising ability was quickly realized. Revenues in 1917 were nearly three times the revenues in 1916. Congress amended the income tax in October of 1917 and revenues increased enormously in 1918 just as Congress had estimated. This revenue legislation passed just two months prior the initial proposal of the 18th Amendment that prohibited alcohol sales (Prohibition).

Lost alcohol tax revenues were more than recovered by income tax revenues. The income tax supplied two-thirds of federal revenue by 1918 and by 1920 income taxes dwarfed

²³ Mark Thornton, "Alcohol Prohibition was a Failure," *Policy Analysis*, No. 157 (Washington, DC: Cato Institute, 1991).

customs and liquor taxes by a ratio of 9 to 1. The massive increase in revenues removed Congress's need for alcohol tax revenues and created the opportunity for the passage of the 18th Amendment.

By lowering the cost of voting for prohibition, the income tax tipped the balance in politicians' cost-benefit calculus in favor of voting dry. The temperance movement's long quest was seemingly brought to a triumphant conclusion.²⁵

These political calculation would change again in the throws of the Great Depression.

Income tax revenue fell 60% from 1930 to 1933 placing a severe financial constraint on Congress. The search for an alternative revenue source led to the conversion of F.D.R. from a dry to a wet and resulted in the 1932 Democratic party platform to call for Repeal in order to provide "a proper and needed revenue." Revenue shortfalls made Repeal possible and the alcohol tax provided 13% of all federal revenue by 1936.²⁶

Boudreaux and Pritchard argue that there was indeed a direct connection between revenue consideration and Congressional votes on alcohol legislation and they

²⁴ Donald Boudreaux and A.C. Pritchard, "The Price of Prohibition," *Arizona Law Review*, v. 36 (Spring 1994) p. 3.

²⁵ Donald Boudreaux and A.C. Pritchard, "The Price of Prohibition," p. 4-5.

²⁶ Donald Boudreaux and A.C. Pritchard, "The Price of Prohibition," p. 6-7.

emphasize the direct connection between Repeal and pressure from taxpayer groups.

The evidence supports our contention that popular sentiment for repeal was less important in propelling the Twenty-first Amendment than was Congress's desire for increased revenues combined with interest group pressures for lower income tax rates.

They note that Repeal resulted in the bulk of all taxpayers being given a tax cut beginning in 1934.²⁷

Prohibition also wiped out alcohol sales tax and licensing revenues to city, county and state governments without any corresponding new revenue sources.

Concurrently with this forced narrowing of the tax base, many large cities experience increased population and increased expenditures on infrastructure related to WWI.²⁸

Bruce Hardy summarizes the financial bind as follows:

The 1920s was a turning point in city spending. Total spending in the larger cities, which, prior to World War I, had risen at an annual rate of between one and five million dollars, during the 1920s, increased by thirty to

²⁷ Donald Boudreaux and A.C. Pritchard, "The Price of Prohibition," p. 10.

²⁸ Joseph T. Salerno, "War and the Money Machine: Concealing the Costs of War Beneath the Veil of Inflation," *The Costs of War: America's Pyrrhic Victories*, 2nd edition edited by John V. Denson (New Jersey: Transaction Publishers, 1999) pp. 443-454. Salerno shows that governments conceal the cost of war via inflation and other means. As a result there is a well-established pattern for capital to depreciate even in belligerent countries away from war zones. For example, Hardy pp. 141-164 shows that capital spending in five major cities in the United States declined from \$102 million in 1915 to \$84 million in 1919, but by 1922 had increased to \$202 million or an increase of 148% (p. 159)

fifty million dollars annually. Such spending had a significant impact on the American economy; it also had a significant impact on city governments, many of which were not only unable to develop revenue resources fast enough to meet the skyrocketing costs, but which found themselves burdened by excessively high overhead costs, thereby increasing their vulnerability.²⁹

Accordingly, the Great Depression hit the large cities especially hard because these areas suffered from both extremely high unemployment rates and from the high overhead cost of city government debt.

For most major American cities, spending peaked in 1930 and began a decline in spending levels that in many cases would last the entire decade. In Chicago, spending was cut by more than 35% during the tax strike.³⁰ Current spending (non-capital expenditures) also fell in cities with the onset of the Great Depression, recovered during 1933-1934, as revenues stabilized but did not significantly increase in the aggregate over the rest of the decade.

Interestingly, large city governments increased their debt tremendously during the 1920s but actually stabilized borrowing and often reduced their total debt during the Great Depression and World War II. Lower debt levels

²⁹ 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," Dissertation Wayne State University, 1977, p. 11.

³⁰ Weise, "The Political Economy of Prohibition and Repeal," p. 72.

reduced the overhead or interest expense and contributed to the financial stability of city governments.³¹ Evidence from five major cities shows that city budgets were more likely to be balanced or in surplus after Repeal than during the period 1930-1932.³² This return to financial responsibility was clearly one of the goals of the tax resistance movement.

The change in the composition of revenues also demonstrates an impact of Repeal that clearly could be considered a victory of the tax resistance movement. Evidence from five major cities shows that revenue from property taxes declined in overall importance after 1933. Table 1 shows that property taxes as a percentage of the overall city revenue decreased from 66% over the period 1930-1932 to only 62% over the period 1933-1940.

This calculation actually greatly understates the change in revenue patterns because of the inclusion of Chicago. In Chicago the tax holiday and tax strike of the early 1930s greatly reduced property tax revenues and the settling of the strike and adoption of repayment programs increased revenues in 1933 and 1934 beyond what they would

³¹ Hardy, *Urban Fiscal Crisis of the Interwar Years*, pp. 472-478.

³² Hardy, *Urban Fiscal Crisis of the Interwar Years*, various pages.

have been.³³ Removing Chicago from the calculation results in property taxes decreasing from 67% to 61% of total revenues in the four remaining cities, a rather dramatic shift in local revenue structure. Revenue extraction was being shifted away from property taxes and this was a central goal of and therefore victory for the tax resistance movement.

Table 1. The Importance of Property Taxes in City Budgets

Year	New York	Chicago	Philadelphia	Detroit	Boston
1930	66	51	72	57	68
1931	71	67	72	61	69
1932	69	64	72	59	67
1933	65	73	69	58	69
1934	62	71	72	53	69
1936	57	63	68	57	71
1938	52	66	53	55	63
1940	54	59	61	56	65
1930-32	69	61	72	59	68
1933-40	58	66	65	56	67

Source: Hardy, *Urban Fiscal Crisis of the Interwar Years*, various pages

³³ The impact of these factors on property tax revenues in Chicago undermine Beito point that the tax strike actually led to an increase in property taxes because in reality the City was offering to lower the burden of property tax payments in return for giving up the strike.

Repeal played an important role in property tax cuts by increasing non-property tax revenues. Taxes from alcohol sales and license fees had a positive impact on city budgets through three channels.³⁴ The most direct channel was the revenue that cities and local governments collected from sales and excise taxes on alcohol sales and license fees from alcohol vendors. It is important to note that while most non-property income sources were stagnant throughout the Great Depression, business taxes were an important exception growing 900% in five large cities between 1933 and 1940 and this category is where most of the alcohol tax revenues would accrue.³⁵ The 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.³⁶ For example, liquor-licensing fees increased from zero in 1932 to more than \$40 million in 1936.³⁷

³⁴ H. L. Mencken "What in the World is Going On," p. 258 was not too optimistic that alcohol tax revenues could pay for the New Deal. "Nor is he (the taxpayer) likely to get any material relief from the repeal of the Eighteenth Amendment, for in order to produce enough revenue from booze to pay even a fifth of the bill every man, woman and child in the United States would have to start lushing like a dry Congressman."

³⁵ Hardy, *Urban Fiscal Crisis of the Interwar Years*, p. 407.

³⁶ United 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.

³⁷ Revenues continued to climb to nearly \$70 million by the end of the decade. Weise, *The Political Economy of Prohibition and Repeal*, p. 87.

The second channel for alcohol revenues was via state government. Increase state revenues via alcohol sales tax collections permitted state governments to send money back to city governments after 1932. For example, alcohol tax revenue in Illinois was more than \$4 million in the first full year after Repeal climbing to \$12 million by the end of the decade.³⁸ This new money could be used by state government to provide aid to cities; between 1934 and 1938 Chicago received a 700% increase in state aid.³⁹ By 1938 state governments were receiving more than \$250 million in alcohol tax revenue and more than \$60 million from state liquor monopolies. State alcohol tax revenue would increase by more than 200% by 1950.⁴⁰

The third revenue 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."⁴¹ Federal alcohol tax revenues went from zero before Repeal to \$259 million in 1934 to \$624 million

³⁸ In addition, property tax revenue for the state government of Illinois fell from nearly \$40 million in 1931 to less than \$10 million in 1935. Weise, "The Political Economy of Prohibition and Repeal," p. 85.

³⁹ Hardy, *Urban Fiscal Crisis of the Interwar Years*, p. 407.

⁴⁰ U.S. 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.

by the end of the decade.⁴² The increased revenue provided by Repeal allowed the federal government to play a greatly enhanced role in local public finance.

Repeal was a victory for the tax resistance movement because the new alcohol tax revenues permitted substantial reductions in property tax revenues. While the tax resistance movement was based on the notion of reducing property taxes, a major faction of the movement were not concerned whether it was achieved through tax cuts or tax redistribution. Tax redistribution was a natural compromise solution because "good government" interests approved of tax redistribution because it broadened the tax base made revenues more stable and helped quell the property tax revolt by satisfying their demands.

Normally, tax redistribution would not be considered a tax victory, but in this case, Repeal produced a clear victory against taxes and government authority. Property tax were cut *and* alcohol consumers got what amounts to a substantial tax cut as government relinquished most of its authority over alcohol.⁴³ The tax resistance movement was

⁴¹ Hardy, *Urban Fiscal Crisis of the Interwar Years*, p. 360.

⁴² Tax Institute, *Tax Yields: 1940* (Philadelphia: College Offset Press, 1941) p. 36.

⁴³ Normally, falling prices should not be considered a tax cut, but because the fall in black market prices to the "sin tax" level was entirely the result of a change in government policy, it can be considered similar to a tax cut.

able to achieve both tax redistribution and tax reduction because alcohol prices under Prohibition were so much higher than market prices. The price of illegal alcohol was higher because suppliers ran the risk of being caught in violation of the law and they faced the possibility of severe penalties.

The total price or cost of alcohol products was higher than legal alcohol in three different respects. First, the basic monetary price was higher. Alcohol products during Prohibition were nearly 500% more expensive than prior to Prohibition.⁴⁴ Alcohol products were also more costly because of the decrease in quality of products in black markets as compared to free markets.⁴⁵ Finally, illegal alcohol products were more costly because of the reduced information and increased transaction costs that are typically associated with black markets.⁴⁶

Repeal of Prohibition was therefore a boon for alcohol consumers; few of whom it seems lost their taste for alcohol despite thirteen years of prohibition. Even a tax rate of 100% would leave alcohol consumers much better off

⁴⁴ Mark Thornton, *The Economics of Prohibition*, (Salt Lake City: University of Utah Press, 1991), p. 102.

⁴⁵ Mark Thornton, "Alcohol Prohibition was a Failure," *Policy Analysis*, No. 157, (Washington, DC: Cato Institute, 1991).

⁴⁶ Mark Thornton, "Perfect Drug Legalization," in *How to Legalize Drugs: Public Health, Social Science, and Civil Liberties*

than during Prohibition. The majority of adult males were regular consumers of alcohol products and the percentage was even higher in urban areas dominated by Catholics and European immigrants. In an economy of approximately \$100 billion dollars and an alcohol products industry of approximately \$5 billion, a reduction in prices in excess of 50% amounts to a substantial tax cut for the country as a whole and alcohol-consuming households in particular. This must be one of the main reasons for the popularity of F.D.R.

TAX LIMITATION: THE LEGACY OF RESISTENCE

In contrast to Beito's depiction of the tax resistance movement as one of failure, the success of tax limitation efforts is another important victory for tax revolt that had a lasting impact. Tax limitation involves the passage of legislation, referendum, or constitutional amendments at the state and local level to cap property taxes. Arthur O'Sullivan, Terri Sexton, and Steven Sheffrin analyzed modern tax revolts but were quite impressed with the

Perspectives, Jefferson Fish ed., (New Jersey: Jason Aronson, Inc. Publishers, 1998) pp. 638-660.

significance of "organized tax-resistance movements throughout the country" during the Great Depression noting:

The tax revolts of recent years pale in comparison to the activities that took place during the Great Depression. In 1932 and 1933 alone, 16 states and numerous localities enacted property tax limitations.⁴⁷

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 when it did.

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.

He also notes that property taxes have been reduced further by homestead exemptions and reductions in property assessments so that local real estate taxes declined from \$4,337 million in 1929 to \$3,744 million in 1934 and that

⁴⁷ O'Sullivan, et. al., *Property Taxes and Tax Revolts*, p. 1.

state realty taxes declined from 27% of total revenue in 1929 to 19% in 1932 to only 7% in 1937.⁴⁸

The National Association of Real Estate Boards was the major proponent of tax limitations. Representing the Association, Lawrence Holmes noted that tax limitations reduced real estate taxation, created a better environment for property investment, especially home ownership, and led to greater government economy and efficiency. Despite the difficulties of cutting property taxes, the subsequent increases in other taxes, and the significant delays in tax reform, tax limitation was found to be a success. Using the state of Washington as an example, he notes that the voters approved tax limitation four times and finally put it into their constitution. Property taxes were sharply reduced by the tax limitation and the other benefits, previously mentioned, were also achieved.⁴⁹

Ohio had long had tax limitation laws, but in 1933 the tax limitation law was changed to drastically cut property taxes from a maximum rate of 15 mills to 10 mills. Using the city of Toledo, Ohio as an example the impact of tax limitation and Repeal can be illustrated. General property

⁴⁸ Paul H. Wueller, "Real Property as a Tax and Reimbursement Base during the Depression," in *Property Taxes*, (New York: Tax Policy League, 1940) pp. 21-34.

⁴⁹ Lawrence G. Holmes, "Over-all Tax Limitation," in *Property Taxes*, (New York: Tax Policy League, 1940) pp. 35-55.

taxes declined significantly in 1932 with the Great Depression and again in 1935 with the impact of tax limitation. Alcohol taxes appeared in 1933 and became one of the important new sources of revenues in a budget that was stabilized at much lower levels. With the fall in property taxes in 1935, beer and liquor taxes alone made up more than 1/8 of the entire city budget.⁵⁰

Tax limitations were 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 costs and drawbacks. One important cost was that local governments started developing new sources of revenue such as the sales tax. A major drawback of the limitation was that local governments became more dependent on the state and federal government.

One 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."⁵¹ One modern day expert develops the negative implications of tax limitation at greater length. Glenn

⁵⁰ Donovan F. Emch, "The Effects of Tax Limitation in Ohio," in *Property Taxes*, (New York: Tax Policy League, 1940) pp. 56-69.

⁵¹ Donovan F. Emch, "The Effects of Tax Limitation in Ohio," p. 69

Fisher finds the property tax to have many economic problems and the source of great ire among taxpayers. However, he cautions that taxpayers need to remember that property taxes are the primary source of local government revenue and that by constraining local government revenue we leave state and federal government unconstrained and its growth unchecked. Property tax limitations encourage local governments to become more dependent on state and federal governments for resources and for overall government in America to become more centralized.⁵²

THE ROLE OF TAX RESISTENCE

The tax resistance movement of the Great Depression was successful. It achieved its primary goal of reducing the property tax burden. In many locations the movement achieved statutory limitations on property taxes while in other locations property tax assessment systems were greatly simplified and made less corrupt. The movement also produced a reduction in the overall tax burden, placed increased scrutiny on government expenditures, and helped eliminate many frivolous government expenditures and

⁵² Glenn W. Fisher, *The Worst Tax? A History of the Property Tax in America*, (Lawrence, Kansas: University of Kansas Press, 1996).

programs at the local level. Finally, the pressure produced by the tax resistance movement must be given substantive credit for the Repeal of Prohibition and the benefits it produced. While many of the tax benefits may have been dissipated by the New Deal, Repeal provided a permanent relief from a highly destructive form of government intervention.

As mentioned in the introduction, tax revolts have played a vital role in American history and the evidence presented in this paper demonstrates that the Great Depression is no exception. Day-to-day experience suggests that taxes play a central role in our lives but modern historians have relegated taxation to a subordinate role to civil rights, democracy, equality in the history they write.⁵³ This explains in part why the tax revolts of the Great Depression have been virtually exterminated from history and why David Beito's work is so important. This paper demonstrates that the tax revolt of the Great Depression was successful and played a central role in key events such as Repeal and realignment of political parties during this crucial period in American history.

⁵³ This is true of world history as well. See for example, Charles Adams, *For Good and Evil: The Impact of Taxes on the Course of Civilization* (London: Madison Books, 1993).

Whiskey Rebellion, which recently celebrated its two hundredth anniversary without either notice or ceremony, tells a similar story of how the history of tax revolts has been rewritten. The Whiskey Rebellion was the crucial event in the early days of the Republic but is now generally ignored or merely depicted as George Washington, the father of our country, bravely squashing a revolt by an isolated group of backward people who refused to pay the taxes necessary to build the new nation and maintain its credit rating. In fact, the Rebellion was a mass popular uprising that occurred in States across the western frontier. Alexander Hamilton helped raise the largest army ever assembled on the North American continent to put down the tax rebellion, while George Washington's interest in putting down a tax revolt was highly questionable. With no army to fight and no taxes to collect, Hamilton and Washington returned east and western farmers resumed not paying the alcohol tax. Thomas Jefferson was elected shortly thereafter and began demolishing the Federalist tax apparatus. The Whiskey Rebellion was a complete success that helped keep the national government at bay for decades to come.⁵⁴

⁵⁴ Mark Thornton, "The Fall and Rise of Puritanical Policy in America," *Journal of Libertarian Studies*, Vol. 12, No. 1 (Spring

Recent tax resistance efforts, such as Proposition 13 in California have also been successful and those who oppose taxes can take comfort in other recent events. For example, George Bush's reelection defeat in 1992 was linked to directly to breaking his promise on no new taxes. In addition, the income tax, the IRS, and Social Security have all come under increased scrutiny and often intense criticism during the 1990s and politicians are now considering a large variety of reform measures. These efforts are likely to produce substantial changes in government. However, history suggests that such movements need to be driven by taxpayers rather than politicians in order to produce substantive reductions in the total tax burden and the size of government.

We agree with David Beito that in order for tax revolts to be a vital tool for liberty and to achieve larger and longer lasting results, that it is necessary for the tax resistance movement to have a well-developed ideological program. Charles Adams is correct that we have lost the well-developed ideological program against taxation, big-government and centralization that America had in the 18th and 19th century. The combination of self-interest in lower taxes and an anti-tax ideology will be a

1996) pp. 143-160.

necessary step to turn modern tax resistance to new and higher taxes into a more substantial and long-lasting moment for lower taxes and reduction in the power of government.⁵⁵

⁵⁵ Our model of tax revolts holds that taxpayers will revolt when tax rates move significantly higher than the ordinary monopoly-exploitation levels where government takes two or three times the taxes relative to the services that it provides. When it attempts to take four or more times the taxes relative to services, taxpayers will revolt and will generally be successful. Property taxes tend to be inflexible compared to income and sales taxes, which automatically rise and fall with the economy and therefore tend to be the focus of tax revolts. For tax revolts to lower taxes below the monopoly-exploitation level taxpayers must find a cost-effective way to organize a sustained drive to lower tax rates and eliminate government services. Certainly, a well-developed and broadly understood ideology would be a central component to such an effort.