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Tax Revolts Aren't Out of the Question.

When states and cities tried to raise revenues during the Great Depression, they sparked a furious backlash.

Thanks to coronavirus-induced declines in tax revenue – and record filings for unemployment benefits – state and local governments are in crisis. Many have underfunded pension systems and few have significant reserves. None can run deficits as readily as the federal government.

Like so much of the economic news as of late, the closest precedent is the Great Depression. In the early 1930s, state and city governments confronted massive budget shortfalls. Attempts to close the gap ended up sparking a movement that was largely forgotten: a massive taxpayer revolt across the nation.

In the early 1920s, the federal government cut taxes, but state and local governments actually raised them. "For every penny saved in taxes in Washington, five cents were added to taxes at the City Hall and State House," as a critic described it in 1932. Property taxes faced some of the steepest increases.

But the additional revenue hardly paved the way to fiscal stability. Instead, state and municipal governments were overwhelmed with debt by the end of the 1920s. The whole system was predicated on never-ending prosperity: Rising property values yielded more taxes, which allowed more spending. Sound familiar?

And then the economy collapsed. The historian David Beito ably chronicled the grueling aftermath. In communities across the country, real estate development collapsed at a mind-boggling rate. In the northeast, for example, residential construction fell 97.3% from 1929 to 1933.

As the value of real estate collapsed, tax rates held steady or even increased as local governments struggled to balance budgets. Deflation only intensified the economic pain, devastating the average taxpayer's ability to pay up. It didn't take long for the shame of tax delinquency to begin to fade.

In 1930s, 10% of taxpayers in cities larger than 50,000 were delinquent in their tax payments. By 1933, the number had soared to 26.3%. In rural areas, where falling prices had effectively doubled the tax burden of farmers, it was even worse. In Iowa, for example, nearly half the state's farm properties were delinquent in 1932.

But there was more to this dire picture than the inability to pay taxes, even if this was a huge part of the problem. Instead, these conditions gave rise to a highly visible, if long underestimated, tax resistance movement that spread throughout both urban and rural areas of the country.

The principal organizations behind these movements were so-called "taxpayer leagues," local associations that took their case to state legislatures, county boards and city councils. In 1927, only 43 such organizations existed in the entire country. At the height of the crisis, their numbers had swelled to well over 4,000. Thomas Reed, a municipal reformer, likened them to mushrooms: "Every time you go out in the morning, you find more of them.”

These groups began waging a battle against taxes on several fronts. Most obviously, they lobbied for tax cuts, electing politicians who promised to deliver them. They also pressed for draconian cuts to public services.

The more extreme members would make the modern-day Tea Party look pretty tame by comparison. Indeed, many of the most vocal and visible tax resisters argued for the ultimate act of defiance: a strike on paying taxes. In most places, politicians and bondholders managed to keep activists from acting on these threats. Not so in Chicago.

It was not surprising that this city, infamous for its municipal corruption and high taxes, would give rise to the most radical of the tax resistance campaigns. Their best-known slogan left absolutely no room for compromise: “1930 taxes cannot and will not be paid!”

As some of the activists argued for closing the schools as a way of saving money, teachers and municipal employees staged rallies. Their allies in the national press, alarmed at the scale of the movement, cast the resisters as anarchists. “This is not only a tax strike, it is a revolt against government,” declared Mauritz Hallgren of the Nation.

In the end, Chicago’s government won, but at considerable cost. State courts ultimately sanctioned the seizure of delinquent taxpayers’ property, and the movement ultimately fell prey to internal rivalries.

Elsewhere, the anti-tax revolt faced a blunt campaign spearheaded by bondholders and their allies. “Pay your taxes,” they cried. Many citizens reluctantly decided to fall in line when confronted with the prospect of closed schools and furloughed police officers.

There may have been another reason for the movement’s downfall: the repeal of Prohibition in 1933. This act, as a team of economists has noted, enabled state and local governments to raise much-needed revenue from sales taxes on alcohol as well as licensing fees. Some states also experimented with state liquor monopolies as a way of raising revenue.

At the same time, the federal government taxed alcohol as well, raising significant amounts of revenue. Under the New Deal, much of that revenue went toward supplying unemployment benefits and other aid that individual states and municipalities once provided, lessening that particular burden.

As today’s leaders of cities and states grapple with brutal budget shortfalls, history could very well repeat itself. Absent a quick turnaround – and an unexpected tax windfall like the one that legalizing booze provided — the next few years may witness tax revolts on a scale last seen in the Great Depression.

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