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America Used to Have a Wealth Tax

The Forgotten History of the General Property Tax

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Introduction

When Americans hear "property tax," they tend to think taxes on houses and other real estate. And for good reason. While property taxes are often levied on motor vehicles, and occasionally on **business net worth**, the vast majority of property taxes in the U.S. today apply only to real estate. It was **not always so**. The historic "general property tax" applied to almost all property, including intangibles like stock, bonds, cash on hand, accounts receivable, and interest in a partnership. Once a mainstay of American public finance, the general property tax helped finance the nation's early industrial growth.

Over time, these broad wealth taxes were whittled away to become the narrower property taxes we have today. These **selective wealth taxes** apply to the kinds of wealth that make up a **large share** of middle-class families' net worth (like homes and cars), but usually exempt most of the net worth of the wealthy (like business equity, bonds, and pooled investment funds). The rationale for this pared-back approach to wealth taxation has grown weaker in recent decades as inequality has worsened, the share of wealth held outside of real estate has increased, and the tools needed to administer a broad wealth tax have improved.

The general property tax was an idea ahead of its time and reviving this American tradition in some form is worth a closer look.

General Property Taxation

In the immediate postbellum U.S., property taxes routinely used a broad definition of property. That meant real estate to be sure, but also real personal property such as valuable possessions (vehicles, livestock, etc.), and intangible personal property (value of debts, business equity, intellectual property, etc.). Local general property tax receipts grew dramatically for decades—from about 2 percent of Gross Domestic Product in the 1850s to 5 percent in the 1920s. These collections were substantial; in 1902 local revenues were close to state and national revenues combined. But by the 1930s, cracks were beginning to show in the system as states had trouble enforcing their taxes.[1]

Michigan's experience offers a useful illustration. At the turn of the 20th century, the state was about to enter a period of remarkable dynamism and prosperity powered by the Great Migration and the automobile industry. In 1893, the state passed **The General Property Tax Act**, which authorizes the state's property tax to this day (albeit in an extensively amended form). Its aim: to tax the fair market value of all property in the state. At the time, this was standard.

In 1893 Michigan taxed all property—including intangibles—at the same percentage of its "face value." But over time, different rates were introduced for different property types to promote greater compliance with the tax. As of 1940 the state had an expansive intangible property tax that **included** "moneys on hand, on deposit or in transit, shares of stock and other units of interest in corporations, … and any and all other credits and evidences of indebtedness, whether such intangible personal property is secured or unsecured."

The tax rates on these properties were generally lower than on real property. The rate charged for most intangible property was the greater of 0.1 percent of the face value or 3 percent of income generated. For shares of stock in building or savings and loan associations the rate was 0.04 percent, or $0.40 per $1,000.

While Michigan offers a good example of postbellum general property taxes, much of the country also considered enslaved people to be taxable property before the Civil War. As Dray, Landais, and Stantcheva document, southern states' definition of "taxable property" was inflated through the inclusion of enslaved people in the base. After chattel slavery was abolished by force, the general property tax base in Southern states declined to levels more on par with the base in non-southern states. Of course, the effects of chattel slavery lasted long past Emancipation and are still felt today. Today, the regions of the South where slavery was most prevalent, and Black Americans generally both have far lower levels of wealth than in the rest of the country.

The Pivot to Income Taxes

The early 20th century was a pivot point for American tax policy. In the immediate postbellum U.S., property tax administration was less formalized than it is today. Real property—acres of land, barrels of bourbon, head of cattle—was on relatively public display but markets were smaller and less liquid, and therefore assets were often difficult to value. Although property taxes did raise significant revenue, assessments were less than comprehensive, constrained as they were by the technology of the day.

As the tax historian Joseph Thorndike has **explained**: "The general property tax… was a tax ill-suited to a world chock-full of intangible property but not yet endowed with a reliable means of making that property visible to tax authorities. (Less of a problem these days, of course.)"

The classic contemporary objection to the practice is surely Edwin R.A. Seligman's[2] 1890 broadside against a general property tax, which **concludes**:

> *"[The general property tax] puts a premium on dishonesty and debauches the public conscience…. It is the cause of such crying injustice that its abolition must become the battle cry of every statesman and reformer."*

The views of people like Seligman ultimately prevailed, and were helped along in 1913, when progressives won the 16th amendment to the U.S. Constitution, which gave Congress "power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration." As American governance became more professional and formal in the beginning of the 20th century, the tool of the general property tax was supplanted by the graduated income tax. Income taxes were easier to administer and to this day they remain the strongest progressive element of the U.S. tax system.

As the federal government increasingly turned to a broad-based graduated income tax for revenue, states' reliance on property taxes also began to trail off. Although state property tax receipts continued to grow in nominal terms well into the 20th century, they did not drive states' dramatic expansion in revenue. Instead, states turned toward new taxes on personal income and general sales, and **toward taxing** the rapidly growing auto industry.

And so, by 1965 Duke economics professor (and later chancellor) John O. Blackburn **called** the taxation of intangible property of "negligible importance." However, even then 14 states still had broad taxation of intangible property: Florida, Georgia, Indiana, Kansas, Kentucky, Michigan, Missouri, Nebraska, North Carolina, Ohio, Oklahoma, Pennsylvania, Rhode Island, and Virginia. Each of those would be repealed not long thereafter.

Ultimately, the demise of the general property tax was partly the result of an understandable—but ultimately misguided—belief that new forms of personal income taxation coming onto the scene made wealth taxation unnecessary or duplicative. However, **as we know now**, the income tax – while in many cases a powerful tool for progressive taxation – is often not particularly adept at reaching the fortunes of the very wealthy.

Looking Ahead

While reasonable people can debate the most effective means of taxing wealth, there is a strong case to be made for bringing back heavier levies on the fortunes of the wealthy. Wealth inequality has **increased considerably** since the middle of the 20th century when the general property tax was being hollowed out. Progress toward addressing racial wealth inequality, measured as the difference between white and Black per capita wealth, began to **stall out** around the same time.

Our current system of selective wealth taxation through the property tax is largely neglecting—and in some ways even worsening—these problems. Data from the Federal Reserve **indicate** that the bottom 90 percent of families have more than half of their net worth tied up in real estate, whereas the top 1 percent have just 13 percent of their wealth in real estate. A similar pattern is present across race and ethnic groups: white families hold just 27 percent of their wealth in real estate while Black and Hispanic families hold 40 percent and 58 percent, respectively.

At the same time, real estate has also **been declining** as a share of total net worth, meaning that the narrow property taxes we have on the books today apply to a **shrinking share** of overall wealth.

In other words, wealthy families—particularly wealthy white families—have a far lower share of their net worth subject to property taxation than other groups. They also have a lower share of their wealth being taxed today than they did just a few decades ago, as intangible assets have grown in prominence. Given our nation's high level of inequality, and the unequal opportunities it affords based on race and class, a return to a broader system of wealth taxation is worth a closer look.

Recent advances in tax administration also make a return to broader wealth taxation more feasible. Measuring and cataloging property values in the pre-digital age was no small undertaking. But modern accounting and financial practices are more comprehensive, efficient, and traceable than in the early 20th century. The right-leaning Tax Foundation, for instance, has **explained** that in our modern era, “taxing wealth consisting of unrealized gains from publicly traded assets is relatively straightforward.” Valuing assets without a clear and visible public value is more challenging, of course, but reasonable valuations can be arrived at by looking at the income streams those assets produce.

The arguments used by opponents of the general property tax are no longer as convincing as they once were and the limitations of taxing only income, but not wealth, in our highly unequal nation have begun to come into **sharper view**. With these concerns in mind, it’s time to revisit whether past tax reformers were wrong to narrow the general property tax, and how best to restore the U.S. tradition of broader wealth taxation. The case for taxing wealth today is more compelling than ever.

Endnotes

1. Notably, recent research from Dray, Landais, and Stantcheva highlights America’s long history with wealth taxes, their key role in fueling American growth and development, and the insight into economic history that their administrative records leave behind. See Dray, Landais, and Stantcheva’s Wealth and Property Taxation in the United States.

2. Born in 1861 to a prosperous New York family, Seligman was a lifetime Columbia University scholar, a founding member of the American Economics Association, and a prolific writer for both academic and popular audiences.