

Chapter 4

FROM HOME RULE TO LOCAL AUTONOMY: PUBLIC FINANCE REFORM

In the broader picture of state politics, planning and resource conservation were issues that concerned relatively few people between 1900 and 1930. These matters were seriously debated among the state's civic, business, and professional leaders as well as in the Legislature, but the level of discussion prevailing among them did not carry over to the press. Tax issues were an altogether different matter. They commanded widespread attention.

In 1910, voters opted to separate the sources of state and local revenue, a major change which resulted not so much from populist agitation or progressive reform campaigns, but from a steadily growing gap between state revenues and expenditures. By the turn of the century, industrial development, agricultural expansion, and population growth mandated considerable extensions of government services. Industrial development, in addition, placed an increasing proportion of wealth in forms such as credits and securities, which escaped state taxation. Throughout the 1890s, the State Board of Equalization, the Legislature, the County Assessors' Convention, and the California Grange either requested or initiated investigations of the revenue laws, but no major changes resulted until 1910.¹

¹ Mansel G. Blackford, *The Politics of Business in California, 1890-1920* (Columbus: Ohio State University Press, 1977), 146-148; William C. Fankhauser, *A Financial*

Dissatisfaction continued to mount after 1900, spurred on in large part by complaints from Los Angeles, San Francisco, and Oakland that each city carried more than its share of the state's tax burden. Carl Plehn, professor of finance at the University of California, Berkeley, urged Governor Pardee and the Legislature to consider tax reform by separating the sources of state and local revenue, reserving the general property tax for local governments. Plehn was one of several economists who actively sought to lend expertise toward solving the problems of public finance in the early twentieth century, and he adhered closely to the ideas of Edwin R. A. Seligman, who engineered the separation of sources plan adopted by New York State in 1903. Plehn also enlisted the support of the Commonwealth Club in 1904, and from then until 1910, this group remained the principal civic body investigating the state's tax system.²

In 1905, the Legislature, in addition, created a special Commission on Revenue and Taxation. Plehn was appointed secretary of the commission, and he is the acknowledged principal author of both its preliminary (August 1906) and final (December 1906) reports. The commission's investigation revealed that the general property tax had devolved into a tax on real estate, since only 15–18 percent of the state's general property tax revenues came from taxes levied on personal property. This meant that the burden of property taxation fell most heavily on agriculture, and the commission estimated that farm owners paid in taxes the equivalent of 10 percent of their net income. The commission further noted that intangibles, such as money, credits, and franchises, escaped taxation altogether. Moreover, state banks and savings banks were taxed while national banks were not. To compound matters, the commission concluded that equalization was impossible under the prevailing statutes and case law, which placed tax assessment under the control of local governments.³

Based on these findings, the commission proposed tax reform patterned on plans adopted earlier by Pennsylvania, New York, Connecticut,

History of California, University of California Publications in Economics 3, no. 2 (1913): 368–369; Mabel Newcomer, *Separation of State and Local Revenues*, Columbia University Studies 72, no. 2 (1917): 178–179.

² Blackford, 148–149; Fankhauser, 369.

³ California Commission on Revenue and Taxation [hereinafter cited as Comm Rev and Tax], *Report*, December 1906, especially 3–4, 9–13.

Ohio, and Minnesota. Acting on Plehn's advice, the commission advocated abandoning the general property tax to local governments and establishing newly defined property taxes that would tap corporate wealth. Revenue generated from the latter, as well as from some established special taxes, such as poll and inheritance taxes, would go to the state. The commission admitted that its recommendations were conservative: it addressed strictly the revenue-raising function of taxation and did not attempt to ascertain in any depth the larger economic or political consequences of the new system proposed.

The California separation of sources plan introduced the concept of classified property taxation by categorizing various forms of tangible and intangible property and recommending that each form be taxed at a different (and perhaps fixed) rate. The goal was not so much to achieve overall taxation equality as it was to tax "each class . . . in the manner best adapted to reach its full tax-paying ability."⁴ Three major new taxes were proposed: a tax on the gross receipts of railroads, street railways, utilities, and express companies; a tax on the capital, surplus, and undivided profits of banks; and a tax on all types of franchises. These, the commission asserted, were to be construed as taxes upon the "classes of property sometimes called 'corporate' to distinguish them from the 'private or individual' industries and properties."⁵

Charles Bullock traced the roots of states' tax and revenue problems to the 1860s, when the average general property tax rate in the United States rose from 78 cents per \$100 to \$1.98 per \$100. Between 1870 and 1902 the average rate moved upward only slightly, to \$2.05, but most of it was now levied on real estate. Bullock concluded that "it was mainly the progressive increase of tax rates after 1860 which caused the disintegration of the general property tax."⁶ Thus, if one looks at the national picture, by 1900 not

⁴ Carl Plehn, "Tax Reform in California" in *State and Local Taxation: Fifth Annual Conference, Addresses and Proceedings, September 1911* (Columbus: National Tax Association, 1912), 118; remarks by Plehn in Commonwealth Club of California, "The Proposed Taxation Amendments to the State Constitution," *Transactions* 3, no. 4 (1908): 146.

⁵ Comm Rev and Tax, *Report*, December 1906, especially 77.

⁶ Charles J. Bullock, "A Classified Property Tax" in *State and Local Taxation: Third International Conference, Addresses and Proceedings, September 1909* (Columbus: International Tax Association, 1910), 95–98.

only were various forms of corporate industrial wealth escaping taxation, but personalty (easily concealed) was yielding far less tax revenue, and real estate (in the guise of the general property tax) had reached its tax bearing limit. The tax rates prevailing in California from 1860 to 1900 did not entirely follow the national trend, however (see Table 6, Chapter 2). After sizable increases during the 1860s, the rate fluctuated between \$0.429 and \$0.865 (per \$100 of assessed value) from 1870 to 1900. Overall, the general property tax rate in California was much lower than elsewhere in the nation during the late nineteenth century. But the Plehn Commission nonetheless found that real property still bore the heaviest tax burden.

Other economists, like Plehn, worked closely with public officials during the early twentieth century, searching for politically feasible solutions to public finance problems. Few of these economists seriously entertained ideas of abolishing the general property tax, even though they might publicly criticize it as ill-conceived and impossible to administer equitably, as several decades of unsuccessful attempts to equalize assessments and centralize administration had proved. Rather, mainstream public finance economists generally opted for solutions which did not radically alter the fundamental principles of existing tax systems. Classified property taxation, that is, “ad valorem taxation of property by its segregation into groups or types and the application to these various classes of different effective rates,”⁷ was attractive because it offered a means to make the property tax more flexible and yield more revenue.

California’s 1879 Constitution permitted state income taxation, but Plehn and his colleagues simply dismissed this alternative as “unAmerican.” Instead, the commission chose the separation of sources plan, which necessitated another constitutional amendment to release the state from its obligation to depend on the general property tax as a source of revenue. The separation of sources alternative, moreover, required the commission to specify new forms, or “classes,” of property and to suggest a rate of taxation for each. For taxation purposes, the commission considered foremost the intangible aspect of corporate property and thus proposed a gross

⁷ Simeon E. Leland, *The Classified Property Tax in the United States* (Boston and New York: Houghton Mifflin Co., 1928), 12–41; see especially 40–41 for Leland’s synthesis of early attempts to define the essence of classification.

earnings tax on property used in the operations conducted by companies.⁸ The gross earnings tax thus replaced the general property tax on corporations' operative property.

It is nonetheless debatable whether the 1905–1910 Tax Commission thought of its proposal as a blueprint for classified taxation inasmuch as its overriding concern was to generate more revenue for the state. It was more concerned with taxing corporate property at rates which would yield sufficient revenue without causing corporate interests to rebel. Extending the ad valorem principle was a desirable but secondary goal. Plehn's comments in regard to the 1906 reports generally suggest that he, at least, considered the proposal as one advocating an extension of special taxes to newly specified forms of property, forms referred to as "classes."

The 1906 report and the proposed constitutional amendment, which the Legislature approved for the 1908 ballot, generated considerable controversy, and the debate left many fears unallayed. The commission aroused suspicion when it submitted the August 1906 preliminary report to every corporate or other group interest that might face higher taxes. In a series of hearings that followed, all those affected, with the exception of the Pullman Company, appeared to comment and, in some cases, to recommend changes.⁹ Despite a negative response from Pullman, business interests generally favored the plan and were willing to accept increased taxes "in return for greater stability and predictability in their relations with government," but they also succeeded in keeping their tax rates at the minimum prescribed by the commission.¹⁰

The Taxation Section of the Commonwealth Club strongly objected to the special consideration the commission accorded corporations and questioned whether any plan so acceptable to corporate leaders would, or could, achieve the results the commission predicted. And, despite the much-vaunted separation of sources on which the plan was based, the Taxation Section noted that the state reserved the right to impose a general ad valorem property tax if necessary; thus, the plan would not establish a true separation. It also objected to a provision that would repeal the state's

⁸ *Comm Rev and Tax, Report*, December 1906, 18–19, 50.

⁹ *Ibid.*, 5–6.

¹⁰ Blackford, 149–153, which includes a succinct discussion of corporate reactions to the commission's recommendations.

existing constitutional right to impose an income tax, even though the commission's supposed concern was to boost state revenues. Finally, the Taxation Section report criticized changes the Legislature made, presumably under pressure from corporations. When the proposed constitutional amendment appeared out of the Legislature, rates of taxation were fixed at the lowest levels that (or in some cases, lower than) the commission recommended (see note 11); and the Board of Equalization was to be elected by district, rather than at-large, as the commission recommended. The latter circumstance, many felt, would make it easier for corporate interests to influence board members. After lengthy discussion of the proposed amendment, club members voted so narrowly in favor of supporting it that hardly anyone considered the vote to be an endorsement.¹¹

¹¹ *Transactions* (1908), 110–112, 115, 117–119. Quoting from the report at 111–122:

[1] In every case the Legislature, in fixing percentages to be charged against corporations, either took the minimum suggested by the Commission or reduced even that; for instance:

On railroads the Commission recommended not less than 4 nor more than 5 percent; the Legislature fixed it at 4 percent.

On sleeping-car and similar companies the Commission recommended not less than 4 percent nor more than 5 percent; the Legislature fixed it at 3 percent.

On express companies the Commission recommended 3 percent; the Legislature cut it to 2 percent.

On gas or electric companies the Commission recommended not less than 4 percent nor more than 5 percent; the Legislature fixed it at 4 percent.

On insurance companies the Commission recommended 2 percent; the Legislature reduced it to 1½ percent, and added a rider deducting from that all county and municipal taxes paid by such companies on real estate owned by them in the State. This, it is understood, was inserted to accommodate [sic] one particular insurance company.

[2] The Commission recommended that the tax on banks should be 1 percent upon the full cash value of the shares of capital stock, and that the value of each share should never be taken to be less than the amount paid in thereon, together with its pro rata of the accumulated surplus and undivided profits.

The Legislature makes it 1 percent upon the value (not the full cash value) and provides that such value shall be taken to be the amount paid in thereon, together with its pro rata of the accumulated surplus and undivided profits — omitting the words “never taken at less than.”

[3] The Commission recommended that the percentages and amounts fixed as above should be and remain in force for six years from the adoption of this amendment, and thereafter may be changed by the Legislature at intervals of not less than six years.

Agriculturalists and small-town newspaper editors, in contrast, generally favored the 1908 proposed amendment since its supporters claimed that the new system would reduce farmers' taxes. The State Grange, which formed a permanent committee in 1903 to study taxation and to which the commission also submitted a copy of its August 1906 preliminary report, endorsed the measure. E.J. Wickson, editor of the state's leading farm paper, *Pacific Rural Press*, urged farmers to vote for the amendment, although his motives included a desire to see defeated those urban groups who had branded the proposed amendment as a "selfish rural issue."¹²

The urban group to which Wickson referred was a group of Southern California city assessors, who feared they would lose their jobs if the amendment passed. They waged a vigorous campaign which resulted in a generally negative Southern California vote that helped to defeat the 1908 amendment. Joining them in opposing the measure were San Francisco city officials, who feared that the amendment, if passed, would force the city into heavy bonded indebtedness to finance rebuilding in the wake of the 1906 earthquake and fire. Widespread property destruction temporarily lowered property tax revenues.¹³ The League of California Cities also opposed the measure on the grounds that separation of sources was an "experimental" system. The league was convinced that the plan would not eliminate underassessment practices (only relieve the state from its consequences) and that corporations would merely shift higher taxes onto consumers.¹⁴

Undaunted by defeat, the Revenue and Tax Commission took up the matter once again and submitted a slightly modified proposed amendment to the Legislature, which approved it for inclusion on the 1910 ballot. Business and agricultural supporters lined up much as they had two years earlier, but this time no bitter opposition came from Los Angeles or San Francisco city officials. By 1910, San Franciscans had substantially rebuilt

The Legislature omitted this, forever imbedding in the Constitution the low rates embodied in the amendment as now proposed until they can be changed by amendment of the Constitution.

¹² Blackford, 153–154; *Pacific Rural Press* [hereinafter cited as *PRP*], October 31, 1908; *Comm Rev and Tax, Report*, 1910, 49–50.

¹³ Blackford, 155; Carl Plehn, "Tax Reform in California," 120, 123; *Comm Rev and Tax, Report*, 1910, 50.

¹⁴ *Pacific Municipalities*, 19, no. 3 (October 1908): 37–38.

their city. In Southern California, city assessors now directed their ire toward the State Board of Equalization, which had raised overall assessments in several Southern California counties in 1909. Thus, Southern California assessors decided to support the amendment in the hope that it might rid them of the state board. The Commonwealth Club's Taxation Section raised the same objections it leveled at the 1908 proposal. In the end, however, the club gave the measure a lukewarm endorsement, reasoning that, although imperfect, it would improve the present system. Unopposed by any well-organized interest groups, the 1910 measure received voter approval.¹⁵

Between 1906 and 1911, California and twenty-eight other states established special or permanent commissions for the purpose of revising tax systems. Many states adopted separation-of-sources plans in one form or another, although, generally speaking, there was little discussion of the conditions or limitations under which these systems should be adopted.¹⁶ In California the proposed amendments submitted to voters generated considerable debate, especially in 1908, but surprisingly little discussion was directed toward the ad valorem principle of taxation that the proposal altered. During the Commonwealth Club debate over the 1910 proposition, only two members objected to the plan: one because it "abandon[ed] the scheme of providing public revenue by taxing all property in proportion to its value," even though the commission had not "demonstrated [the principle] to be fundamentally unsound," and the other because it involved "much more than the mere separation of the sources of State taxes. It involve[d] the substitution of a gross income tax on certain corporations in place of the . . . ad valorem tax . . . applicable to all property of every sort."¹⁷

No group stepped forth to offer radical suggestions for tax reform, as one might have expected during these years. Perhaps this is because, as George Mowry has suggested, civic leaders in California — editors, attorneys, small businessmen, real estate developers — did not perceive large

¹⁵ Blackford, 156–157; Plehn, "Tax Reform in California," 121–123; "Constitutional Amendments of 1910," *Transactions* 5, no. 6 (1910): 337–338; *PRP*, October 22, 1920, 327, 329.

¹⁶ Edwin R.A. Seligman, "Recent Reports on State and Local Taxation," *American Economic Review* 1 (1911): 272–295.

¹⁷ *Transactions* (1910), 341, 369.

corporations as a direct threat to their economic interests during what were generally prosperous years in California. In addition, large corporate interests were not as extensive in California as elsewhere, especially in the East. Much of the oil industry, for instance, remained in the hands of independent producers until about 1915. The state's banking industry, moreover, did not begin to stabilize until about 1900, a condition which hampered capital accumulation for large-scale manufacturing or other operations. California progressives therefore never sought the wholesale demise of large business corporations, but they did insist that corporations pay their fair share of taxes.¹⁸

Nor does the movement to separate the sources of state and local revenue appear to have been "primarily an effort to abolish the general property tax."¹⁹ The financial need to tap new sources of wealth led those concerned with public finance matters to seek special taxes on newly defined classes, or categories, of property. And the seemingly insurmountable problems of equalization, which centered on local assessment practices, led them likewise to abandon general property taxation officially to the fate of local governmental control, where, unofficially, control had always been.

THE SINGLE TAX CAMPAIGN

The framers of the separation of sources plan intentionally unburdened the state of general property tax assessment problems, which, of course, did not disappear. If anything, they worsened. Thus, the controversy surrounding the separation of sources plan continued long after its adoption in 1910, and the next twelve years brought forth a host of more radical proposals for property tax reform. Those advocating a single tax on land values enjoyed their most influential period in California history during these twelve years, and it is no exaggeration to say that every serious proposal for tax reform bore the stamp of Henry George's ideas.

Between 1912 and 1922, single tax organizations placed before California voters six constitutional amendment propositions that, had any of them passed, would have established land value taxation as the basis of local taxation. Moreover, a new tax commission, appointed in 1915 and

¹⁸ Mowry, 92; see Blackford on oil and banking interests.

¹⁹ Newcomer, 177.

reporting in 1917, recommended a graduated land value tax. Finally, a special Commission of Immigration and Housing, established in 1913, recommended land value taxation as a means to break up large landholdings in order to encourage settlement and provide greater economic opportunities for settlers.

In 1929, another tax commission estimated that whereas real estate had been assessed at about 60 percent of its full market value at the time of separation, by 1928 the average assessment rate was down to 41.63 percent.²⁰ To justify relieving the state “from the friction accompanying . . . equalization,” the 1905–1910 commission asserted that equalization should be a matter of “home rule.”²¹ Home rule was, no doubt, a term chosen for its voter appeal, but home rule, or local option, was also applied to a single-tax legislative strategy devised by Henry George and Thomas Shearman in New York during the mid-1880s.²² After 1910, home rule became the rallying cry for California’s single-tax advocates, who sought to remove property taxation from any central control or supervision whatsoever as a means to allow local governments to experiment with land-value taxation. They believed that such experiments would prove single tax theory to be sound and that competitive successes would force localities to fall in line by adopting land-value taxation.

Between 1890 and 1902, single-taxers used the home rule strategy in attempts (ultimately unsuccessful) to change the tax systems in Washington, Colorado, Rhode Island, and Oregon. It is thus curious that no single-tax campaign for home rule surfaced in California until 1910. Its absence is due in part to at least two factors. The national single tax movement waned at the turn of the century, following Henry George’s death in 1897.²³ In addition, the tax reform movement in California, and elsewhere, during the early-twentieth century was heavily influenced — even directed — by economists with academic credentials, not by taxpayer special interest

²⁰ California Tax Commission, *Report* (1929), 158, Table II-10.

²¹ Comm Rev and Tax, *Report*, December 1906, 11; Marvel M. Stockwell, *Studies in California State Taxation, 1910–1935* (Berkeley: University of California Press, 1939), 31.

²² Charles J. Bullock, “Local Option in Taxation” in *State and Local Taxation* (Columbus, 1912), 31; Arthur Nichols Young, *The Single Tax Movement in the United States* (Princeton: Princeton University Press, 1916), 230.

²³ Young, 139–162.

groups. In California, moreover, close ties between the tax commission and corporations probably would have blocked the effectiveness of any group advocating more radical reform.

In 1909, however, Joseph Fels established a fund for the purpose of reviving the single tax movement, and the Fels Fund supported the California single tax campaign from its inception through 1915.²⁴ The campaign began in 1911, when J. Stitt Wilson, mayor of Berkeley and an outspoken advocate of the single tax, convinced the League of California Cities to support home rule in taxation. He argued that home rule would lead to the adoption of the single tax that, in turn, would force the breakup of extensive landholdings since the tax would make large “undeveloped” parcels of land expensive to hold. More farmers on the land would aid the development of agriculture in California, which, so his argument ran, would boost the state’s economy.²⁵

Activities following Wilson’s speech led to the formation of the Home Rule in Taxation League, to which the Fels Fund gave financial support. The Home Rule League circulated initiative petitions throughout the state to place a home rule in taxation constitutional amendment proposition on the November 1912 ballot, and again on the 1914 ballot. The 1912 proposition was written in a general manner to allow local option in property taxation. The 1914 measure represented a slightly different tactic to achieve the same end; it proposed authorizing cities or counties to *exempt* several classes of property from taxation.²⁶

Neither the 1912 nor the 1914 ballot propositions garnered enough support to pass, although in each case about 41 percent of the voters favored them.²⁷ Compared to later single tax campaigns, the 1912 and 1914

²⁴ *Joseph Fels Fund Bulletin* [hereinafter cite as *JFFB*] 1, no. 11 (November 1913): 4; *JFFB* 4, no. 12 (December 1916): 1; Young, *The Single Tax Movement*, Chapter 8, “Still Agitating the Land Question.” See also Arthur Power Dudden, *Joseph Fels and the Single-Tax Movement* (Philadelphia: Temple University Press, 1971).

²⁵ *Pacific Municipalities* 25, no. 4 (November 1911): 137–145; League of California Cities, *Proceedings, 14th Annual Conference, 1911* (League of California Cities, 1911), 152–177.

²⁶ *Pacific Municipalities* 27, no. 1 (January 1913): 20–35, v. 27, no. 2 (February 1913): 63–67, and v. 27, no. 11 (November 1913): 648; *JFFB* 4, no. 12 (December 1916): 2; California, Secretary of State, *Ballot Arguments*, 1912, 1914.

²⁷ California, Secretary of State, *Statement of the Vote*, 1912, 1914.

campaigns sparked relatively little public debate, but it is nonetheless possible to identify at least some of the supporters and opponents. The League of California Cities, of course, supported both measures. Voting records show, moreover, that overwhelming support for the 1912 measure came from San Francisco County, but after then San Francisco support gradually waned. The Commonwealth Club, whose membership was drawn largely from the San Francisco area, gave only lukewarm support to the 1914 measure, presumably because those participating in the prolonged debate were strongly divided on the merits of the single tax.²⁸

Waning enthusiasm in San Francisco is probably attributable to the Anti-Single Tax League, organized in late 1912 specifically to fight the home rule amendment. Single tax advocates alleged that the organization was a front for the Southern Pacific Railroad.²⁹ While Southern Pacific may have contributed to its support and direction, the Anti-Single Tax League leadership suggests that the group attracted broad support from the business and financial communities. The original executive committee included three bank presidents; two representatives from the Tax Association of California (allegedly controlled by utility and railroad corporations); one insurance company president; the president of the Fresno Chamber of Commerce; Thomas Bard, ex-U.S. senator and large landholder in Ventura County; a representative of the State Grange; Carl Plehn; and A.B. Nye, the state controller. It was a conservative, politically well-connected group, and it sought sustaining contributions from among its members' many contacts.³⁰

Although the State Grange lent official support to the Anti-Single Tax League, individual farmers were attracted to the land value tax. E.J. Wickson, editor of the *Pacific Rural Press*, advised subscribers to vote "no" on the 1914 measure, claiming that because a land-value tax could not be shifted, farmers would bear an additional tax burden that would ultimately benefit urban capitalists, who could erect rental-lucrative multistory commercial

²⁸ *Statement of the Vote, 1912–1922; Transactions* 9, no. 4 (1914): see especially 288.

²⁹ *JFFB* 1, no. 6 (June 1913): 4; and v. 1, no. 9 (September 1913): 2.

³⁰ Thomas Bard Papers, Box 20A (Huntington Library); *Fresno Morning Republican*, October 10, 1912; see Franklin Hichborn, *Camouflage Organizations* (Santa Clara: privately printed, 1926) for a brief, muckraking account of the Tax Association of California.

buildings tax-free. Two farmers independently rebutted his editorial, however, pointing out that farmers who improved the land raised the value not only of their own land, but the value of nearby unimproved land as well. Yet speculators holding unimproved lands reaped the benefits both through lower property taxes and higher selling prices.³¹ Farmers as well as businesspeople in the Modesto area likewise supported the home rule amendment based on their early experience with land value taxation for irrigation districts.³² Despite such instances of farmer support for home rule and land value taxation, the voting record shows that rural counties voted two-to-one overall against both the 1912 and 1914 measures.³³ Since land values were rising rapidly during this period, the rural vote suggests that most farm owner-operators rejected the proposals because land value taxation would also mitigate their potential capital gains if and when farmland was sold.

In 1916, a new organization, the Los Angeles Single Tax League, took over the campaign. Dissension among single-taxers surfaced after the Joseph Fels Fund Commission and the Single Tax Conference held a joint meeting in San Francisco in 1915. The 1912 and 1914 California campaigns were the subjects of considerable discussion largely because philosophical purists objected to the Home Rule League's willingness to bend strict single tax principles to achieve a political end. Convention delegates finally resolved that "single taxers should . . . propose nothing less than constitutional amendments for the full measure of [a] state-wide single tax."³⁴ Shortly thereafter the Los Angeles Single Tax League was formed, and that organization drafted the 1916 ballot proposition, known as the land taxation amendment. Had it passed, which it did not, the land taxation amendment would have required public revenues to be raised by taxing land according to its unimproved value, although it would have permitted income and inheritance taxation for welfare purposes.³⁵

³¹ *PRP*, April 11, 1914, 442–443, and May 9, 1914, 546–547.

³² See *Transactions* (1914), 299.

³³ *Statement of the Vote*, 1912, 1914.

³⁴ *JFFB* 3, no. 8 (August 1915): 1, and v. 3, no. 9 (September 1915): 2.

³⁵ *JFFB* 4, no. 2 (February 1916): 1; *San Francisco Chronicle*, September 16, 1916; *Ballot Arguments*, 1916, 38–42.

An unmasked land value taxation proposition on the 1916 ballot provoked far more controversy than had the previous home rule propositions. The strongest opposition appears to have come from M.H. de Young, editor of the *San Francisco Chronicle*, who waged a one-man war against the single-taxers from 1916 until the ballot initiative movement finally ceased in 1922. De Young labeled single tax advocates as “atrociously dishonest” and “queer.” He called them “financial cranks” and, later, “socialists” espousing “pure Russian Bolshevism.” He repeatedly charged that single-taxers wanted to confiscate all land values with the result that the state would become the sole landlord.³⁶ De Young’s editorials aroused further public opposition, especially from the San Francisco and Oakland Real Estate Boards.³⁷

Single-taxers, for their part, claimed support for the 1916 land taxation amendment initiative from the State Federation of Labor, from some chambers of commerce, and from some agriculturalists. The Farmers’ Union appears to have supported the measure, as did a few Grange officials, although the State Grange as an organization did not support the proposal. With scattered support, at best, the ballot initiative garnered only 31 percent of voter support, suffering its worst defeat in the prosperous farming counties of Santa Clara and Orange, where the vote was four-to-one against the measure.³⁸

Land value taxation propositions appeared on the 1918, 1920, and 1922 ballots, but drew proportionately less of the vote each time.³⁹ Internal dissension, in addition to strong external opposition, appears to have contributed to the ultimate demise of the single tax campaign. In 1923, the Los Angeles Single Tax League retrospectively blamed defeat on “extremists, theorists, and doctrinaires,” meaning Easterners who imposed their ideas on the California campaign.⁴⁰ Although there is little evidence to suggest that a home rule amendment ultimately would have succeeded, discarding

³⁶ See, for example, his editorials in the *Chronicle*: August 16, 1916; October 13, 1916; October 24, 1916; July 1, 1917; January 10, 1919, September 11, 1920; and September 19, 1920.

³⁷ *San Francisco Examiner*, August 15, 1916, and October 8, 1916.

³⁸ *JFFB* 4, no. 9 (September 1916): 3; Bailey Millard, “Legislature to Consider State Land,” *Examiner*, June 18, 1916; *Statement of the Vote*, 1916.

³⁹ *Statement of the Vote*, 1918, 1920, 1922.

⁴⁰ *Tax Facts* 1, no. 10 (February 1922): 37–38.

the home rule strategy proved to be a fatal tactical error. Many erstwhile and would-be supporters were certainly lost once the measure appeared on the ballot as a land value taxation rather than as a home rule amendment. The striking reality, however, is that the campaign continued for six more years, surviving even the post-World War I Red Scare, when one would have expected any land value taxation proposal to meet a resounding defeat at the polls. But the 1920 initiative, oddly enough, received a larger affirmative vote than the 1918 initiative, although the overall margin of loss was greater.⁴¹

One is thus forced to ask what kept the single tax issue alive through six consecutive elections. The most obvious answer is that the 1910 separation of sources plan did not result in improved property tax administration at the local level. In addition, there was considerable popular support for breaking up large landholdings. Another possible reason the single tax initiatives enjoyed such a long tenure was that members of two state commissions found land value taxation arguments convincing, or at least useful for other reforms, and they kept single tax ideas before legislators while the single tax organizations kept propositions before the voters.

LAND REFORM THROUGH TAXATION

The State Tax Commission appointed in 1915 to investigate the shortcomings of the separation of sources system recommended, among other things, a graduated unearned increment tax to replace the real estate tax. As for agricultural lands in particular, the commission recommended that experts study California farm lands and classify them according to their inherent qualities and suitability for various crops.⁴² It further argued that agricultural land should, at the beginning, be assessed at full value, but that taxes on future increases in land values should fall heavier on unimproved or undeveloped lands. Despairing that “there seems to be no

⁴¹ *Statement of the Vote*, 1918.

⁴² California State Tax Commission, *Report*, 1917, 124. The idea of classifying agricultural lands was not new. The assessment commission of the National Tax Association (NTA) made a similar recommendation in 1911, but the goals of the two bodies differed greatly inasmuch as the NTA was urging more “scientific” assessment practices in an apparent attempt to mollify critics of the property tax; see *State and Local Taxation* (1912), 345–359.

other effective way of remedying or controlling the abuses which grow up through large land holdings,” the commission concluded that the graduated land tax “would at least bring about closer equity in the taxation of small and large land holdings.”⁴³ No legislation, however, came out of the commission’s recommendations, which also included complete separation of state and local revenues, centralized control of assessment, and adoption of a state income tax.

As part of the commission’s 1915 effort to determine public sentiment for a graduated unearned increment tax, it sent out questionnaires, of which over 600 were returned, to attorneys, bankers, educators, farmers and fruit growers, industrialists and manufacturers, merchants, newspapermen, physicians, public officials, and real estate/insurance brokers. Responses to two of the eleven questions are particularly revealing. To the first question, “Do you favor the gradual reduction of taxation upon buildings, trees, and vines and the assumption of that tax burden by the land?,” 355 responded “yes” and 215 responded “no.” Attorneys, newspapermen, physicians, public officials, and farmers and fruit growers generally seemed in favor of the idea; bankers seemed most opposed to it. To the second question, “Do you believe that land held for speculation should be taxed heavier than land used for home, agricultural or business purposes?,” respondents were evenly divided (285 to 285). Newspapermen responded strongly in the affirmative. Bankers and real estate/insurance brokers were firmly opposed, while farmers and fruit growers, as well as attorneys, were split. From the aggregate responses to all eleven questions, the commission could ascertain solid support for the increment tax only among newspapermen.⁴⁴

The second commission to be influenced by single tax ideas was the Commission on Immigration and Housing (CIH), established in 1913 at the urging of Governor Hiram Johnson and directed to study situations likely to arise with the opening of the Panama Canal.⁴⁵ The CIH, under the leadership of Simon Lubin, undertook several investigations in the 1910s, one of which was an exhaustive study of large landholdings in eight Southern California counties. Its purpose was to determine the effect that

⁴³ Tax Commission, *Report*, 1917, 128; see also *JFFB* 4, no. 7 (July 1916): 1–2.

⁴⁴ Tax Commission, *Report*, 1917, 156–161.

⁴⁵ Simon J. Lubin Papers, letters pertaining to the temporary commission, established in 1912, contained in Box 4 (Bancroft Library).

these landholdings had on the state's agricultural development and the corresponding economic welfare of California residents. In its 1919 report, the CIH charged that several hundred thousand acres of land, potentially tillable without irrigation, were in the hands of speculators who either offered parcels for sale at prices far beyond their productive values or were withholding land from sale until population pressures forced the market up to meet their speculative projections. To encourage owners to divest their holdings and make potential farmland accessible to buyers of limited means, the CIH favored a graduated land tax based on unimproved land values, rather than based on acreage, as the 1915–1917 tax commission had recommended. Equally important, the CIH urged the Legislature to declare a land policy designed specifically to increase the number of farmers. The commission further called upon the Legislature to coordinate all state agencies concerned with rural land and water issues.⁴⁶

The CIH recommendations were based, as were Mead's land settlement projects, then underway, on a vision of California agriculture dominated by small farming units, although the racist motives inherent in the land settlement experiments were absent. This was so because Simon Lubin's ideas permeated the 1919 large landholdings report. Lubin was the son of David Lubin, principal founder of the International Institute of Agriculture in Rome, and cofounder, with his brother-in-law Harris Weinstock, of the highly successful Weinstock Lubin department store — to which Simon fell heir. Before the younger Lubin took over the affairs of the company in 1906, however, he attended Harvard, graduating in 1903, and then spent three years as a settlement worker in Boston's South End House. The East Coast experience instilled in him a deeper understanding of complex immigration problems. Lubin had little time for those who advocated immigration restriction to solve mounting social and economic problems in urban areas. He was more than willing to leave immigrant protection,

⁴⁶ California Commission of Immigration and Housing, *A Report on Large Landholdings in Southern California, With Recommendations* (Sacramento, 1919); see especially 29–38. Although the various state agencies concerned with agricultural matters were organized under a new state Department of Agriculture in 1919, the reorganization was not the result of the Immigration and Housing Commission's recommendations. Moreover, land and water issues were placed outside the new department's purview, where such matters remain today; see Nash, *State Government and Economic Development*, Chapter 15, "Fostering Commercialized Agriculture."

education, and Americanization activities to others. For him the crux of the so-called immigrant problem was population distribution and gainful employment. From Lubin's perspective, the state's agricultural industry, designed to exploit rather than advance the immigrant laboring class, would greatly impede accommodating the immigrant influx anticipated when the canal opened. As Lubin pondered the vexing question of how to move immigrants into agriculture as farm owner-operators rather than as seasonal laborers, he was gradually attracted to single tax ideas and even carried on a brief correspondence with Joseph Fels.⁴⁷ The graduated land value tax the CIH eventually proposed offered the state a vehicle for stimulating the land market and creating land ownership opportunities for new immigrants.

The Commission of Immigration and Housing intended to follow its report with legislative proposals, but hostility from newly elected Governor Friend W. Richardson led the commission into controversy over a variety of matters that centered on one particular commission member, Paul Scharrenberg, secretary of the California State Federation of Labor and a strong supporter of Lubin's ideas. Lubin later wrote that "the time did not seem propitious" for introducing legislation. Continuing controversy, moreover, as well as threats of budget cuts or outright abolition, finally provoked Lubin to resign in 1923, after Richardson removed Scharrenberg from the commission, which thereafter became inactive.⁴⁸

LOCAL AUTONOMY IN PROPERTY TAXATION

The idea that agricultural lands could be classified for property taxation purposes slowly emerged from state tax and land policy debates between 1906 and 1920. This idea was tied to the separation of sources plan adopted in 1910, which supplanted the principle of uniform general property taxation with a hodgepodge of new taxes designed to tap corporate wealth. The new system undermined the fundamental precept of equity upon which uniform taxation rested and opened the door for a variety of special interest groups to influence the taxation of individual classes of property. From there it was but a short step to suggest that agricultural lands be classified

⁴⁷ Simon Lubin Papers, Box 4, letter of January 17, 1914, from Lubin to Joseph Fels.

⁴⁸ Simon Lubin Papers, Box 5, Folder 23.

so that real estate taxation might be used, in the interest of social equality, to effect indirectly a redistribution of land. Later, of course, advocates of differential taxation wanted land classification in order to prevent agricultural land from being parcelized and redistributed, so to speak, into residential subdivisions. But until 1920, some reform-minded Californians waged determined campaigns to break up large landholdings out of the belief that large landholders impeded not only the economic development of the state, but the social wellbeing of its inhabitants, or preferred inhabitants, as well.

Until 1920, many Californians believed that the state should formulate a rural land, and water, policy which would foster the growth of an agricultural industry based on small, highly diversified units. But whereas Elwood Mead successfully influenced legislation to experiment with state land settlement toward that end, single tax advocates never achieved such success. Their failure may be attributed to several factors. First, the long campaign to obtain some form of land value taxation, while never without considerable support, gradually polarized voters, which meant that any legislative proposal for tax reform based on single tax theory would be divisive and thus politically unwise. Second, and perhaps most important, farm groups were not among those calling for a state rural lands policy. Such calls came from elsewhere and they came at a time, moreover, when the agricultural economy enjoyed an overall prosperity that lasted into the 1920s.⁴⁹ The voting record reveals, moreover, that farmers were divided when it came to deciding whether land value taxation would ultimately benefit their personal interests.

Thus, by the early 1920s, a form of home rule that single-taxers had not envisioned was firmly entrenched in the state's property tax system. Unable to deal effectively with the problems of equalizing property tax assessment, the state abandoned the general property tax, as well as its problems, to local officials. The best efforts of single-taxers and sympathetic tax reform advocates failed to convince either a majority of voters or the Legislature to use the new locally controlled general property tax system to instigate a long-term land reform program, for which, in theory, there

⁴⁹ H. J. Stover, "Annual Index Numbers of Farm Prices . . . and Farm Real Estate Taxes, California, 1910-1935," Report #50, University of California Giannini Foundation of Agricultural Economics, 1936.

was considerable support. Between 1910 and 1920 the only changes that took place may be summed up briefly: the state defined some new classes of property from which it could derive revenue, and local governments inherited the revenue potential as well as the problems of the old general property tax system, problems that were destined to remain unsolved. In 1929, the state's policy of entrusting general property taxation to local control was joined by a similar state policy of entrusting planning matters to local control. Thus, by 1930, the framework for future land conservation policy matters had been set.

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