No Threat To Life Insurance

By C. O. Steele

(Frequently the advocate of land value taxation is confronted with the question: wouldn't this fiscal measure be ruinous to insurance companies because of their large investments in land values? It is an honest question arising from considerations of decency and fair play. The article by Mr. Steele should be helpful to teachers in the HGSSS in meeting this apparent objection to the Georgist proposal.)

The question is often asked, how would life insurance companies, with their large investment in farm property and farm mortgages, fare under the single tax?

First, let it be remembered that life insurance companies are not voluntary owners of farm property. During the glorious Hoover regime of two chickens in every pot and two cars in every garage—the chickens turned out to be crow, and the pot leaked, and both cars have since been repossessed by the finance companies—and continuing into our own wonderful New Deal era, when only saps work and others are W. P. Ailers, the farmers, through sheer stubbornness, no doubt, failed to thrive and prosper according to rules and regulations, with the result that they couldn't meet their mortgage payments and were taken over by the lenders, the life insurance companies, the latter thereby (and much against their will) getting into the farming business on a big scale. With characteristic business efficiency, the life companies installed capable farm managers who are paying off the mortgages out of operations. Thus, and by sale where possible, the companies are steadily divesting themselves of their farm holdings.

But how would they fare under the single tax? As owners of farm property they would fare exactly as would any other farm owner. Just, for instance, as would Bill Jones, who farms 160 acres of good bottom land nine miles southwest of Turnipburg. Relieved of countless taxes that rob him of a large portion of his product, freed from a "protective" tariff that forces him to pay more for everything he buys without helping him to get more for what he sells, with the market for his produce bolstered enormously by increased consumer purchasing power, his sole contribution to the expenses of government a single tax upon the value of his land, Bill Jones would be immeasurably better off.

And if the farmer were not Bill Jones, but Pete Smith, would the results be any different? Certainly not. And if he were neither Bill Jones nor Pete Smith but the Provident Mutual Life Insurance Company, would they be different? Absolutely not. When a farmer can sell all he produces at good prices and can produce at less expenses than ever before, he will prosper, whether he be an individual or a life insurance company.

But how about farm mortgages? The selling value of land—of the land alone, mind you, not the improvements—would diminish; in theory it would disappear. But its usefulness to the farmer would not disappear. On the contrary, it would be greatly enhanced. He would have the same security of ownership, greatly reduced operating costs and a far better market for his product.

But would he pay off his mortgage to the life insurance company? Let us assume that he wouldn't, because after all it is the life insurance company we are concerned with and we want to be realistic. Let's assume that the farmer owes $4000 on a piece of land which, though its selling price has evaporated, formerly had a value of $5000 or $6000, and that the improvements are worth, say, $3000 more. That is an average case. If you think an insurance company will lend more than 50 percent of the total value of a farm, and at an exceedingly conservative appraisal at that, try and get it. So the insurance people are pretty well covered; they could come close to selling the farm for the amount of their claim immediately on foreclosure. But why should they take any loss? They needn't, and they won't. They will operate that farm until, out of operations, they have cut the original claim down to where the improvements alone will sell for enough to put them in the clear.

That is the worst that could happen. As a matter of fact, much as we wish it, the single tax is not going to become operative next week, or next month, or next year. Moreover, it will come into operation by gradual stages. Life insurance companies and other lenders on farm property will have ample opportunity to discover for themselves which way the wind is blowing. As a matter of course they will revise their system of appraisal so that the amount loaned will be covered by improvements alone, and amply covered.

But suppose a miracle happened. Suppose the single tax should come into effect tomorrow, that no farmer would pay his mortgage, and that the companies would have to take over the mortgaged farms, but that they couldn't or wouldn't operate them. That is almost too much; you might as well imagine that the present writer will be elected president of the United States next Christmas eve. It seems unlikely. But if we are to be really pessimistic, if we are to fear for the best and hope for the worst, let's do a good job of it.

So what? The table below gives the answer. According to the New

York Insurance Report for 1936, five representative American life insurance companies hold $187,019,000 in farm mortgages. The combined surplus and special funds of those same companies amount to $633,974,000, **or nearly three and one half times the amount of the mortgages.** Their total assets equal $10,168,333,000, of which but 1.8 percent is in farm mortgages. In other words, if the farm mortgages became completely worthless overnight—a preposterous supposition—the companies could write them off and make no more than a fair-sized dent in their combined surplus. Here are the report's figures:

Company	Farm Mortgages	Assets	Percent	Surplus & Special Funds
Equitable, N. Y.	$86,604,000	$1,996,722,000	4.3	$78,997,000
Metropolitan	82,736,000	4,494,701,000	1.8	327,424,000
New York Life	8,155,000	2,630,935,000	0.3	177,287,000
Penn Mutual	5,727,000	702,986,000	0.8	30,249,000
Provident Mutual	3,797,000	342,989,000	1.1	20,017,000
	$187,019,000	$10,168,333,000	1.8	$633,974,000

The above companies represent a cross section of American life insurance. Though domiciled in the East, their business covers the entire country. Not every company, of course, is so favorably situated with respect to investments in farm property but, on the other hand, a number of them own neither farm property nor farm mortgages. Let no one think that the single tax offers any threat to American life insurance companies.